

U.S. Small Business Administration Office of Inspector General

Semiannual Report to Congress
Spring 2005



October 1, 2004 – March 31, 2005

Inspector General Act Statutory Reporting Requirements

The specific reporting requirements prescribed in the Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988, are listed below.

<i>Source</i>		<i>Page</i>
Section 4(a)(2)	Review of Legislation and Regulations	20, 23
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	3-22
Section 5(a)(2)	Recommendations with Respect to Significant Problems, Abuses and Deficiencies	37-40
Section 5(a)(3)	Prior Significant Recommendations Not Yet Implemented	32-36
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	44-49
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	3-22
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

A Message From The Inspector General

I am pleased to present the Small Business Administration (SBA), Office of Inspector General (OIG), Semiannual Report summarizing activities from October 1, 2004, through March 31, 2005. On behalf of the OIG staff, I would also like to thank Harry Damelin who, as the Inspector General during this reporting period, provided the support and leadership that made these accomplishments possible. Harry was sworn in as the Inspector General of the Treasury Department on April 4, 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 18 reports with recommendations for improving Agency operations, reducing fraud and unnecessary losses, and recovering funds. In addition, OIG investigations led to 24 indictments and 19 convictions of subjects who defrauded the Federal Government. In addition, the Office collectively reviewed 79 legislative, regulatory, policy, procedural, and other proposals concerning the SBA and Government-wide programs. With a staff of approximately 100, the OIG continues to produce sizeable savings and important program improvements.

SBA has substantially changed its methods for delivering services and loan products by streamlining its operations. The Agency has moved away from the direct delivery of products and services and toward using partnerships and business resource partners more extensively. SBA has also reorganized field staff, centralized certain functions, and reduced staff. The Agency's transformation to a "New SBA," however, entails substantial risk for fraud and abuse. Lack of direct involvement in lending and servicing functions weakens SBA's ability to prevent and detect fraud in its loan programs. SBA's need to monitor the activities of its lenders and the importance of OIG oversight has increased significantly.

During the past 6 months, we have focused much of our effort on working with the Agency to resolve the most important Management Challenges facing SBA. While much remains to be done, SBA is making progress on a number of its challenges. In this reporting period, we issued the FY 2005 Management Challenges, began discussions with program officials to revise the Challenges—where appropriate—to keep them forward-looking, and published a new Challenge on Government Contracting.

While the OIG continues to identify financial management as a major Challenge for the Agency, SBA has made significant progress in improving its financial statement opinion. SBA's most important accomplishments have been improved models for estimating the Agency's subsidy costs and improved controls over financial statement preparation. These improvements contributed significantly to permitting the external auditor to render a *qualified* opinion on the SBA's FY 2004 Financial Statements.

I would like to thank Administrator Barreto for his support of the OIG's work. We will remain vigilant in protecting the interests of American taxpayers as we work with SBA and the Congress to achieve measurable results.

Peter L. McClintock
Acting Inspector General

Table of Contents

Overview of the SBA and the OIG	1
Significant OIG Activities	3
Goal: Prevent Fraud and Unnecessary Losses in SBA Programs	3
Goal: Improve the Security Over and the Accuracy of SBA Accounting and Management Information.....	11
Goal: Assist SBA in Improving its Small Business Development and Government Contracting Programs.....	14
Goal: Assist SBA Management in Identifying and Resolving Persistent and Emerging Management Issues.....	18
Goal: Strengthen our Ability to Identify and Have Major Impact on the Most Significant SBA Issues.....	21
Statistical Highlights.....	23
Appendix	
I. OIG Reports Issued	25
II. OIG Reports with Questioned Costs	26
III. OIG Reports with Recommendations that Funds Be Put to Better Use	26
IV. OIG Reports with Non-Monetary Recommendations	27
V. OIG Reports From Prior Semiannual Periods with Overdue Management Decisions as of March 31, 2005	28
VI. OIG Reports Without Final Action as of March 31, 2005	29
VII. Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of March 31, 2005.....	32
VIII. 6-Month Significant Recommendations Summary as of March 31, 2005	37
IX. List of Events/Activities Where SBA Used its Cosponsorship Authority Over the Last 6 Months	41
X. 6-Month Legal Actions Summary	44
XI. Office of Inspector General Organizational Chart	50

Table of Contents

Additional Semiannual Legislative Reporting Requirements from the Small Business Act, as Amended

SBA Cosponsorship and Fee-Based Administration-Sponsored Events—Small Business Act, Section 4(h)	16, 41
SBDC Surveys—Small Business Act, Section 21(a)(7)	16
SBA Gift Authority—Small Business Act, Section 4(g)(2).....	19

Overview of the SBA and the OIG

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 with developing business plans through counseling services and resource partners, (2) financing through the Agency's various business and disaster lending programs, (3) marketing products and services, and (4) access to Federal procurement opportunities. 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 March 31, 2005, had 2,413 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, and coordinates legislative, regulatory, policy, and procedural review and analysis. It also prepares the Semiannual Report to Congress and the Report on SBA's Management Challenges, and develops OIG strategic and performance plans.

Overview of the SBA and the OIG

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, New York, Philadelphia, Seattle, and Washington, DC. An organization chart for the OIG is located in Appendix XI.

As of March 31, 2005, the OIG had 94 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. The five strategic goals we seek to achieve are 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 first 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.

Significant OIG Activities

Goal: Prevent Fraud and Unnecessary Losses in SBA Programs

The 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. Additionally, SBA has increasingly delegated more authority to its lenders, centralized many backroom loan functions, and reduced staff. 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.

A Pattern of Citizenship Fraud Persists

The OIG and other law enforcement agencies continue to find a pattern of borrowers falsely claiming to be United States (U.S.) citizens in order to obtain SBA-guaranteed loans in violation of Agency regulations. Investigations have found borrowers and loan agents participating in well-organized, multi-loan schemes in which misrepresentations of citizenship are made and loans quickly default. Millions of dollars are at risk, with some individual loans at least \$1 million in size. Moreover, loans to ineligible borrowers mean that some honest borrowers may not have access to SBA-guaranteed credit. As SBA increasingly depends on lenders to administer its loan programs, this problem is expected to increase significantly.

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For example, a Texas businessman applied for and received a \$1 million SBA loan. However, Department of Homeland Security (DHS) records indicated that he was not a citizen. During this reporting period he was sentenced in connection with making a false claim to U.S. citizenship. The legal action resulted from a joint investigation involving SBA OIG, DHS, a county-level organized crime task force, the Social Security Administration, and the Texas Alcoholic Beverage Commission.

Citizenship fraud often occurs in tandem with other crimes. In a different case, a Texas business owner and another individual were indicted on fraud charges, and the owner was also charged with making a false claim to U.S. citizenship. According to the indictment, the owner fraudulently obtained a \$1 million SBA loan and a \$390,000 companion loan. Not only did he falsely claim U.S. citizenship, but he misrepresented that he used over \$307,000 in personal assets to purchase commercial real estate.

Citizenship fraud often occurs in tandem with other crimes.

Significant OIG Activities

9/11 and Other Disaster Loans Remain Susceptible to Fraud

SBA's disaster assistance program provides low-interest loans to disaster victims. Some unscrupulous applicants attempt to defraud this program, taking advantage of the fact that the loans are made in emergency situations requiring immediate assistance.

In response to the September 11, 2001, terrorist attacks on the U.S., SBA disbursed over \$1 billion in disaster loans. Over \$208 million of these 9/11 disaster loans have defaulted, i.e., are more than 60 days past due, have been charged off, or are in liquidation. Because repayment of these loans was typically deferred for several years after the loan was made, many of these problems have only recently come to light. The OIG has placed an increased focus on analyzing these loans for fraud

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in an effort to prosecute those who have made false statements to SBA. For example, the president of two New York telecommunications firms was charged with making false statements in connection with nearly \$300,000 in 9/11 disaster loans. He claimed that his companies were located at the World Trade Center and suffered both physical and economic injury. However, the joint SBA OIG and U.S. Postal Inspection Service investigation revealed that both firms had moved out before the terrorist attacks.

The OIG investigated a 9/11 disaster loan for \$124,300 which was made to a business despite undisclosed ownership irregularities, a Federal tax delinquency, and pre-existing legal judgments. Prosecution was not feasible, however, in part because of deficiencies in the language in the SBA loan application form. As a result, the OIG issued an advisory memorandum to the program office to help prevent similar situations in the future.

Lender Does Not Comply with the Policies of SBA's Preferred Lender Program (PLP)

A review of selected loans originated by a Small Business Lending Company demonstrated that they were not originated in accordance with SBA policies regarding the PLP program. The lender did not comply with SBA's PLP processing restrictions for paying off existing SBA debt in seven separate change-of-ownership transactions. Two transactions involved guaranty purchases for two defaulted loans totaling almost \$1.5 million. The lender has repaid the guaranty purchase amount on one of the loans. We recommended recovery of the guaranty purchase amount paid for the second defaulted loan. The other five transactions involved same institution debt, whereby the lender paid off its existing SBA loans. Although the loans were current as of December 31, 2004, the OIG recommended flagging the current loans. In the event of default, guaranty purchase decisions should take into account the restrictions that made these loans ineligible for PLP processing.

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Significant OIG Activities

SBA Is Increasingly Vulnerable to Loan Agent Fraud

Because fraud by loan agents remains a serious problem, 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). Although honest loan agents can help small businesses gain access to capital, some have perpetrated fraudulent schemes involving hundreds of millions of dollars in loans. These fraudulent loans often default for non-payment, and SBA is forced to use taxpayers' funds to purchase the guaranteed portions of the loans.

It takes only a few dishonest loan agents to be involved with large dollar amounts of loans.

It takes only a few dishonest loan agents to be involved with large dollar amounts of loans. In one scheme involving over \$28 million in loans, a loan agent manipulated the Section 7(a) loan process by simultaneously acting as an agent of the sellers of businesses, the prospective borrowers, and the lenders.

Among other things, he caused prospective borrowers to sign false application documents and made it appear that the borrowers had provided the required down payments. As a result of an OIG investigation, he was sentenced to 9 years in prison with no parole, and ordered to pay over \$14 million in restitution to SBA certified lenders and forfeit more than \$2 million to the U.S. Treasury.

