

# Office of Inspector General

---

Small Business Administration

## Semiannual Report to Congress Fall 2017



April 1, 2017–September 30, 2017

This page intentionally left blank.



Small Business Administration  
**Office of Inspector General**  
Washington, DC 20416



I am pleased to present the U.S. Small Business Administration (SBA) Office of Inspector General (OIG) Fall 2017 Semiannual Report to Congress. The report provides a summary of OIG's activities from April 1, 2017, through September 30, 2017. OIG continues to focus on the most critical risks facing SBA. Our resources are directed at key SBA programs and operations, to include financial assistance, Government contracting and business development, financial management and information technology, disaster assistance, Agency management challenges, and security operations.

During this reporting period, OIG issued 9 reports with 30 recommendations to improve SBA operations and reduce fraud and unnecessary losses in Agency programs. In addition, OIG investigations resulted in 25 indictments and 14 convictions. OIG also provided critical investigative and legal support in reaching multimillion-dollar settlements on four separate small business contracting fraud cases brought under the False Claims Act. Overall, OIG's investigations and audits achieved monetary recoveries and savings of \$46,966,302. OIG also sent 68 present responsibility referrals to SBA and 3 additional present responsibility referrals to other agencies. These referrals typically result in a suspension, debarment, or administrative agreement.

In achieving these results, OIG dedicated its oversight resources toward the principal program areas of SBA. A few noteworthy reviews and investigative outcomes detailed in this report are highlighted below:

- OIG published [Audit Report 17-13](#), *SBA's Management of Voluntary Early Retirement Authority and Voluntary Separation Incentive Payment Program*. This audit found that while SBA made limited progress in restructuring and reshaping the workforce, it did not accomplish its stated goals of the VERA-VSIP program. As a result, SBA paid \$2.1 million for early retirements for positions that were not restructured following VERA-VSIP.
- An OIG investigation resulted in a \$16 million False Claims Act settlement negotiated by the U.S. Department of Justice with a major defense contractor that engaged in a scheme to establish various small disadvantaged business entities as vehicles to obtain set-aside contracts for which the contractor was not otherwise eligible. This settlement represented the second-largest recovery ever under the False Claims Act in a case involving small business contracting fraud.
- A joint investigation led to an account manager for an information technology firm being sentenced in the U.S. District Court in the District of Maryland to 60 months in prison after pleading guilty to conspiracy to commit wire fraud. He also must pay \$9,440,340 in restitution.

I would like to thank OIG's employees for their outstanding efforts to promote economy, efficiency, effectiveness, and integrity in SBA programs and operations. We look forward to continuing to work with Administrator McMahan and SBA's management to address the issues and challenges facing the Agency.

A handwritten signature in black ink, appearing to read "H. Ware".

Hannibal "Mike" Ware

This page intentionally left blank.

# Contents

---

<b>Contents</b> .....	<b>iii</b>
<b>Organization Overview</b> .....	<b>1</b>
The U.S. Small Business Administration .....	1
The Office of Inspector General .....	1
<b>Small Business Access to Capital</b> .....	<b>3</b>
The OIG High Risk 7(a) Loan Review Program .....	3
Audit of SBA’s Microloan Program .....	3
Illinois Banker Sentenced to Prison and Ordered to Pay Over \$126,000 .....	4
New York Certified Public Accountant to Serve 6 Months in Prison and Pay Over \$229,000 in Restitution.....	4
Chicago Men Sentenced to Prison and Ordered to Pay Over \$398,000 in Restitution.....	5
New Jersey Man to Pay Over \$4.3 Million .....	5
California Business Owner Sentenced to Prison and Ordered to Pay Over \$1.3 Million .....	5
Arizona Executives Plead Guilty to Conspiracy, Bank Fraud, and Money Laundering .....	6
Illinois Man Pleads Guilty to Bank Fraud and Filing a False Tax Return.....	6
St. Louis Entrepreneur Pleads Guilty and Co-Conspirator Will Repay \$1.8 Million.....	7
New Jersey Business Owner Debarred by SBA and Ordered to Pay Over \$255,000 .....	7
<b>Disaster Assistance Program</b> .....	<b>8</b>
Former New York Restaurant Owners to Pay Over \$104,000 to SBA.....	8
New York Man to Serve Over 11 Years in Prison and Pay Over \$5.1 Million.....	8
Hurricane Sandy Investigations Yield Monetary Restitution .....	9
<b>Procurement Assistance</b> .....	<b>10</b>
Review of the Small Business Administration’s State Trade and Export Promotion Grant Program .....	10
Reassessment of Eligibility Requirements for 30 Firms in SBA’s 8(a) Business Development Program .....	11
Program Manager Sentenced to Prison and Ordered to Pay Over \$1 Million .....	11
Colorado Man and Illinois Woman Sentenced for Conspiracy in the 8(a) Program.....	11
Contractor to Serve 18 Months of Incarceration and Pay Over \$2.2 Million .....	12
Defense Contractor to Serve 5 Years in Prison and Pay Over \$9.4 Million .....	12
Florida Program Manager to Serve 30 Months in Prison and Pay \$500,000.....	13
Five Firms to Pay \$16 Million in Civil Claims .....	13
Ohio Men Pleads Guilty to Conspiracy to Commit Wire Fraud .....	13
Two Men Sentenced to Prison for 8(a) Program Fraud .....	13
Washington State Contractor to Pay \$2.1 Million to Settle False Claims Act Suit .....	14
German Firm to Pay \$2.1 Million to Settle False Claims Act Suit .....	14
New York Firm and Related Individuals to Pay Over \$3 Million to Settle False Claims Act Suit .....	14
<b>Agency Management</b> .....	<b>15</b>
SBA’s FY 2016 Compliance With the Improper Payments Elimination and Recovery Act.....	15