Sometimes loan agents combine forces with other professionals to commit crimes. In another scheme, loan agents and an escrow attorney falsely obtained \$9.5 million in SBA-guaranteed loans for convenience stores. Thus far, this has resulted in convictions for conspiracy, bank fraud, and money laundering. The convictions also included a provision to forfeit up to nearly \$10 million in illegally-derived property.

Sometimes loan agents combine forces with other professionals to commit crimes.

Because SBA has little information on loan agents involved with SBA loans, the Agency needs to systematically identify all loan agents and track their association with individual loans.

During this semiannual reporting period, the OIG issued its FY 2005 report on Management Challenges, which included a discussion of the measures required to prevent loan agent fraud. Because SBA has little information on loan agents involved with SBA loans, the Agency needs to systematically identify all loan agents and track their association with individual loans. Their identification is especially critical as SBA continues to

centralize loan processing and liquidation and shift general oversight of loans to lenders, who are likely to vary significantly in the quality of their oversight.

Since the issuance of the FY 2005 Management Challenges report, the OIG has worked with the Agency to remove impediments to preventing such fraud and abuse, including discussing the possibility of requiring loan agents to provide personal identifiers other than Social Security numbers. Nonetheless, the basic premise remains the same: without a reliable database and related monitoring, the Agency's business loan programs remain highly vulnerable to loan agent fraud.

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Significant OIG Activities

Agency Did Not Send Pre-demand Letters to Disaster Loan Recipients

As of September 30, 2004, 1,495 of SBA's 9/11 loans valued at \$208.8 million were delinquent. OIG reviewed 37 delinquent 9/11 disaster loans and concluded that pre-demand or demand letters should have been sent to borrowers of 17 loans. A pre-demand letter is the final notice before the referral of a delinquent loan to liquidation. It outlines the collections actions SBA can use if the borrower does not cure the delinquency, including foreclosure on collateral, referral to the U.S. Treasury for collection, and referral to a U.S. Attorney for enforcement action.

A pre-demand letter is the final notice before the referral of a delinquent loan to liquidation.

SBA had no record of letters being sent to 13 borrowers although the loans had been delinquent for an average of 279 days. Demand letters were not needed for the remaining 20 loans because of bankruptcy, offers-in-compromise or legal actions, or for those under 90 days delinquent. We recommended that the Associate Administrator, Office of Financial Assistance (OFA), revise the appropriate Standard Operating Procedure (SOP) to direct servicing centers to send timely pre-demand and demand letters to delinquent borrowers, maintain the letters in the loan file, and ensure that sufficient staff resources are devoted to this activity. OFA agreed to revise the SOP.

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Equity Injection Fraud Places SBA Loans at Risk

Because an SBA borrower may not have all the collateral or proven cash flow normally required by a lender, the Agency may require its borrowers to inject their own assets into the project being financed. The practice of placing some of the borrower's money at risk is called equity injection.

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OIG investigations continue to find borrowers who falsely claim to have made equity injections into their businesses. For example, a New Jersey attorney, a business owner, and the purchaser of the business entered guilty pleas in connection with a \$1.75 million SBA-guaranteed loan made on the condition that the purchaser of the business inject \$700,000 into the business. The investigation revealed that the injection never occurred and that the loan applicant conspired with the attorney and the business owner to falsely represent to the lender that the injection was made. The loan immediately went into default.

OIG investigations continue to find borrowers who falsely claim to have made equity injections into their businesses.

In another case, the former owner of a Missouri business was sentenced to 5 years probation, a special assessment, and nearly \$172,000 in restitution to a financial institution because she falsely claimed to have injected about \$171,000 into the company before a \$727,000 SBA-guaranteed loan was disbursed. She made only a few interest-only payments before the company went out of business.

Significant OIG Activities

The OIG-Identified Management Challenge on SBICs Continues with Revisions

The Small Business Investment Company (SBIC) program was designed to stimulate and supplement the flow of private equity capital and long-term debt to small concerns. In FY 2004 the OIG issued a Management Challenge on the SBIC program stating that *The current structure and oversight practices of the SBIC program place too much risk on taxpayer money.* Program officials have estimated that the cumulative cost of the program to the Federal Government is projected to be about \$2 billion on an outstanding portfolio of \$5 billion.

The OIG reissued the SBIC program Management Challenge in FY 2005. The Challenge is currently undergoing revisions due to recent changes in the SBA reauthorization legislation, corrective actions taken by the Agency, and the results of an on-going OIG audit of the SBIC liquidation process. For example, due to legislative changes, no new participating security SBICs will be licensed. In order to resolve this Challenge, management needs to (1) implement an improved methodology for estimating losses to be incurred in the program; (2) set

capital impairment percentages based on documented analyses; (3) issue the revised SOPs on operations and the liquidation process; and (4) address requirements for documenting quarterly risk assessments of SBICs, procedures for restrictive operations, systematic and timely criteria for transferring SBICs to liquidation status, and defining the term SBA-investor. Management also needs to establish better goals and performance indicators to show how effectively and efficiently SBICs are liquidated, and to develop operating procedures for monitoring the liquidation of SBICs in receiverships.

SBIC Theft Resulted from Manipulation of Records

SBA licenses SBICs and supplements their capital with government-guaranteed securities so that the SBICs in turn can provide assistance to small businesses, particularly during growth stages. During this reporting period, as a result of a joint effort by the SBA OIG and the Federal Bureau of Investigation (FBI), the part owner of a New Jersey SBIC responsible for lending money to start-up technology businesses pled guilty in connection with her role in stealing over \$1.9 million from the SBIC. This individual and others issued checks, wire transfers, and other payments for their own personal benefit to and through another firm, which also was partly owned by the defendant. They concealed the thefts by falsifying the second firm's records to make it appear that the payments were for salary or shareholder distributions.

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Significant OIG Activities

Focus of Lender Oversight Management Challenge is Shifting to Implementation

SBA has substantially changed its methods for delivering services and loan products and is attempting to streamline operations. The Agency has (1) moved away from the direct delivery of products and services and toward using partnerships and business resource partners more extensively, (2) reorganized field staff, and (3) centralized certain functions and reduced staff. As a consequence, based on the increasing need for SBA to monitor the activities of its lenders, the OIG reissued the lender oversight Management Challenge for FY 2005.

The Challenge has focused on the development of loan monitoring controls, including policies and procedures governing the operation of the lender oversight program. The re-issuance of this Challenge in October 2004 reflects the progress made by SBA in establishing a loan monitoring system. Now the OIG is revising the Challenge to focus on the use and implementation of the system. In order to fully resolve the Challenge, management needs to implement standard operating procedures and regulations that address the plan for lender oversight and guidance for

lender/participant reviews and performance, and implement uniform procedures for periodic evaluations of participants. Also, management needs to ensure that there is effective communication among SBA's internal units, and to implement a tracking system for the results of lender/participant reviews and recommendations.

General Business Loan Fraud Remains a Major Concern

Some borrowers submit false and fraudulent documents, claim assets that do not exist, fail to disclose other SBA loans for the same business, misuse loan proceeds, and manipulate property values. For example, as a result of a joint effort by the SBA OIG and the FBI, a Texas business owner was indicted in connection with fraudulently obtaining two SBA-guaranteed loans and a line of credit totaling nearly \$1.1 million. He allegedly inflated property values and net worth to influence lenders to approve the loans. He then used the loan proceeds for personal expenses.

Some borrowers submit false and fraudulent documents, claim assets that do not exist, fail to disclose other SBA loans for the same business, misuse loan proceeds, and manipulate property values.

In another case, a Missouri businessman was sentenced to 9 years in prison followed by 5 years probation and was ordered to pay over \$2.4 million to his victims, including an SBA lender, a non-SBA lender, the Internal Revenue Service (IRS), and various individuals. A joint SBA OIG investigation with the IRS found that he made false statements to financial institutions to obtain a \$340,000 SBA loan. He defaulted on the loan, resulting in a \$224,000 loss. In a related scheme, he bilked investors out of about \$1.6 million.

Significant OIG Activities

Character Screening Reduces the Likelihood of Program Abuse

SBA requires applicants for assistance to meet certain character standards before participating in programs involving business loans, disaster assistance loans, Section 8(a) certifications, surety bond guaranties, small business investment companies, and certified development companies. The OIG's Office of Security Operations ensures that program participants meet these standards by processing name checks and, where appropriate, fingerprint checks on applicants. During this semiannual period, the OIG processed a total of 1,457 external name check requests for the above programs.

The OIG also assisted the Agency in making character eligibility determinations through its on-line connection with the FBI's Machine Readable Data system by referring applicants who appear to be ineligible to program officials for adjudication. During this 6-month reporting period, OIG referrals resulted in SBA business loan program managers declining 28 applications, and disaster loan program officials declining 17 applications, totaling \$9,512,050 and \$495,970, respectively. Character screenings made credit available to other applicants who had no character eligibility issues. Over \$248 million in loans have been declined during the last 10 years due to character eligibility issues.

In addition, based on OIG character eligibility information, the Section 8(a) program declined three applications for admission to the program. The OIG also coordinates background investigations for Agency employees and contractor personnel required to have employment/security clearances. During this reporting period, the OIG initiated 87 background investigations and issued 27 security clearances. The OIG also adjudicated 54 background investigative reports and coordinated with SBA's Office of Disaster Assistance to adjudicate 388 derogatory background investigative reports forwarded for review and appropriate action. Finally, the OIG processed 3,780 internal name check requests for various Agency activities such as success stories, Small Business Person of the Year nominees, and new disaster assistance hires.

OIG Uses Debarments to Deter Fraud

Historically, SBA has undertaken few debarment actions. The OIG believes that it is in the public interest to debar parties from conducting business with the Federal Government that have a history of fraud or otherwise lack business integrity. In the past year, the OIG has stepped up its efforts in making recommendations to the SBA with respect to the debarment of parties participating in SBA programs. In an effort to facilitate the Agency's review of OIG-proposed debarments, the OIG prepares a detailed proposal describing why a party should be debarred, supplies pertinent evidence and documentation

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Significant OIG Activities

supporting the debarment, and prepares drafts of initial Notices of Proposed Debarments for transmission to the party in the event the Agency agrees that debarment is appropriate.