SBA’s Management of Voluntary Early Retirement Authority and Voluntary Separation Incentive Payment Program .....	15
Weaknesses Identified During the FY 2016 Federal Information Security Modernization Act Review .....	16
Review of SBA’s Pay Setting Practices for Senior Executive Service Salary Increases .....	16
FY 2017 Evaluation of SBA’s Charge Card Programs.....	16
<b>Other Significant OIG Activities .....</b>	<b>17</b>
OIG Background Investigations Ensure Agency Integrity .....	17
OIG Promotes Debarment and Other Administrative Enforcement Actions.....	17
OIG Provides Training to Multiple Agencies on Small Business Procurement Integrity.....	18
OIG Reviews of Proposed Agency Regulations, Operating Procedures, and Other Initiatives Lead to Improved Program Controls to Reduce Fraud, Waste, Abuse, and Inefficiencies.....	18
2004 Legislation Requires SBA Regulations and OIG Approval of SBDC Surveys .....	18
OIG Hotline.....	18
<b>Statistical Highlights .....</b>	<b>20</b>
Summary of OIG Dollar Accomplishments .....	20
Efficiency and Effectiveness Activities Related to Audit, Other Reports, and Follow-up Activities.....	20
Indictments, Convictions, Case Actions .....	20
SBA Personnel Actions Taken as a Result of Investigation .....	20
Program Actions Taken During the Reporting Period as Result of OIG Action.....	21
Agency Legislative and Regulatory Proposals Reviewed .....	21
<b>Full Year Statistical Highlights, FY 2017.....</b>	<b>22</b>
Summary of OIG Dollar Accomplishments .....	22
Efficiency and Effectiveness Activities Related to Audit, Other Reports, and Follow-up Activities.....	22
Indictments, Convictions, Case Actions .....	22
SBA Personnel Actions Taken as a Result of Investigation .....	22
Program Actions Taken During the Fiscal Year as Result of OIG Action .....	23
Agency Legislative and Regulatory Proposals Reviewed .....	23
<b>Reports Issued.....</b>	<b>24</b>
Contracting/Counseling Programs .....	24
Agency Management.....	24
Credit/Capital Programs .....	24
<b>Reports With Questioned Costs .....</b>	<b>25</b>
<b>Reports With Recommendations That Funds Be Put to Better Use.....</b>	<b>26</b>
<b>Reports From Prior Periods With Overdue Management Decisions .....</b>	<b>27</b>
<b>Reports From Prior Periods With Open Recommendations as of September 30, 2017.....</b>	<b>29</b>
<b>Significant Recommendations From Prior Reporting Periods Without Final Action as of September 30, 2017 .....</b>	<b>31</b>
<b>Significant Recommendations From This Reporting Period .....</b>	<b>35</b>

<b>Significant Management Decisions With Which OIG Disagrees .....</b>	<b>38</b>
<b>Significant Revised Management Decisions.....</b>	<b>38</b>
<b>Federal Financial Management Improvement Act.....</b>	<b>38</b>
<b>Instances of Interference .....</b>	<b>38</b>
<b>Investigations Reporting Statistics .....</b>	<b>39</b>
Investigative Reports Issued .....	39
Persons Referred for Prosecution.....	39
<b>Whistleblower Retaliation Cases .....</b>	<b>39</b>
<b>Investigations Involving a Senior Government Employee Where Misconduct Was Substantiated .....</b>	<b>39</b>
<b>Investigations Involving a Senior Government Employee That Is Closed and Not Disclosed to the Public. ....</b>	<b>39</b>
<b>Legal Actions Summary .....</b>	<b>40</b>
Legal Actions Summary Program Codes .....	43
Joint Investigation Agency Acronyms.....	43
<b>Cosponsored and Other Activities .....</b>	<b>45</b>
<b>Appendix: External Peer Reviews .....</b>	<b>50</b>
Audits Division.....	50
Investigations Division.....	50
Peer Reviews Conducted.....	50
<b>Reporting Requirements in the Inspector General Act of 1978, As Amended.....</b>	<b>51</b>
<b>Make a Difference.....</b>	<b>52</b>

This page intentionally left blank.

# Organization Overview

---

## The U.S. Small Business Administration

The mission of the U.S. Small Business Administration (SBA) under the Small Business Act, as amended, is to maintain and strengthen the Nation's economy by enabling the establishment and vitality of small businesses and assisting in the economic recovery of communities after disasters. The Agency's strategic plan for fiscal years (FYs) 2014–2018 has three overarching goals:

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

SBA is organized around four key functional assistance areas: financial, contracting, entrepreneurial development, and disaster assistance. The Agency also represents small businesses through an independent advocate and an ombudsman.

SBA's headquarters is in Washington, DC—with staff in 10 regional offices, 68 district offices and corresponding branch offices, and 4 disaster field offices—to deliver business products and services. There are also six Government contracting area offices. SBA also maintains a vast network of resource partners in all 50 States, the District of Columbia, Puerto Rico, American Samoa, the U.S. Virgin Islands, and Guam.

## The Office of Inspector General

Pursuant to the Inspector General Act of 1978 (the IG Act), as amended, the Office of Inspector General (OIG) provides independent, objective oversight to improve the integrity, accountability, and performance of SBA and its programs for the benefit of the American people. While SBA's programs are essential to strengthening America's economy, the Agency faces a number of challenges in carrying out its mission. Challenges include fraudulent schemes affecting all SBA programs, significant losses from defaulted loans, procurement flaws that allow large firms to obtain small business awards, excessive improper payments, and outdated legacy information systems.

OIG plays a critical role in addressing these and other challenges by conducting audits to identify wasteful expenditures and program mismanagement; investigating fraud and other wrongdoing; and taking other actions to deter and detect waste, fraud, abuse, and inefficiencies in SBA programs and operations. OIG's activities also help to ensure that SBA employees, loan applicants, and program participants possess a high level of integrity. This is critical to the proper administration of SBA's programs because it helps ensure that SBA resources are used by those who deserve and need them most. Copies of OIG reports and other products are available at <https://www.sba.gov/office-of-inspector-general>.

OIG has three divisions and several supporting program offices to carry out its functional responsibilities.

The **Audits Division** performs and oversees audits and reviews to review and assist SBA in administering its programs and operations economically, efficiently, and effectively. Key areas of emphasis are SBA's loan programs, disaster assistance, business development and Government contracting programs, as well as mandatory and other statutory audit requirements involving computer security and financial reporting. The balance of the engagements is discretionary and focuses on high-risk activities and management issues facing SBA.

The **Investigations Division** manages a program to detect and deter illegal and improper activities involving SBA's programs, operations, and personnel. The criminal investigations staff carries out a full range of traditional law enforcement functions. The security operations staff conducts required employee background investigations to achieve a high level of integrity in the Agency's workforce and adjudicates OIG employees and contractors for issuance of personal identity verification cards pursuant to Homeland Security Presidential Directive-12 background investigations requirements.

The **Management and Administration Division** provides business support (e.g., budget and financial management, human resources, IT, and procurement) for various OIG functions and activities.

The **Office of Counsel** provides legal and ethics advice to all OIG components; represents OIG in litigation arising out of or affecting OIG operations; assists with prosecuting criminal, civil, and administrative enforcement matters; processes subpoenas; responds to Freedom of Information and Privacy Act requests; and reviews and comments on proposed policies, regulations, legislation, and procedures.

The **OIG Hotline**, under the purview of the **Chief of Staff**, reviews allegations of waste, fraud, abuse, or serious mismanagement within SBA or its programs from employees, contractors, and the public. Hotline staff conduct a preliminary review of all complaints to determine the appropriate course of action and may coordinate reviews of allegations within OIG, SBA program offices, or other Government agencies.

OIG's headquarters is located in Washington, DC. Its field staff are located in Atlanta, GA; Chicago, IL; Dallas-Fort Worth, TX; Detroit, MI; Denver, CO; Herndon, VA; Houston, TX; Kansas City, MO; Los Angeles, CA; Miami, FL; New York, NY; Philadelphia, PA; Federal Way, WA; and Washington, DC.