For example, as a result of a recommendation from the OIG, the Agency debarred a former loan agent for 3 years from all Federal procurement and non-procurement activities. A federal investigation found that the agent had obtained fraudulent loans from a lender on behalf of six people, all without their knowledge and consent, causing a loss to the bank in excess of \$500,000. Although these false applications were not submitted under any SBA loan program, the agent had submitted to lenders numerous applications for SBA-guaranteed loans containing allegedly fraudulent information on behalf of small business clients. However, because the lenders had declined the applications, no charges were filed. Based on the agent's guilty plea, the OIG recommended that the Agency debar the agent and, on January 24, 2005, the Agency debarred him for 3 years, and placed his name on the Excluded Parties List System (which can be found at <http://epls.amet.gov/>).

Significant OIG Activities

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

The 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 SBA 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. The SBA is developing a new Disaster Credit Management system to modernize and improve its disaster loan-making activities. The SBA is also implementing a Lender and Loan Monitoring System to monitor its business loan portfolio. These efforts are critical to SBA's successful future operations. However, these efforts 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 timelier manner. For several years, our independent auditor has been critical of the Agency's reporting process and its ability to provide accurate, complete, and reliable financial data.

SBA's Information Systems Controls Need Improvement

The confidentiality, integrity, and availability of SBA's information systems are vital to the continued successful operation of the Agency. The SBA's effort to improve its computer security program during the past year has shown mixed results. SBA achieved a major milestone in certifying and accrediting all of its major systems within the past year and recently upgraded its Oracle Accounting Software financial application package. However, recent OIG and external auditor reviews showed the need for continued focus and improvement in Information System Controls. As a result of these audit results, OIG is currently updating the information security Management Challenge to reflect the additional improvements needed for SBA to overcome this Challenge.

SBA achieved a major milestone in certifying and accrediting all of its major systems within the past year and recently upgraded its Oracle Accounting Software financial application package.

The SBA's Information Security Program, as required for the Federal Information Security Management Act (FISMA) for FY 2004, showed that SBA has not been able to sufficiently address 248 system risk assessment vulnerabilities and OIG audit findings. A subsequent limited scope assessment of SBA's Plan of Action and Milestone (POA&M) process showed that the SBA has improved the manner in which it developed, planned and managed its POA&M process. Improvements continue to be needed in general and application controls in SBA's Information Technology (IT) general support systems and major application systems.

The SBA's Information Security Program, as required for the Federal Information Security Management Act (FISMA) for FY 2004, showed that SBA has not been able to sufficiently address 248 system risk assessment vulnerabilities and OIG audit findings.

Significant OIG Activities

Our independent auditor's FY 2004 review of general and application controls was issued during this reporting period. This audit followed guidance provided in the Government Accountability Office's (GAO) Federal Information System Controls Audit Manual (FISCAM) and concluded, as it did for FY 2003, that SBA needs to improve (1) entity-wide security program controls, (2) access controls, (3) application software development and program change controls, (4) system software controls, (5) segregation of duty controls, and (6) service continuity controls. Our independent auditor made 23 recommendations and specifically identified 8 unimplemented recommendations from previous audit reports which significantly put the integrity of the Agency's information security program at risk.

SBA's Continuity of Operations Plan (COOP) is Not Adequate

A recent audit found that the SBA COOP did not have an adequate chain-of-command, oversight, and funding. In addition, SBA has not adequately tested its COOP and all the program, disaster and field office Business Recovery Plans (BRP) that would be needed to resume office functions during emergency or disaster events. Among other deficiencies, SBA's COOP and individual BRPs did not contain all necessary information to ensure that the plans were viable and that the Agency or its individual offices could utilize the plans in the event of an emergency. SBA has also not implemented an effective review and approval program for its COOP and BRPs. The SBA Headquarters COOP did not adequately identify essential functions performed by the Agency or which functions must be continued under all circumstances. Further, SBA did not have adequate System Disaster Recovery Plans (SDRP) to ensure the recovery of critical IT systems supporting the Agency's essential functions.

A recent audit found that the SBA COOP did not have an adequate chain-of-command, oversight, and funding.

... SBA has not adequately tested its COOP and all the program, disaster and field office Business Recovery Plans (BRP) that would be needed to resume office functions during emergency or disaster events.

The SBA Headquarters COOP did not adequately identify essential functions performed by the Agency or which functions must be continued under all circumstances. Further, SBA did not have adequate System Disaster Recovery Plans (SDRP) to ensure the recovery of critical IT systems supporting the Agency's essential functions. The OIG made 15 recommendations to strengthen its COOP and SDRP process. Some of these recommendations have been incorporated in the information security Management Challenge.

SBA Makes Significant Progress in Improving its Financial Statement Opinion

Various laws and regulations place significant responsibilities on Federal financial managers to assess whether they are effectively and efficiently managing public resources. In recent years, the OIG, GAO, and SBA's independent auditor 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. As a result, SBA's independent auditors were unable to render an opinion on SBA's financial statements in FY 2000 through FY 2003. SBA received a qualified opinion on its FY 2004 statements. Thus, the OIG continues to identify financial management as one of the Agency's top Management Challenges.

Significant OIG Activities

Recognizing the importance of sound financial management, SBA's Administrator has made improving financial management one of the Agency's top priorities. SBA has worked diligently to identify and address the underlying causes of its financial management issues and the Agency has made significant progress towards improvements.

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

SBA's most important accomplishments have been improved models for estimating the Agency's subsidy costs and improved controls over financial statement preparation. SBA also corrected material accounting errors from previous reporting cycles. These improvements contributed significantly to permitting the independent auditor to render a *qualified* opinion on the SBA's FY 2004 Financial Statements.

Despite the improvements, however, financial management issues continue to be a major Challenge for SBA. The FY 2004 *qualified* opinion, although better than SBA has received in prior audits, was reached by the independent auditors because they could not determine if certain material amounts in SBA's financial statements were reasonable. The independent auditor also noted in its related FY 2004 Independent Auditors' Report on Internal Control that material weaknesses still exist in the areas of financial management and reporting and credit reform modeling. Additionally, the Management Letter based on the FY 2004 financial statement audit repeats several non-reportable conditions that remain despite the Agency's efforts to improve financial management.

The FY 2004 qualified opinion, although better than SBA has received in prior audits, was reached by the independent auditors because they could not determine if certain material amounts in SBA's financial statements were reasonable.

The OIG is currently updating the financial Management Challenge to reflect the progress made and to emphasize the additional steps needed for SBA to resolve this Challenge. To be successful, SBA will

...SBA will need to further improve financial controls, enhance quality assurance procedures over financial reporting, refine subsidy cost estimation techniques, obtain an unqualified opinion on the Agency's financial statements, and demonstrate it can accomplish these while implementing new reporting and internal control requirements in an effective and timely manner.

need to further improve financial controls, enhance quality assurance procedures over financial reporting, refine subsidy cost estimation techniques, obtain an unqualified opinion on the Agency's financial statements, and demonstrate it can accomplish these while implementing new reporting and internal control requirements in an effective and timely manner. The OIG continues to monitor SBA's progress by increasing the resources devoted to the Agency's annual financial statement audit, and by working closely with SBA to ensure the

Agency incorporates into its financial reporting plans those actions identified by the OIG and the independent auditor as necessary to overcome the Agency's financial management weaknesses.

Significant OIG Activities

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.

The SBA also manages the Section 8(a) Business Development program (8(a) program), which was established to provide business development assistance to small businesses owned by socially and economically disadvantaged individuals and to 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 depends on reliable internal and external data for effective monitoring and oversight.

SBA Faces a Major Management Challenge to Prevent Large Companies from Receiving Small Business Contracts

During this reporting period, the OIG identified as one of the Agency's top Management Challenges flaws in the Federal procurement process that allow (1) large companies to receive small business awards and (2) agencies to receive credit towards their small business goals for these awards. As the advocate for small business, the SBA should strive to ensure that only small companies obtain these awards and Federal agencies only receive small business credit for contracts performed by small companies.

As the advocate for small business, the SBA should strive to ensure that only small companies obtain these awards and Federal agencies only receive small business credit for contracts performed by small companies.

Studies by the OIG, the GAO, and SBA's Office of Advocacy have found that agencies are classifying awards made to large companies as small business awards and are counting these awards towards their small business procurement goals. During this reporting period, the OIG completed two reviews on this issue. The first review found that SBA, by utilizing multiple award contracts (MAC) and not asking contractors for updated size certifications, awarded task orders to large companies but claimed credit for these contracts towards meeting SBA's small business procurement goals. The review also identified several problems with purchasing from small businesses on the General Services Administration's (GSA)

Significant OIG Activities

Schedules. First, when responding to a contract solicitation, a company certifies whether it is small or not. For Schedules contracts and other GSA MACs, a small business certification is valid until contract

...SBA, by utilizing multiple award contracts and not asking contractors for updated size certifications, awarded task orders to large companies but claimed credit for these contracts towards meeting SBA's small business procurement goal.

renewal (i.e., up to 5 years), even if the company outgrows its small business status. The second problem with the Schedules is that GSA classifies contractors as small for the entire schedule contract if the contractor is small for some but not all of the goods or services they provide on that contract. Thus, agencies may obtain small business credit for using a contractor that is considered "small" for some of the procured goods and

services, but not all of the goods and services procured. This is contrary to SBA regulations, which require that a contractor meet the size standard for each product or service for which it submits an offer.

The second OIG review stemmed from complaints made by a member of the small business community that large businesses were receiving small business contracts. The OIG identified three instances where large businesses received small business contracts because they either improperly or falsely certified themselves as small businesses. These matters are under review.

The OIG identified three instances where large businesses received small business contracts because they either improperly or falsely certified themselves as small businesses.

The SBA is attempting to address the situation—for example, the SBA issued a proposed rule on April 25, 2003, requiring firms with MACs to annually re-certify their size. The Agency also plans to address

The SBA is attempting to address the situation...

with GSA its Multiple Award Schedule (MAS) Program small business certifications. While these are steps in the right direction, more actions are needed to address this Management Challenge.

Over \$1 Million in Unsupported HP Small Business Foundation Expenses Questioned by Auditors

In 2003 SBA negotiated a \$2.24 million Cooperative Agreement with the HP Small Business Foundation to conduct business matchmaking events. The recipient did not, however, have an acceptable accounting system for contracting with the Federal Government. As a result, an interim audit identified the following problems:

The recipient did not, however, have an acceptable accounting system for contracting with the Federal Government.