## Small Business Access to Capital

---

SBA provides small businesses with capital and financial assistance through several key programs and has a financial assistance portfolio of guaranteed and direct loans totaling about \$118.8 billion. Over the years, OIG has worked closely with the Agency to identify potential points of risk and to improve SBA's oversight and controls to ensure that eligible participants most in need of assistance benefit from these programs.

For example, the Agency's largest lending program, the Section 7(a) Loan Guaranty Program, is SBA's principal vehicle for providing small businesses with access to credit that cannot be obtained elsewhere. Proceeds from a 7(a) loan may be used to establish a new business or to assist in acquiring, operating, or expanding an existing business. This program relies on numerous outside parties (e.g., borrowers, loan agents, and lenders) to complete loan transactions, with the majority of loans being made by lenders to whom SBA has delegated loan-making authority. Additionally, SBA has centralized many loan approval and servicing functions and reduced the number of staff performing these functions, placing more responsibility on—and giving greater independence to—its lenders. Past OIG reviews have reported on these trends, and OIG continues to identify weaknesses in SBA's lender and loan agent oversight processes.

Criminals use a wide array of techniques to fraudulently obtain—or induce others to obtain—SBA-guaranteed loans. These include submitting fraudulent documents, making fictitious asset claims, manipulating property values, using loan proceeds contrary to the terms of the loans, and failing to disclose debts or prior criminal records. Consequently, there is a greater chance of financial loss to the Agency and its lenders. OIG dedicates a significant portion of its resources to identifying wrongdoers and, whenever possible, recovering funds.

### The OIG High Risk 7(a) Loan Review Program

This report presents the results of our ongoing High Risk 7(a) Loan Review Program from March 2017 to August 2017 and an overall summary of our work to date.

The OIG's review of five early-defaulted loans identified material lender origination and closing deficiencies that justified denial of the guaranty for one loan totaling \$917,107. We also identified suspicious activity on two purchased loans totaling \$1.9 million, resulting in formal referrals to our Investigations Division. OIG recommended that SBA require the lender to bring the loan into compliance and, if not possible, seek recovery of \$917,107, plus interest, on the guaranty paid by SBA. SBA agreed with the recommendation and has contacted the lender to obtain additional information to bring the loan into compliance.

Since FY 2014, under the OIG's High Risk 7(a) Loan Review Program, we have reviewed 20 loans with purchase amounts totaling \$17.7 million. We have recommended recoveries on seven loans totaling approximately \$6 million and have referred another four loans totaling \$3.3 million for further investigation. As described above, this report includes our findings and recommendation on one of the seven loans. SBA reviewed the six loans we previously reported on with recommended recoveries totaling approximately \$5 million and contacted lenders to obtain additional information on the material deficiencies we identified. To date, SBA has recovered approximately \$1.3 million on three loans. SBA did not recover the guaranty from the lender on another loan. SBA is reviewing the remaining loans. ([Report 17-18](#))

### Audit of SBA's Microloan Program

This report presents the results of our audit of SBA's Microloan Program. We last conducted an audit of SBA's Microloan Program in 2009 and made several recommendations to SBA to improve its program oversight.

However, we determined that SBA management did not effectively implement all prior audit recommendations to improve oversight.

Furthermore, SBA management did not conduct adequate program oversight to measure program performance and ensure program integrity. In our review of a statistical sample of 52 microloan files, we found that data contained in SBA's information system for 27 of the loans did not match the information included in the intermediaries' loan files. In addition, we found that intermediaries did not have sufficient documentation to support that it originated and closed 44 of the 52 microloans, or 85 percent, totaling approximately \$910,000, in accordance with SBA's requirements. These deficiencies affect the reliability of the data reported to SBA by the intermediaries.

As a result, SBA's ability to validate microloan data, conduct analyses across multiple programs and systems, and capture outcome-based measures was impaired, and there was no way to ensure program integrity or measure program success. These internal controls over the Microloan Program are critical as Congress considers expanding the program. The Office of Inspector General made four recommendations to the Associate Administrator for the Office of Capital Access to improve SBA's oversight of the Microloan Program. SBA management agreed with the four recommendations. SBA management's proposed actions resolve all four of our recommendations. ([Report 17-19](#))

### **Illinois Banker Sentenced to Prison and Ordered to Pay Over \$126,000**

An Illinois bank officer was sentenced in Federal court to 6 months of imprisonment and 3 years of supervised release. In addition, he was ordered to pay \$126,890 in restitution to SBA. He previously had pled guilty to embezzlement by a bank officer.

The investigation showed that, from around September 2012 to April 2014, the man embezzled \$126,890 in funds transmitted by loan customers who had made offer in compromise payments on their defaulted SBA-guaranteed loans. As a loan workout officer, he was vested with discretionary authority to enter into agreements restructuring SBA loans for customers who had previously defaulted on those loans. These agreements included arrangements allowing customers to make lump sum payments to the bank to avoid adverse action. The bank relied on the officer to identify SBA borrowers suitable for such agreements, manage the agreements in the bank's interest, and tell customers where to transmit their payments.