(1) the recipient submitted over \$1 million dollars in expenses which were either incurred prior to the subject cooperative agreement, not properly supported, or lacked approval by SBA; (2) written procedures for screening and allocating costs were inadequate; (3) costs were misclassified; (4) vendor expenses were not addressed to the recipient; (5) contracting actions were not supported by written agreements; and (6) the recipient may have sub-granted the project to a third party in violation of the cooperative agreement. We recommended that the Office of Government Contracting and Business Development require the recipient to develop a financial management system that meets OMB requirements. We also recommended that the Office of Procurement and Grants

Significant OIG Activities

Management request a legal opinion as to whether the arrangement between the recipient and a third party violated the terms of the cooperative agreement regarding sub-granting. SBA agreed to implement the recommendations.

SDB Certification Program Applicant Evaluation Processes Are Inadequate

The SBA certifies small businesses as small disadvantaged businesses through the Small Disadvantaged Business (SDB) Certification Program if they meet specific social disadvantage, economic disadvantage, ownership, control, and size eligibility criteria. SDBs are afforded procurement benefits such as price evaluation adjustments and evaluation credits. During this reporting period, the OIG completed an audit survey of the SDB Certification Program that found significant problems with the SDB certification process. Specifically, program eligibility reviewers did not adequately consider whether owners of companies applying for SDB certification were economically disadvantaged; they also certified companies when their owners had defaulted on Government obligations. Additionally, we found (1) data integrity problems with an SDB application tracking system and (2) inadequacies in file safekeeping. The SBA agreed to most of the OIG's recommendations.

...program eligibility reviewers did not adequately consider whether owners of companies applying for SDB certification were economically disadvantaged; they also certified companies when their owners had defaulted on Government obligations.

New Legislation Requires OIG Reporting on Cosponsorships and Fee-Based Administration-Sponsored Events

SBA's most recent reauthorization provided several new reporting requirements for the OIG. Section 4(h) of the Small Business Act requires the OIG to report to Congress on a semi-annual basis regarding the Agency's use of its authority in connection with cosponsorships and fee-based Administration-sponsored events. *From December 7, 2004 through March 31, 2005, there were 21 cosponsorships...* SBA's Office of Strategic Alliance (OSA) provided key information to the OIG related to cosponsorships including the name, dates, and locations of the cosponsorships and names of cosponsors. From December 7, 2004, when the legislation was signed into law, through March 31, 2005, there were 19 cosponsorships as shown in Appendix IX. SBA reports that it has not conducted any fee-based Administration-sponsored events since the passage of the legislation.

Small Business Development Center (SBDC) Surveys Now Require OIG Approval

Section 21(a)(7) of the Small Business Act as amended by SBA's most recent reauthorization 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 the performance of

Significant OIG Activities

financial audits and SBDC client surveys. In addition, paragraph 21(a)(7)(C)(iii) states that, until the issuance of such regulations, any client survey and the use of such information shall be approved by the Inspector General who shall include such approval in the OIG's semi-annual report.

The OIG informed appropriate Agency officials of the above-mentioned requirements regarding OIG approval of client surveys and the use of such information. We have not received any approval requests during this reporting period. Agency officials report that they have begun work on the required regulations regarding disclosures of client information for financial audits and client surveys.

We have not received any approval requests during this reporting period.

OIG Focuses on Single Audits as a Monitoring Tool

The Single Audit Act, as amended, is intended to promote sound financial management, including effective internal controls, over Federal grant awards. In the past, when more than one Federal agency provided grant funding to an entity, multiple audit organizations often made detailed reviews of a single entity. The concept of the single audit was created to replace multiple grant audits of an entity with one single audit.

Based on our experience in performing desk reviews of single audit reports received from the Federal Audit Clearinghouse (FAC), there are at least six SBA programs for which Federal financial assistance generally exceeds the threshold (\$300,000 prior to December 31, 2003, and \$500,000 after that period) for requiring a single audit. Federal funding authorized for those programs was approximately \$4.6 billion in FY 2004. Because single audits include questioned costs and other non-compliance findings, the OIG is placing additional emphasis on using them as a practical monitoring tool for grants.

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Significant OIG Activities

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

A key objective of OIG work 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 designated as major Management Challenges. The OIG believes that it is important that the Challenges be updated regularly so that they accurately reflect the current challenges facing the Agency.

The OIG Keeps the Top Management Challenges Up-to-Date

In accordance with the Reports Consolidation Act of 2000, for each fiscal year the OIG identifies the most important management and performance Challenges facing the Agency for inclusion in SBA's consolidated Performance and Accountability Report. The list of Challenges represents areas identified as being 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, has been confirmed by OIG investigations of fraud or abuse, and/or have 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 item during the preceding fiscal year. The Agency has increasingly focused more attention on the Challenges by, among other things, placing them on the Management Board agenda and assigning responsibility for overseeing the Agency response to the Management Challenges to the Chief Operating Officer.

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The most serious Management Challenges that faced SBA at the beginning of FY 2005 were as follows:

- SBA needs to improve its managing for results processes and performance data.
- 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.

Significant OIG Activities

- 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.
- 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.

The Management Challenge process is evolutionary. In an effort to most effectively develop the FY 2006 Management Challenges, during this reporting period the OIG began to review the current Challenges for any revisions needed to keep them forward-looking. Some of the revisions being made to the Challenges are discussed in the narratives on specific audit and investigative work completed during this reporting period. Revisions will continue to be made as various audits progress and as circumstances change.

The Management Challenge process is evolutionary. In an effort to most effectively develop the FY 2006 Management Challenges, during this reporting period the OIG began to review the current Challenges for any revisions needed to keep them forward-looking.

The OIG publishes a new SBA Challenge when sufficient evidence of a problem has been identified.

During this reporting period, the OIG issued a new Management Challenge, stating that 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.

During this reporting period, the OIG issued a new Management Challenge, stating that *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 substance of this Challenge is discussed under

this report's narrative section on small business development and government contracting.

While SBA has made progress on many 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.

While SBA has made progress on many of the Challenges, much more remains to be done.

For more information on the OIG's assessment of the SBA's FY 2005 Management Challenges, please review the report at <http://www.sba.gov/ig/challenges.html>.

Legislative Change Requires Audits Related to the Agency's Gift Authority

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 Inspector General who shall report his findings to the Congress. As of the end of this reporting period, the Agency had not yet finalized its procedures for implementing this new legislative requirement. The OIG acknowledges its responsibility

Significant OIG Activities

under this authority and has begun preparing a work plan to address the new audit requirement in the next semiannual report. Any findings in this area will be reported, as appropriate, in future semiannual reports.

OIG Reviews Legislation, Regulations, and SOPs to Identify Potential Problem Areas

The OIG plays an important role in assisting SBA in identifying and resolving emerging management issues through review of proposed legislation and regulations affecting the Agency, as well as Agency SOPs, procedural and policy notices, and other internal documents. From October 1, 2004, through March 31, 2005, the OIG reviewed 37 proposed legislative and regulatory changes and 42 internal SBA SOPs, notices and other documents. The OIG provided comments and was able to obtain changes on many of these items, thereby improving the Agency's ability to deter waste, fraud and abuse in its programs.

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For example, the Agency proposed issuing a notice to implement its web-based on-line reservation program for travel by SBA employees. The Agency's initial version of the notice required employees to provide all nine digits of their Social Security numbers as part of the on-line registration process. Concerned about the potential for identity theft, particularly in light of recent news reports of theft from data companies and lending institutions, the OIG persuaded the Agency that it was not necessary to require employees to provide complete Social Security numbers and that the registration program should be implemented without this requirement.

Percentage of Overdue Management Decisions Remains Steady While the Percent of Overdue Final Actions Decreases

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 decisions on all findings and recommendations within a maximum of six months of report issuance. As of March 31, 2005, 47 management decisions on recommendations in OIG reports were overdue—approximately 37 percent of all pending management decisions. While this represents a decrease in the number of overdue management decisions, it is approximately the same percentage of overdue management decisions as at the end of the last semiannual period. The Office of Field Operations and the Office of Capital Access were responsible for over 60 percent of these. The percentage of recommendations with overdue final actions decreased from 31 to 27 percent of all pending final actions.

The IG Act requires that Federal agencies make management decisions on all findings and recommendations within a maximum of 6 months of report issuance.

Significant OIG Activities

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.

Proposal Would Revise Certain Criminal Penalty Provisions in Small Business Act

As part of SBA's legislative package that was submitted to Congress for FY 2006, the OIG proposed the revision of certain criminal penalty provisions in the Small Business Act. Currently, the 1958 statute provides criminal fines of only \$5,000 for the knowing overvaluation of any security offered to obtain an SBA-guaranteed loan and \$10,000 for an SBA employee who embezzles agency money, makes a false statement to an SBA employee or auditor, or receives money or benefit from the Agency's issuance of a loan or execution of a contract. The OIG has proposed legislative changes that would increase these fines to \$250,000.

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provides criminal fines of only \$5,000 for the knowing overvaluation of any security offered to obtain an SBA-guaranteed loan and \$10,000 for an SBA employee who embezzles agency money, makes a false statement to an

Investigations Division Has Been Streamlined

Based upon the retirement of a Special Agent in Charge (SAC) during the reporting period, the Investigations Division reduced the number of SAC positions from four to three. One SAC will be responsible for the eastern U. S., another will be responsible for the central United States, and a third will cover the western U. S. To compensate for the loss of the fourth SAC position, Senior Special Agents (SSA) were appointed to act as senior non-supervisory criminal investigators for each SAC. The SSAs will help coordinate and execute complex investigations as well as advise other investigators. Each SSA will also act as a principal advisor to his/her SAC.

Based upon the retirement of a Special Agent in Charge (SAC) during the reporting period, the Investigations Division reduced the number of SAC positions from four to three.

In addition, after reviewing potential risk factors for SBA programs in Florida, the OIG plans to locate at least one special agent in southern Florida. This action will significantly enhance the OIG's ability to identify and prosecute fraudulent activities in that state.

...the OIG plans to locate at least one special agent in southern Florida.

Significant OIG Activities

OIG Leverages Limited Resources for Fraud Detection and Identification of Program Vulnerabilities

To leverage its limited resources for fighting fraud, the OIG has created an Early Fraud Detection Working Group (EFDWG). The EFDWG's purpose is to proactively detect and deter fraud within SBA programs by generating investigative leads and identifying internal control weaknesses that may lead to significant prosecutions, financial recoveries, and/or cost savings. To accomplish this, the EFDWG will analyze available information, identify possible fraud indicators, establish liaisons with other agencies when needed, and use other techniques to address areas of underlying program vulnerability to prevent such fraud. Because the EFDWG utilizes staff from both the OIG Auditing and Investigations Divisions, it benefits from a combination of skills and experience likely to increase the opportunities for identifying systemic fraud and vulnerabilities.

The EFDWG's purpose is to proactively detect and deter fraud within SBA programs by generating investigative leads and identifying internal control weaknesses that may lead to significant prosecutions, financial recoveries, and/or cost savings.

Agency's Directive on Auditing is Updated

An updated Auditing Division Standard Operating Procedures (SOP) was issued on February 9, 2005. The SOP now includes a section on attestation engagements. The new SOP also elaborates on who may perform an audit. The OIG may use public accounting firms or other Government auditors to perform audits. When requesting an audit, even if the Agency foresees that an outside entity may conduct the audit, the Agency must request the Auditing Division to conduct it. The Auditing Division is responsible for determining whether it or an outside agency will conduct the audit, and the Division makes all audit arrangements. In addition, the SOP now clarifies that not cooperating or being non-responsive to OIG audit requests can lead to criminal prosecution and/or disciplinary action.

When requesting an audit, even if the Agency foresees that an outside entity may conduct the audit, the Agency must request the Auditing Division to conduct it. The Auditing Division is responsible for determining whether it or an outside agency will conduct the audit, and the Division makes all audit arrangements.

Statistical Highlights

FY 2005 6-Month Productivity Statistics October 1, 2004, through March 31, 2005

Office-wide Dollar Accomplishments	Totals
A. Potential Investigative Recoveries and Fines.....	\$20,532,780
B. Loans Not Made as Result of Investigations and Name Checks.....	\$12,503,020
C. Disallowed Costs Agreed to by Management	\$1,656,532
D. Recommendations that Funds Be Put to Better Use Agreed to by Management.....	<u>\$142,549</u>
Total	<u>\$34,834,881</u>

Efficiency and Effectiveness Activities

A. Reports Issued	18
B. Recommendations Issued.....	102
C. Dollar Value of Costs Questioned.....	\$1,251,921
D. Dollar Value of Recommendations that Funds Be Put to Better Use.....	\$0
E. Collections as a Result of Questioned Costs	\$871,864

Follow-up Activities

A. Recommendations Closed.....	143
B. Disallowed Costs Agreed to by Management	\$1,656,532
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management.....	\$142,549
D. Unresolved Recommendations.....	123

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

A. Legislation Reviewed.....	35
B. Regulations Reviewed.....	2
C. Standard Operating Procedures Reviewed	7
D. Other Issuances Reviewed**	<u>35</u>
Total	<u>79</u>

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

Statistical Highlights

Summary of Indictments, Convictions, and Case Activity

A. Indictments from OIG Cases.....	24
B. Convictions from OIG Cases	19

Summary of Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations	\$20,532,780.00
B. Loans/Contracts Not Approved as a Result of OIG Investigations.....	\$2,495,000.00
C. Loans/Contracts Not Approved as a Result of the Name Check Program	<u>\$10,008,020.00</u>
Total	\$33,035,800.00

SBA Personnel Actions Taken as a Result of Investigations

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

Program Actions Taken as a Result of Investigations

A. Debarments Recommended to the Agency	0
B. Debarments Pending at the Agency	0
C. Proposed Debarments issued by the Agency	3
D. Final Debarments issued by the Agency.....	4

Summary of OIG Hotline Operation

A. Total Fraud Line Calls/Letters	166
B. Total Calls/Letters Referred to Investigations Division.....	35
C. Total Calls/Letters Referred to SBA or Other Federal Investigative Agencies	123
D. Total Calls/Letters Needing No Action.....	18

Appendix

Appendix I OIG Reports Issued October 1, 2004, through March 31, 2005

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
<i>Capital Access</i>				
Management Advisory Report – Pre-Demand and Demand Letters for Delinquent 9/11 Disaster Loans	5-09	1/11/05		
Advisory Memorandum – Real Time Traders.com, Inc.	5-10	1/31/05		
Defaulted 9/11 Disaster Loan	CP 5-02			
Program Subtotal	3			
<i>Agency Management</i>				
FY 2005 Report on the Most Serious Management Challenges Facing the Small Business Administration	5-01	10/15/04		
Advisory Memorandum Report – Independent Evaluation of SBA’s Information Security Program	5-02	10/7/04		
Review of Indirect Cost Rate of the Walsh Group, P.A.	5-03	10/25/04		
Audit of SBA’s FY 2004 Financial Statements	5-05	11/15/04		
Governmentwide Financial Report System for Fiscal Year 2004	5-06	11/18/04		
Advisory Memorandum Report on SBA’s Federal Intragovernmental Activity and Balances Data	5-07	12/2/04		
Single Audit of the MountainMade Foundation	5-08	1/6/05	\$178,206.00	
Audit of SBA’s Information Systems Controls Fiscal Year 2004	5-12	2/24/05		
Audit of SBA’s FY 2004 Financial Statements Management Letter	5-13	2/23/05		
Audit of SBA’s Continuity of Operations Planning Program (COOP)	5-17	3/30/05		
Program Subtotal	10		\$178,206.00	
<i>Government Contracting and Business Development</i>				
Review of the Small Disadvantaged Business (SDB) Certification Program	5-04	11/4/04		
Review of a Cooperative Agreement to HP Small Business Foundation	5-11	2/11/05	\$1,073,715.37	
SBA Small Business Procurement Awards are not Always Going to Small Businesses	5-14	2/24/05		
New Management Challenge – Large Businesses Receive Small Business Awards	5-15	2/24/05		
Review of Selected Small Business Procurements	5-16	3/8/05		
TOTALS (all programs)	18 Reports		\$1,251,921.37	\$0

Appendix

Appendix II OIG Reports with Questioned Costs

		Reports	Recs*	Questioned Costs**	Unsupported Costs**
A.	For which no management decision had been made by September 30, 2004	12	22	\$6,086,348.75	\$2,181,125.00
B.	Which were issued during the period	2	4	\$1,251,921.37	\$904,952.13
	Universe from which management decisions could be made in this reporting period - Subtotals	14	26	\$7,338,270.12	\$3,086,077.13
C.	For which a management decision was made during the reporting period	10	19	\$3,457,650.02	\$0
	(i) Disallowed costs	7	15	\$1,656,532.02	\$0
	(ii) Costs not disallowed	4	4	\$1,801,118.00	\$0
D.	For which no management decision had been made by March 31, 2005	5	7	\$3,880,620.10	\$3,086,077.13

* Recommendations: 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.	For which no management decision had been made by September 30, 2004	4	4	\$537,061.00
B.	Which were issued during the period	0	0	\$0
	Universe from which management decisions could be made in this reporting period - Subtotals	4	4	\$537,061.00
C.	For which a management decision was made during the reporting period	1	1	\$142,549.00
	(i) Recommendations agreed to by SBA management	1	1	\$142,549.00
	(ii) Recommendations not agreed to by SBA management	0	0	\$0
D.	For which no management decision had been made by March 31, 2005	3	3	\$394,512.00

* Recommendations: reports may have more than one recommendation.

Appendix

Appendix IV OIG Reports with Non-Monetary Recommendations

		Reports	Recommendations
A.	For which no management decision had been made by September 30, 2004	30	145
B.	Which were issued during the period	12	98
	Universe from which management decisions could be made in this reporting period - Subtotals	42	243
C.	For which a management decision was made (for at least one recommendation in the report) during the reporting period	27	123
D.	For which no management decision (for at least one recommendation in the report) had been made by March 31, 2005	25	120

*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.

Appendix

Appendix V OIG Reports From Prior Semiannual Periods with Overdue Management Decisions as of March 31, 2005

Title	Number	Issued	Status
Georgia District Office Sponsorship Activities	2-25	8/26/02	Awaiting final action by management for recommendation 1.A.
Impact of Loan Splitting on Borrowers and SBA	2-31	9/30/02	Two recommendations are in management resolution.
Guaranty Purchase Process	3-15	3/17/03	Awaiting management decision on recommendation 1.A.
Asset Sales Program	3-19	3/31/03	Four recommendations are in management resolution.
Equity Injection in the SBA 7(a) Loan Guaranty Program	3-21	3/31/03	Three recommendations are in management resolution.
SBA's Acquisition, Development and Implementation of the Joint Accounting and Administrative Management System	3-32	6/20/03	Two recommendations are in management resolution.
Insufficient Proof of Citizenship Status for SBA Loans (Inspection)	3-43	9/30/03	One recommendation is in management resolution.
Puerto Rico & US Virgin Island DO Cosponsorship and SBA-Sponsored Activities	4-07	1/20/04	Agency has not responded to the eleven recommendations made in the report.
Audit of SBA's Information System Controls for Fiscal Year 2003	4-19	4/29/04	Four recommendations are in management resolution.
Audit of San Francisco District Office Administrative Activities Related to the Silicon Valley Small Business Development Center	4-27	6/29/04	Two recommendations are in management resolution.
Management Advisory Report on the Transfer of Operations to the National Guaranty Purchase Center	4-39	8/31/04	One recommendation is in management resolution.
Audit of SBA Guaranteed Loan	4-40	9/13/04	One recommendation is in management resolution.
Audit of Selected SBA General Support Operating Systems	4-41	9/10/04	One recommendation is in management resolution.
Audit of SBA's Email System	4-42	9/10/04	Four recommendations are in management resolution.
Audit of Early Defaulted Loan	4-43	9/17/04	One recommendation is in management resolution.
Audit Report - Summary Audit of SBA-Sponsored and Cosponsored Events Conducted by District Offices	4-44	9/24/04	Agency has not responded to the seven recommendations made in the report.