After reaching loan workout agreements, the man provided the SBA loan customers with payment instructions which, unbeknownst to them and the bank, directed the funds to his personal account. After receiving the embezzled funds, the officer converted the funds for his own use. Because of his actions, SBA suffered a \$126,890 loss. This was a joint investigation with the Federal Bureau of Investigation (FBI).

### **New York Certified Public Accountant to Serve 6 Months in Prison and Pay Over \$229,000 in Restitution**

A New York certified public accountant was sentenced in Federal court to 6 months in prison and 1 year of supervised release, and was ordered to pay \$229,288 in restitution to the Internal Revenue Service (IRS). He previously had pled guilty to aiding and assisting in the preparation of a false tax return. His plea relates to his preparation of false tax returns on behalf of businesses fully or partially owned by a second individual.

Beginning around 2003, the business owner engaged in bank fraud involving SBA and non-SBA loans, whereby he falsely minimized his ownership interests in numerous businesses. This allowed him and his partners to obtain more SBA and other loans than they would have otherwise qualified for. The owner also ran a Ponzi scheme, whereby he would use the proceeds of one business loan to finance the start-up of another

business. He has pled guilty and is awaiting sentencing. The investigation is being jointly conducted with the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) and IRS Criminal Investigation (CI).

### **Chicago Men Sentenced to Prison and Ordered to Pay Over \$398,000 in Restitution**

A Chicago man was sentenced in Federal court to 39 months of imprisonment and 2 years of supervised release. A second Chicago man was sentenced in Federal court to 33 months of imprisonment and 1 year of supervised release. Both men were ordered to pay \$398,211 jointly and severally in restitution. Moreover, both had previously pled guilty to mail fraud and aggravated identity theft.

The investigation found that, between 2006 and 2008, the two men obtained individuals' identifying information and made false statements in applications for lines of credit and credit card accounts without the purported applicants' consent. In addition, as owners of a property management firm, the two men fraudulently obtained a \$35,000 SBA guaranteed bank loan. As part of their scheme, they used the personal identifying information of a mentally disabled man. They caused the man to sign personal guarantees for mortgages, bank loans, and the SBA loan, despite knowing that the man had neither the financial means nor mental capacity to repay the loans. Finally, the investigation showed that loan proceeds were used for purposes unrelated to the business.

The criminal investigation also showed that, between 2006 and 2011, the 2 men and a licensed loan officer took part in a mortgage fraud scheme to obtain more than \$2.1 million in mortgage loans for 14 properties. The three submitted false documents and made false statements to lenders.

Finally, between 2010 and 2012, the 2 men and 2 other defendants submitted at least 40 fraudulent applications for Federal student aid by using stolen identities. These individuals used the proceeds for themselves and others for purposes unrelated to educational expenses. This was a joint investigation with the U.S. Department of Education OIG, the Federal Housing Finance Agency OIG, the U.S. Department of Housing and Urban Development (HUD) OIG, and the FBI.

### **New Jersey Man to Pay Over \$4.3 Million**

A New Jersey man pled guilty in Federal court to making false statements. In December 2007, he submitted an SBA loan application for \$1,750,000 and a commercial loan application for \$2,000,000 to a bank, purportedly for restaurant financing. The \$1,750,000 SBA loan and commercial loan funds, for a total package of \$2,082,229, were disbursed in March 2008. The loan terms required that the money be used for construction, acquisition of machinery and equipment, and working capital. The man instead used the funds for his own benefit, including paying off gambling debts, sending money to family members, and paying a Federal tax bill. Under his plea agreement, he must pay \$2,657,687 in restitution and forfeit \$1,696,506. This investigation is being conducted in conjunction with the FBI and SIGTARP.

### **California Business Owner Sentenced to Prison and Ordered to Pay Over \$1.3 Million**

The former owner of a California footwear and apparel company was sentenced in Federal court to 12 months and 1 day of imprisonment, to be followed by 3 years of supervised release. He was also ordered to pay \$1,010,629 in restitution to SBA and \$336,876 to a bank. The man previously had pled guilty to bank fraud. As part of his guilty plea, he admitted that, from around October 2011 to February 2015, he knowingly executed a scheme to defraud a bank and obtain monetary assets under its control. The man was also suspended from procurement and non-procurement transactions with the U.S. Government.