Appendix

Appendix VI OIG Reports Without Final Action as of March 31, 2005

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target
43H006021	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	**
1-09	PDD 63	3/26/01	9/27/01	9/15/03
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	**
1-20	Agreed-Upon Procedures Report on Sensitive Payments	9/28/01	12/18/01	12/31/04
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	***	**
2-18	SBA's Information Systems Controls FY 2001	5/6/02	***	**
2-22	Travel of SBA's Former Region VI Regional Administrator	8/7/02	9/26/02	**
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	6/30/05
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

Appendix

Appendix VI (cont.) OIG Reports Without Final Action as of March 31, 2005

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target
3-34	SBA's Compliance with JFMIP Property Management System Requirements	7/23/03	9/11/03	12/30/04
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
3-39	Monitoring of SBA's Implementation of the Disaster Credit Management System	9/24/03	12/11/03	12/31/04
3-41	Audit of an Early Defaulted Loan	9/29/03	4/22/04	5/31/05
3-42	Travel Card and Purchase Card Controls	9/29/03	6/17/04	12/30/04
4-09	Review of SBA Purchase Cards	1/26/04	8/24/04	3/31/05
4-10	SBA's FY 2003 Financial Statements	1/30/04	7/16/04	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
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	***	**
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 Guarantied 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 Guarantied 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	***	**
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
4-38	Audit of SBA Guarantied Loan	8/24/04	10/6/04	4/7/05
4-41	Audit of Selected SBA General Support Systems	9/10/04	***	**
4-42	Audit of SBA's Email System	9/10/04	***	**

Appendix

Appendix VI (cont.) OIG Reports Without Final Action as of March 31, 2005

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target
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
5-05	Audit of SBA’s Fiscal Year 2004 Financial Statements	11/15/04	***	**
5-09	Management 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 Control Fiscal Year 2004	2/24/05	3/23/05	**

** 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 March 31, 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

Appendix

Appendix VII (cont.) Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of March 31, 2005*

Report Number	Date Issued	Recommendation	Management Decision Date	Final Action Target
3-33	7/1/03	Revise 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 First International Bank, less any subsequent recoveries, for loan number 343 767 4004.	10/1/03	9/30/04
3-41	9/29/03	Require the lender to repay SBA \$273,675 for loan number 153-313-4007.	4/22/04	5/31/05
4-10	1/30/04	That the Chief Financial Officer develop a comprehensive SOP detailing the subsidy reestimate process, including related internal controls, that reflects SBA's current reestimate preparation processes and any proposed improvements. The new SOP should be updated at least annually to capture significant changes such that it reflects the current operating process.	7/16/04	3/31/05
4-13	3/2/04	Request the District Director to seek recovery from the lender of principal, interest, and expenses totaling \$767,049 paid to First International Bank for Loan number 381-867-4008.	4/06/04	1/31/05
4-16	3/17/04	That the Associate Deputy Administrator for Management and Administration seek recovery of at least \$1,690,838 for amounts overcharged by referring the overcharging matter to the GSA contracting officer for FSS 621-3 (now 520-3) for appropriate action.	5/12/04	5/02/05
4-17	3/23/04	That the 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
4-17	3/23/04	That the CFO implement procedures to ensure timely and accurate reporting and reconciliation of intragovernmental amounts. These procedures should include establishing timelines for resolving differences with non-fiduciary trading partners, as well as quality assurance reviews to ensure the accuracy of both amounts confirmed and amounts reported.	5/14/04	11/30/04

Appendix

Appendix VII (cont.) Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of March 31, 2005*

Report Number	Date Issued	Recommendation	Management Decision Date	Final Action Target
4-19	4/29/04	That the Chief Information Officer 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 Chief Information Officer, 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 March 31, 2005*

Report Number	Date Issued	Recommendation	Management Decision Date	Final Action Target
4-19	4/29/04	That the Chief Information Officer: 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	4/29/04	That the Chief Information Officer: develop procedures to ensure that network system administrators: assess vulnerabilities in the current network configuration; make appropriate changes to the Windows 2000 operating system to address the vulnerabilities identified; develop an action plan to address the vulnerabilities; provide status reports on actions taken, document a standard Domain Controller configuration and standard domain policy configurations; and provide technical training to network system administrators in line with NSA, NIST, and best business practices for securing Windows 2000.	8/6/04	3/31/05

Appendix

Appendix VII (cont.) Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of March 31, 2005*

Report Number	Date Issued	Recommendation	Management Decision Date	Final Action Target
4-19	4/29/04	That the Chief Information Officer: develop network administration policies and procedures to assure that vendor patches and security hot-fixes are installed timely; develop standards in conformance with government standards and industry best practices to properly configure the platforms residing on the network; develop procedures to periodically perform self-assessments using the SANS Top Twenty vulnerabilities and establish an internal goal of reducing SBA's vulnerability rating; require network administrators to develop a corrective action plan to address each weakness identified in the table at the end of this attachment with milestones for resolving each weakness; and require network administrators to provide monthly status reports to the Chief Information Officer.	8/6/04	3/30/05
4-19	4/29/2004	That the Chief Information Officer 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	Request the Associate Administrator to seek recovery of the SBA guaranty repair of \$235,008.	7/01/04	3/31/05
4-28	7/9/2004	Seek recovery of \$142,549 from the lender.	10/06/04	3/31/05
4-29	7/12/04	Request the Associate Administrator to 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
4-34	7/29/04	That the Chief Financial Officer provide detailed guidance to the oversight, program and district offices to explain how and when they are to perform and document a complete risk assessment according to GAO Standards.	10/25/04	4/30/05
4-36	8/10/04	Request the Associate Administrator to seek recovery of the SBA guaranty repair of \$740,000.	10/06/04	3/31/05
4-38	8/24/04	That the Associate Administrator for Financial Assistance seek recovery of \$83,576, less any prior recoveries, from the lender.	10/06/04	4/15/05

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

Appendix

Appendix VIII 6-Month Significant Recommendations Summary as of March 31, 2005

Report Number	Title	Date Issued	Recommendation
5-04	Review of the Small Disadvantaged Business (SDB) Certification Program	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.
5-04	Review of the Small Disadvantaged Business (SDB) Certification Program	11/4/04	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).
5-05	Audit of SBA's Fiscal Year 2004 Financial Statements	11/15/04	That the CFO 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. We recommend the following: performing additional analytical procedures monthly or quarterly; developing and completing additional checklists; performing studies of best practices; and, having an independent review conducted by individuals not associated with SBA's daily financial management and reporting responsibilities, such as an outside peer reviewer.
5-05	Audit of SBA's Fiscal Year 2004 Financial Statements	11/15/04	That the CFO strengthen internal controls to ensure that all requisite trading partner data are fully captured in SBA's accounting system, and that all trading partners are contacted quarterly to reconcile differences. In addition, we recommend that CFO seek assistance from OMB to enhance cooperation from non-responsive trading partners.
5-09	Management Advisory Report – Pre-Demand and Demand Letters for Delinquent 9/11 Disaster Loans	1/11/05	Revise Standard Operating Procedure 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.
5-09	Management Advisory Report – Pre-Demand and Demand Letters for Delinquent 9/11 Disaster Loans	1/11/05	Ensure that sufficient resources are devoted to Center activities to fulfill the timely issuance of pre-demand and demand letters as required by OMB A-129 requirements.

Appendix

Appendix VIII (cont.) 6-Month Significant Recommendations Summary as of March 31, 2005

Report Number	Title	Date Issued	Recommendation
5-11	Review of a Cooperative Agreement to HP Small Business Foundation	2/11/05	Develop a financial management system that meets the requirements of OMB Circulars A-110 and A-122. The recipient should: (1) establish detailed written procedures for identifying, classifying, and eliminating costs that are not allowable, allocable, or reasonable; (2) develop procedures for contract administration with third parties as required by OMB Circulars; (3) request approval and provide copies of contracts/agreements for all contracting action; and (4) require vendors/subcontractors to bill the recipient for all work performed under the cooperative agreement.
5-11	Review of a Cooperative Agreement to HP Small Business Foundation	2/11/05	Request a legal opinion as to whether the arrangement between the recipient and SMA Global violated the terms of the cooperative agreement regarding sub-granting or awarding the cooperative agreement to a sub-recipient. The opinion should address whether the activities by the recipient were conducted at arm's length given the nature of related party affiliation of the principal entities administering the project. The organization (the recipient) accepting the award has the obligation to honor the terms and conditions of the cooperative agreement and comply with applicable OMB Circulars.
5-12	SBA's Information System Controls for FY 2004	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).
5-12	SBA's Information System Controls for FY 2004	2/24/05	For the Loan Accounting System: (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.

Appendix

Appendix VIII (cont.) 6-Month Significant Recommendations Summary as of March 31, 2005

Report Number	Title	Date Issued	Recommendation
5-12	SBA's Information System Controls for FY 2004	2/24/05	Develop minimally acceptable baseline configurations based on guidance from NSA, NIST, CIS, SANS, and industry best practices for Windows 2000 Domain Controllers. In addition, these baseline configurations should address all the issues identified above based on the source used for developing the baselines and the settings and policies should be put into place.
5-12	SBA's Information System Controls for FY 2004	2/24/05	Develop a system disaster recovery plan for LAS (both Egan mainframe and SBA's Sybase servers) to ensure that all facets of LAS can recover if both or either aspects of the system are disabled during an emergency.
5-14	SBA Small Business Procurement Awards are not Always Going to Small Businesses	2/24/05	That the Associate Deputy Administrator for Government Contracting and Business Development work with GSA to ensure that small business representations in response to GSA Schedules contract solicitations are following size eligibility requirements for Government procurement, specifically that "if a procurement calls for two or more specific end items or types of services with different size standards and the offeror may submit an offer on any or all end items or types of services, the offeror must meet the size standard for each end item or service item for which it submits an offer" (13 CFR Sec. 121.407).
5-14	SBA Small Business Procurement Awards are not Always Going to Small Businesses	2/24/05	That the Associate Deputy Administrator for Government Contracting and Business Development work with the FAR Council to require compliance with set-aside regulations on multiple award vehicle (i.e., schedules and GWACs) purchases when agencies limit their requests for quotations to small businesses.
5-17	Audit of SBA's Continuity of Operations Planning Program	3/30/05	Assign overall Continuity of Operations Program (COOP) Business Resumption Program oversight responsibilities to the Office of Chief Operating Officer.
5-17	Audit of SBA's Continuity of Operations Planning Program	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.

Appendix

**Appendix VIII (cont.)
6-Month Significant Recommendations Summary
as of March 31, 2005**

Report Number	Title	Date Issued	Recommendation
5-17	SBA's Continuity of Operations Planning Program	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.
5-17	SBA's Continuity of Operations Planning Program	3/30/05	Create complete System Disaster Recovery Plans for all mission critical information systems that satisfy the requirements set in NIST Special Publication 800-34 and SBA's COOP.

Appendix

Appendix IX List of Events/Activities Where SBA Used its Cosponsorship Authority* Small Business Act, Section 4(h) December 7, 2004, through March 31, 2005

Name/Subject of Event	Date of Event Start	Date of Event End	Location of Event	Type of Activity	Names of Cosponsors
Partnership to provide entrepreneurial training and assistance to urban small business entrepreneurs	9/30/04	9/30/06	15 National Urban League locations	Cosponsorship	National Urban League
Small Business Resource Guide	9/30/04	10/01/06	Utah	Cosponsorship	Olympus Publishers, LC, dba Utah Business Magazine (For Profit) and State of Utah, Division of Business and Economic Development (DBED)
Business Resource Alliance	12/04	2/05 5/05 7/05 10/05	Los Angeles, CA	Cosponsorship	Blue Cross of California (For Profit)
Fidelity Brokerage Services (Fill in Name of Activity)	11/04	9/30/05	Washington, DC and Providence, RI	Cosponsorship	Fidelity Brokerage Services, LLC
National Training Alliance	11/04	12/06	Online	Cosponsorship	National Business Association
Webinars	11/04	02/05	World Wide Web	Cosponsorship	Topica
SBA/Hartford E-Learning Center	11/04	12/31/06	Internet	Cosponsorship	The Hartford Fire Insurance Company (Hartford)
Youth Entrepreneur Webpage	11/04	10/31/06	World Wide Web and JA Worldwide sites throughout the U.S.	Cosponsorship	JA Worldwide (Not For Profit Organization)
Internet based "one stop clearing house" for small business information on Health Savings Accounts	10/04	11/06	Online	Cosponsorship	America's Health Insurance Plans (A not for profit association of health insurance providers)

Appendix

Appendix IX (cont.)
List of Events/Activities Where SBA Used its Cosponsorship Authority*
Small Business Act, Section 4(h)
December 7, 2004, through March 31, 2005

Name/Subject of Event	Date of Event Start	Date of Event End	Location of Event	Type of Activity**	Names of Cosponsors
Entrepreneurs on the Grow	3/15/04	12/04	Honolulu, HI	Cosponsorship	American Savings Bank Pacific Business News Hawaii Women's Business Center Plaza Club (For Profit)
Training Program/On-line tutorial	5/01/04	5/31/06	World Wide Web	Cosponsorship	Roving Software, Inc.
Conference - The Role on Entrepreneurship in Promoting Economic Development	3/7/05	3/7/05	Washington, DC	Cosponsorship	Ewing Marion Kauffman Foundation, Council of State Governments, and the National Lieutenant Governors Association (Non-Profit 501 (c) (3))
Multicultural Small Business Outreach Initiative	3/10/05	3/10/05	San Gabriel, CA	Cosponsorship	United States Postal Service (USPS)
Seminar on Employment Law issues for established businesses	3/10/05	3/10/05	Seattle, WA	Cosponsorship	Ryan Swanson and Cleveland PLLC Greater Seattle Chamber of Commerce Seattle Small Business Development Center (SBDC) SCORE
Small Business Resource Fair	2/18/05	3/4/05	Granite Falls, MN and Mahnomon, MN	Cosponsorship	Office of U.S. Congressman Collin Peterson, MN Dept. of Employment and Economic Dev., MN State Community and Technical College and MN SCORE Association
Minority Leaders of Tomorrow: Business Forum	2/2/05	2/2/05	Jacksonville, FL	Cosponsorship	National Football League (NFL) and University of North Florida Small Business Development Center (SBDC)

Appendix

**Appendix IX (cont.)
 List of Events/Activities Where SBA Used its Cosponsorship Authority*
 Small Business Act, Section 4(h)
 December 7, 2004, through March 31, 2005**

Name/Subject of Event	Date of Event Start	Date of Event End	Location of Event	Type of Activity	Names of Cosponsors
Business Resource Alliance	1/12/05	3/10/05	Springfield, VA and Gaithersburg, MD	Cosponsorship	Best Buy Stores, L.P. (For Profit)
Business Resource Alliance	1/05	1/06	San Diego, San Francisco, Los Angeles and Chicago	Cosponsorship	Best Buy Stores, L.P. (For Profit)

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

Appendix

Appendix X 6-Month Legal Actions Summary October 1, 2004, through March 31, 2005

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
AZ	BL	An Arizona woman was the straw borrower on a \$462,000 SBA-guaranteed loan. During the application process, she provided several false gift letters as part of the equity injection. The applicant was also acted as a straw borrower for a co-subject, who could not apply for the loans himself because of his prior Federal conviction for bribery.	Loan applicant pled guilty to false statements and agreed to pay \$24,000 in restitution. Sentencing was deferred for 5 years.	None
CA	SBDC	A former high ranking state official, who administered a Small Business Development Center program for the SBA in California, allegedly engaged in a scheme to defraud HUD of more than \$600,000.	Former official indicted.	FBI HUD/OIG
IA	BL	A former banking associate, who had previously pled guilty, was sentenced for making a false statement to SBA in an effort to induce the SBA to pay its 80 percent guaranty on a defaulted business loan.	Banking associate debarred from Federal assistance programs and procurement transactions for 3 years.	None
IL	BL	A businessman participated in a fraud scheme committed against the SBA and a participating lender involving a \$1.25 million SBA loan to purchase a restaurant. The parties to the transaction conspired to provide an unqualified borrower (an illegal alien and convicted felon) with the funds required for his capital injection.	Businessman settled the Government's civil claims against him through a \$100,000 cash payment to the SBA.	None
MD	BL	The owner of a Maryland seafood business conspired with a New Jersey seafood exporter and prepared false invoices totaling \$73,344 in order to receive a \$400,000 SBA loan.	Owner pled guilty.	None
MD	BL	The owners of a now-closed restaurant pled guilty to charges relating to concealing a previous bankruptcy when applying for an SBA-guaranteed loan.	Owners sentenced to 3 years probation and ordered to pay \$200,000 in restitution.	FBI
MI	BL	SBA/OIG received information, including financial records and testimony, which directly contradicted information previously provided by a borrower/restaurant owner during the loan application and approval process for a \$650,000 loan.	SBA lender cancelled loan after receiving contradicting information from SBA/OIG.	None

Appendix

Appendix X (cont.) 6-Month Legal Actions Summary October 1, 2004, through March 31, 2005

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
MO	BL	The former owner of a Missouri business falsely claimed to have injected at least \$241,100 into her business prior to the closing of a \$727,000 SBA-guaranteed loan. The false representations included a \$100,000 gift letter from her father, when this money was actually a loan.	Former owner was sentenced to 5 years probation and ordered to pay \$171,572 in restitution to an SBA lender.	None
MO	BL	The former president and secretary of a child care center in Missouri falsified the required equity injection in order to obtain a \$311,000 SBA-guaranteed loan. The child care center never opened and the loan quickly defaulted, resulting in a principal loss of \$154,566. A former construction company owner assisted in the scheme by submitting a false \$11,000 invoice as evidence of the required equity injection.	Former president and secretary were ordered to make restitution of \$154,566 to the lender and were sentenced to 3 and 5 years probation respectively. The former construction company owner will make restitution of \$11,000 to the government and provide community service.	None
MO	BL	The former president/owner of a boat propeller manufacturer made false statements to financial institutions in order to obtain a \$340,000 SBA-guaranteed loan. The owner, who is also a disbarred attorney, failed to disclose numerous personal and corporate liabilities and submitted a false income tax return.	Owner sentenced to 9 years incarceration, 5 years probation and ordered to pay over \$2.4 million in restitution.	IRS
NJ	BL	A window manufacturer owner conspired with an attorney to obtain a \$1,750,000 SBA-guaranteed business loan through a false capital injection. The terms of the loan required a third individual to make a \$700,000 capital injection. The investigation revealed that the capital injection was never made.	All four subjects have pled guilty and are awaiting sentencing.	None
NJ	SBIC	The part owner of a Small Business Investment Company, licensed and funded by SBA to lend money to start-up technology businesses, was involved in a scheme to steal more than \$1.9 million. The business owner and others participated in the theft of funds by issuing checks, wire transfers, and other payments for their own personal benefit. They concealed the thefts by falsifying records to make it appear that the payments were for salary or shareholder distributions.	Owner pled guilty.	FBI

Appendix

Appendix X (cont.) 6-Month Legal Actions Summary October 1, 2004, through March 31, 2005

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
NV	BL	The part owner of four Las Vegas florists allegedly participated in a multi-faceted fraud scheme relating to the submission of false documentation for six SBA loans totaling \$300,000.	Business owner Indicted.	DOS-DSS, USSS, Las Vegas Metro Police
NY	DL	The owner of two telecommunication firms is charged with providing false information on his SBA disaster loan applications. When applying for loans of \$216,800 and \$80,000, the owner provided information that his companies were located at the World Trade Center on 9/11 and suffered physical and economic injury as a result of the terrorist attacks. The SBA/OIG investigation disclosed that the firms had relocated prior to the 9/11 attacks.	Owner charged by Information for making false statements.	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 indicted.	IRS
NY	DL	A resident falsely applied for two disaster loans. In both applications, she falsely claimed her apartment and automobile were destroyed during the 9/11 terrorist attacks. In fact, she never resided at the apartment, and the car was repossessed prior to the attacks. She received \$1,668 from FEMA, but SBA denied her loan application due to poor credit history and a lack of repayment ability.	Applicant indicted.	DHS-OIG
OR	BL	A former loan broker submitted false loan applications containing names and personal identity information of six people, fictitious business information, and forged signatures. In addition, he opened checking accounts in the names of these people and, after the loan funds were deposited into these accounts, wrote checks using forged signatures. The former loan broker used the proceeds of these loans for personal expenses, including paying debts and gambling.	Former loan broker was sentenced to 21 months in prison, 5 years supervised release, and was ordered to pay restitution of \$512,518 to a lender. He was also debarred by the SBA for 3 years from all Federal procurement and non-procurement activities.	FBI