In November 2011, the owner applied for a \$1,776,550 SBA loan from the bank to purchase another business, a retail shoe store. He failed to disclose that he had obtained from another lender a previous SBA loan that was delinquent. The owner also falsely reported there was a high cash balance of \$297,645 in his mother's bank account, when in reality the account held only a penny. In April 2014, he defaulted on the SBA loan, causing the first bank mentioned above and SBA to lose approximately \$1.4 million.

Throughout his career, the man had been a manager at various banks and had handled SBA guaranteed business loans. He was regarded as a "sophisticated banking and lending professional." This was a joint investigation with the FBI and U.S. Immigration and Customs Enforcement's Homeland Security Investigations.

### **Arizona Executives Plead Guilty to Conspiracy, Bank Fraud, and Money Laundering**

The former chief executive officer (CEO) and the former chief financial officer (CFO) of an Arizona medical equipment firm pled guilty in Federal court to conspiracy, bank fraud, money laundering, and transactional money laundering. In addition, the firm's former legal counsel pled guilty to conspiracy.

In 2009, the CEO and CFO established the company with the assistance of the legal counsel. The firm's business model was to buy several "mom and pop" businesses in the durable medical equipment industry. The CEO and CFO obtained three SBA business loans to help fund the acquisition of various durable medical equipment companies throughout the United States. One bank approved two SBA loans to the firm in the amounts of \$1,650,000 and \$900,000. A second bank approved a \$3,631,000 SBA loan to the firm. To obtain approval of the loans, the company misrepresented its ownership on all three SBA loan applications, claiming that the CFO owned at least 80 percent of the firm and that the CEO had no ownership interest. In fact, the CEO owned at least 40 percent of company and did not want to reveal this to the lender due to his adverse credit history.

The investigation further revealed two sets of purchase agreements: one submitted to the lender for loan approval and the true purchase agreement submitted to each seller. Additional investigation uncovered a "cash-back" arrangement between the sellers of the businesses and subject firm. The scheme involved the sellers receiving more than the agreed amount for their businesses. The CEO and CFO would then direct the sellers to transfer the excess funds back to their firm. Two of the loans required a cash injection from the subject firm's owners, but no one provided it. Instead, a combination of forged letters and altered bank statements were submitted to the lenders to make it appear that the firm had paid the required cash to the sellers at an earlier date.

In addition, the firm's debts were omitted from the loan applications and related documents, thus making the firm appear more financially sound than it actually was. The proceeds from two of the loans were used to pay off the firm's past due debts, even though this use was prohibited. This included \$30,000 to the legal counsel for legal fees and over \$100,000 to two creditors who had otherwise planned to file judgements against the CEO and CFO. This is a joint investigation with the IRS CI and FBI.

### **Illinois Man Pleads Guilty to Bank Fraud and Filing a False Tax Return**

An Illinois man pled guilty in Federal court to bank fraud and filing a false tax return. He was one of six Chicago-area individuals indicted as part of this ongoing investigation. These included the subject's business partner, an accountant, the business partner's brother, the former SBA market president at a bank, and a licensed appraiser. The subject is the sixth and final defendant to plead guilty as part of this case.

The subject and his business partner actively conspired with the bank official and others to “flip” gas stations to unqualified buyers financed by SBA-guaranteed loans made by the bank. The banker and the subject utilized the accountant to create false tax returns needed for the loan files. The two partners provided the banker with over \$150,000 in “kickbacks” in return for his actions in getting the loans approved. The banker also fraudulently instructed the bank to pay the business partner’s brother over \$340,000 in broker commissions for multiple SBA loans, even though the brother had no involvement with those loans. After accepting these commission payments, the brother then failed to file Federal tax returns to report the income. The banker utilized the appraiser for every fraudulent SBA loan that he approved. This is a joint investigation with the IRS CI, Federal Deposit Insurance Corporation (FDIC) OIG, and FBI.

### **St. Louis Entrepreneur Pleads Guilty and Co-Conspirator Will Repay \$1.8 Million**

A St. Louis, MO, area entrepreneur pled guilty in Federal court to bank fraud and making false statements to a financial institution in connection with a scheme to defraud SBA and a bank. Prior to his plea, an unindicted co-conspirator entered into a settlement agreement with the bank in which he agreed to pay back \$1,800,000 of misappropriated SBA loan proceeds.

An investigation revealed that the entrepreneur, the co-conspirator, and others were involved in a scheme to obtain a \$2.9 million SBA loan through straw companies and false business records. The false records included bogus manufacturing licenses, invoices, sales contracts, and false profit and loss statements. These were submitted to the lender to support a loan application from a purportedly viable and expanding lock manufacturing company owned by the co-conspirator.