Appendix

Appendix X (cont.) 6-Month Legal Actions Summary October 1, 2004, through March 31, 2005

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
PA	BL	The president of a now-defunct tool business fraudulently attempted to conceal \$551,000, which he obtained through an unrelated stock sale. The purpose of the scheme was to induce the SBA to accept a \$60,000 payment and forgive the remaining loan balance totaling \$437,000.	President sentenced to 5 years probation; ordered to pay \$437,000 in restitution to SBA.	None
PA	CC	Agency debarred two individuals based upon false statements in connection with their participation in the 8(a) program. One of the individuals was running the day-to-day operations of an 8(a) company in violation of program rules because: 1) he had not been identified to SBA as the operator, and 2) he had already graduated from the 8(a) program. He also created false financial statements in order to obtain the bonding necessary for the firm to bid and receive contracts. The bonding company lost approximately \$6 million on the defaulted contracts. The second individual, an employee of the 8(a) firm, started a second company and wrongfully obtained admission to the 8(a) program based upon false representations that he owned 100 percent of the second concern.	Two individuals debarred from participating in the SBA 8(a) program for 3 years.	NCIS
TN	BL	The president of a pager and cellular telephone retailer allegedly induced a bank and SBA to fund a \$100,000 SBA-guaranteed loan by submitting false invoices that inaccurately represented the value of the equipment and the selling price of the business being purchased.	President indicted.	None
TX	BL	The owner of a convenience store applied for and received a \$1 million SBA-guaranteed loan. During the loan process, he claimed U.S. citizenship; however, Department of Homeland Security records indicated that he was not a U.S. citizen.	Owner sentenced to 1 year probation and 200 hours community service.	DHS, SSA, Harris County Organized Crime Task Force, TEXAS-ABC
TX	BL	The co-owner of a business failed to report a criminal conviction on his SBA Form 912 when applying for a SBA-guaranteed loan. The OIG investigation resulted in a cost avoidance of the loan amount, \$1,845,000.	Bank withdrew application.	None
TX	BL	The owners of a convenience store and service station were charged with tampering with government records in connection with an SBA business loan and a renewal application for a TABC permit. The couple falsified documents inducing a financial institution and SBA to fund a \$230,000 SBA-guaranteed loan.	Owners sentenced to 2 years probation, and fined \$2,000.	DHS, TEXAS-DPS, TEXAS-ABC

Appendix

Appendix X (cont.) 6-Month Legal Actions Summary October 1, 2004, through March 31, 2005

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
TX	BL	Two proprietors of a convenience store and service station allegedly induced a financial institution and the SBA to fund a \$480,000 SBA-guaranteed loan by falsely representing themselves as U.S. citizens.	Convenience store owners indicted.	DHS, SSA, USDA, TEXAS-DPS, TEXAS-ABC
TX	BL	A loan broker was involved in a fraudulent scheme involving at least \$28 million in SBA-guaranteed loans. The broker admitted that for a 2-year period, he brokered loans to individuals interested in purchasing convenience stores and caused these individuals to sign loan application documents that he knew were false. The broker then submitted these false documents to lenders.	Broker sentenced to 9 years in a Federal correctional facility with no parole. He was also ordered to pay more than \$14 million in restitution and forfeit \$2 million to the United States Treasury.	FBI
TX	BL	The owner of two restaurants obtained two SBA-guaranteed loans and a line of credit totaling \$1,078,500 by inflating personal property values and net worth in order to influence financial institutions to approve the loans. The owner used the proceeds for personal expenses.	Restaurant owner indicted.	FBI, IRS
TX	BL	The owners of a convenience store conspired to recruit individuals to apply for \$9.5 million in SBA-guaranteed loans; submitted false and fraudulent documents, including "gift letters;" and concealed the fact that escrowed SBA-guaranteed loan proceeds were being used as down payments for additional loans.	Owners plead guilty.	FBI
TX	BL	The owner of a convenience store and an associate were charged with bank fraud and making false statements to a financial institution for the purpose of fraudulently obtaining a \$1 million SBA-guaranteed loan and a \$390,000 companion loan.	Convenience store owner and associate indicted.	DHS
TX	BL	The owner of an escrow company and a co-conspirator falsely obtained nine SBA-guaranteed loans totaling \$9,500,000 for convenience stores. The fraud scheme involved submitting false loan application documents and using SBA guaranteed loan proceeds to falsify the required equity injection.	Owner and co-conspirator convicted on all counts in a jury trial. Conviction includes a provision to forfeit any property derived from the offenses, up to \$9,975,000.	FBI

Appendix

Appendix X (cont.) 6-Month Legal Actions Summary October 1, 2004, through March 31, 2005

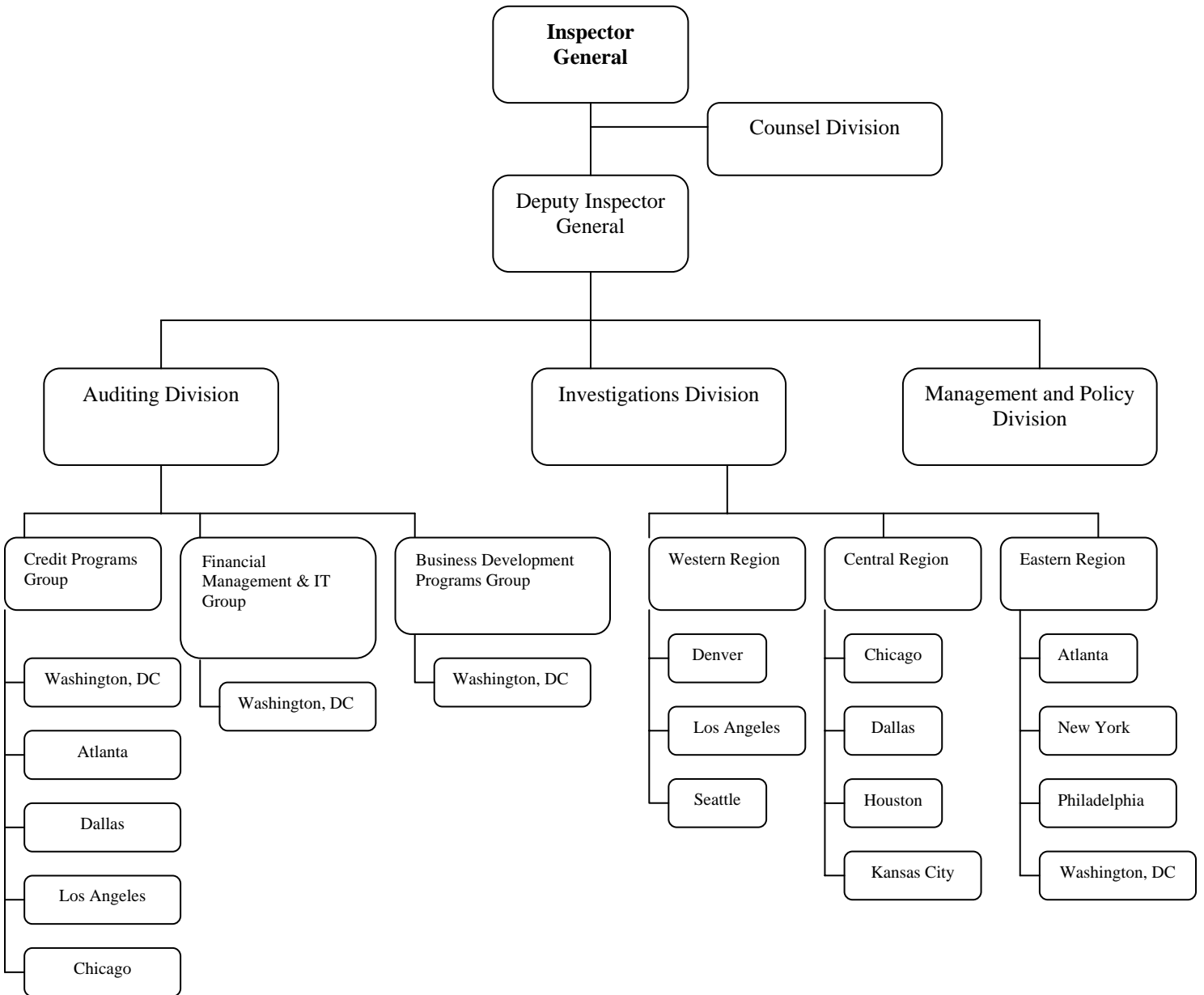
State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
TX	BL	During the course of the loan process for an \$880,000 SBA-guarantied loan, it is alleged that a borrower signed fraudulent documents relating to his financial status, the required cash injection, and his U.S. citizenship.	Superseding indictment filed.	DHS, TEXAS-ABC
VA	BL	The former owners of a contracting company allegedly used loan proceeds for personal items in lieu of purchasing equipment that was to serve as collateral for their \$100,000 SBA-guarantied loan.	Former owners indicted.	FBI

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

Joint-investigation Federal agency acronyms: BATF=Bureau of Alcohol, Tobacco, and Firearms; DCIS=Defense Criminal Investigative Service; DHS=Department of Homeland Security; DOC/OIG=Department of Commerce OIG; DOL/OIG=Department of Labor OIG; FBI=Federal Bureau of Investigation; HUD=Department of Housing and Urban Development; ICE=Immigration and Customs Enforcement; IRS=Internal Revenue Service; IRS-CID=IRS Criminal Investigation Division; NCIS=Naval Criminal Investigative Service; SSA/OIG=Social Security Administration OIG; TEXAS-ABC=Texas Alcoholic Beverage Commission; TEXAS-DPS=Texas Department of Public Safety; TIGTA=Treasury Inspector General for Tax Administration; USDA/OIG=United States Department of Agriculture OIG; USPIS/OIG=United States Postal Inspection Service; USSS=United States Secret Service; VA/OIG=Department of Veterans Affairs OIG.

Appendix

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. (5th Floor)
Washington, DC 20416

Or E-mail Us at OIG@SBA.GOV

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