Consequently, the bank disbursed the loan in September 2013. Although the stated purpose of the SBA loan was the manufacturing of locks and related expenses, the entrepreneur diverted loan proceeds for his and others’ personal benefit. The investigation also determined that over \$600,000 of loan proceeds were used to pay delinquent debts of another company, which were unrelated to the manufacturing of locks. This ongoing investigation is being conducted jointly with the FBI and FDIC OIG.

### **New Jersey Business Owner Debarred by SBA and Ordered to Pay Over \$255,000**

SBA debarred the owner of a New Jersey podiatry practice for 5 years. The debarment is related to a scheme to defraud the Government under the Section 7(a) loan program. The business had received a \$250,000 SBA-guaranteed loan under fraudulent pretenses. The investigation disclosed that the owner submitted false loan application documents to qualify for the loan. Accordingly, SBA filed a complaint against the owner and his business under the authority of the Program Fraud Civil Remedies Act (PFCRA). A Federal administrative law judge subsequently ordered that the owner and his business pay SBA \$255,793 for civil penalties and assessments. In response to the PFCRA order, the U.S. Attorney’s Office filed a complaint against the man and his practice, resulting in a \$255,793 default judgment, plus post-judgment interest at the legal rate.

## **Disaster Assistance Program**

---

Disaster assistance has been part of the Agency since its inception in 1953. Through its Office of Disaster Assistance, SBA provides long-term, low-interest financial assistance to businesses of all sizes, private non-profit organizations, homeowners, and renters following a disaster. Each year, SBA approves hundreds of millions of dollars in disaster assistance loans.

The Disaster Loan Program is the only form of SBA assistance not limited to small businesses; the program's disaster loans are the primary form of Federal assistance for repairing and rebuilding non-farm, private sector disaster losses. The program includes four categories of loans for disaster-related losses: (1) home disaster loans, (2) business disaster loans, (3) economic injury disaster loans, and (4) military reservist economic injury loans.

Unfortunately, the need to disburse such loans quickly poses many complications and may create opportunities for dishonest applicants to commit fraud. OIG and U.S. Government Accountability Office (GAO) audits have identified that SBA's disaster loans have been vulnerable to fraud and losses in the past because loan transactions are often expedited in order to provide quick relief to disaster survivors, and disaster lending personnel, who are brought into the workforce quickly, may lack sufficient training or experience. Additionally, the volume of loan applications may overwhelm SBA's resources and its ability to exercise careful oversight of lending transactions. OIG audits and investigations have identified specific instances of fraud as well as necessary systemic improvements to reduce fraud and provide effective and efficient loan delivery and protect taxpayer dollars.

### **Former New York Restaurant Owners to Pay Over \$104,000 to SBA**

Two former co-owners of a New York City restaurant signed a Federal consent judgment for \$104,145 owed to SBA. The judgment will be stayed so long as the owners pay the Government \$500 per month until March 2018. After that, the defendants will pay \$650 per month until the debt is paid in full.

The U.S. Attorney's Office had previously filed a complaint against one of the owners, charging him with fraud in connection with major disaster or emergency benefits and arresting him. He allegedly forged the signatures of two of the other co-owners of the restaurant on SBA loan documents. The \$148,700 loan was approved, but only \$100,000 was disbursed. The criminal complaint was eventually dismissed. This investigation was conducted jointly with the U.S. Postal Inspection Service.

### **New York Man to Serve Over 11 Years in Prison and Pay Over \$5.1 Million**

A New York man was re-sentenced in Federal court to 135 months in prison and 5 years of supervised release. He was also ordered to forfeit \$2,500,050 and to pay \$2,655,253 in restitution. The man originally had been sentenced to 180 months in prison, but the restitution order had not been filed. He previously had pled guilty to conspiracy to commit wire fraud. A second New York man was named in the same indictment as the first man, but was not charged with disaster fraud.

A second New York man was named in the same indictment as the first man, but was not charged with disaster fraud. The two men were accused of having participated in mortgage flip and loan modification schemes. In the flip scheme, they are alleged to have fraudulently induced lenders to issue mortgages and then kept some of the proceeds. In the modification scheme, they were accused of defrauding more than a thousand homeowners who paid them advance fees to have their troubled mortgages modified, only to do little or no work on the modifications. Regarding the disaster loan fraud scheme, the investigation disclosed that the first

man obtained a \$113,900 SBA disaster loan in October 2013 to repair his damaged property due to Hurricane Sandy. He allegedly submitted false documents to SBA to support his disaster loan application. The first man also allegedly misused the loan proceeds by paying for personal expenses, including his wedding in Cancun, Mexico. This investigation was conducted jointly with the FBI, SIGTARP, and HUD OIG.

## **Hurricane Sandy Investigations Yield Monetary Restitution**

The following Hurricane Sandy investigations are being worked jointly with a task force comprised of SBA OIG, the New Jersey State Department of Community Affairs (DCA), the U.S. Department of Homeland Security (DHS) OIG, and HUD OIG, under the direction of the New Jersey Office of the Attorney General.

- A New Jersey man pled guilty in State court to theft by deception and was sentenced to 2 years of probation for filing false applications following Hurricane Sandy. He also paid \$30,000 in partial restitution to the New Jersey State DCA and signed a civil consent judgment for the remaining \$115,471 in restitution owed to the DCA. In addition, he paid \$20,087 in full restitution to the Federal Emergency Management Agency (FEMA). The man originally had falsely claimed on disaster relief applications that a storm-damaged property he owned was his primary residence when the hurricane struck. However, his primary residence was in another city, and the storm-damaged property was a rental. The man received \$165,510 by filing fraudulent applications, including \$20,039 from FEMA, a \$10,000 Homeowner Resettlement Program (RSP) grant, and \$135,471 in grant funds from the Reconstruction, Rehabilitation, Elevation, and Mitigation (RREM) Program. The latter two programs are funded by HUD and administered by DCA. His application for an SBA disaster loan was declined because SBA could not verify his primary residence.
- A New Jersey man pled guilty in State court to theft by deception in connection with filing false applications to collect Federal relief funds after Hurricane Sandy. He had alleged that his primary residence was located in a town that instead was the location of a secondary home. The man also agreed to make a \$190,213 full restitution to FEMA, the RSP program, and the RREM program. He also had applied for an SBA disaster loan and was approved for \$107,400. At his request, the loan was never disbursed, and it was cancelled.
- A New Jersey man pled guilty in State court to theft by deception for filing false applications to collect Federal relief funds after Hurricane Sandy. He alleged that his primary residence was located in a certain town, when in fact the structure was a secondary home. He also falsely created the impression that he had to rent property as a direct result of the hurricane, which was not the case. The man agreed to make \$137,826 in full restitution to FEMA, the RSP program, the RREM program, and the Sandy Homeowner and Renter Assistance Program. He also applied for an SBA disaster loan and was approved for \$143,000. At his request, the SBA loan was never disbursed, and it was cancelled.

## Procurement Assistance

---

Each year, the Federal Government spends hundreds of billions of dollars in Federal contracts to procure goods and services. SBA has worked to maximize opportunities for small business firms to receive these contract awards. For the current fiscal year, the Federal Government aims for 23 percent of these awards to go to small businesses.

To accomplish this goal, SBA has specific programs which focus on strengthening particular types of small businesses, including firms owned and controlled by service-disabled veteran-owned small businesses (SDVOSBs) and women-owned small businesses (WOSBs), and small businesses that are disadvantaged or located in historically underutilized business zones (HUBZones). For example, the HUBZone Program helps small businesses stimulate their economically challenged local economies. Similarly, to help small, disadvantaged businesses gain access to Federal and private procurement markets, SBA's Section 8(a) Business Development Program offers a broad range of business development support, such as mentoring, procurement assistance, business counseling, training, financial assistance, surety bonding, and other management and technical assistance.

SBA also provides assistance to existing and prospective small businesses through a variety of counseling and training services offered by partner organizations. Among these partners are small business development centers (SBDCs), the Service Corps of Retired Executives (SCORE) Association, and women's business centers. SBA also designed the Boots to Business Program to provide transitioning service members interested in exploring business ownership or other self-employment opportunities with technical assistance and access to information on available resources and start-up capital. These programs require effective and efficient management, outreach, and service delivery.

Even with effective controls, some businesses misrepresent their eligibility for the HUBZone, WOSB, SDVOSB, and 8(a) programs in order to wrongfully receive preference for Government contracts. OIG and other Federal investigations have identified schemes in which companies owned or controlled by non-disadvantaged persons falsely claim to be disadvantaged firms or use actual disadvantaged firms as fronts.

In other schemes, perpetrators use bribery or fraudulent procurement documents to achieve their ends. The following cases illustrate how criminals attempt to manipulate the procurement assistance process.

### **Review of the Small Business Administration's State Trade and Export Promotion Grant Program**

This evaluation report presents the results of our review of SBA's State Trade and Export Promotion (STEP) Grant Program. The Small Business Job Act of 2010 authorized SBA to establish the STEP grant program as a 3-year pilot program to increase the number of eligible small business concerns in the states that export and increase the export value of those eligible small businesses that already export. Our evaluation included reviewing STEP grant awards for FYs 2011, 2012, 2014, and 2015 to determine how the funds for the STEP grant program were used.

We could not determine the exact amounts awarded and expended for the STEP grant program because of inconsistent financial data provided by SBA. Specifically, the three program offices responsible for managing the STEP grant program reported different totals for the award and expenditure amounts. Additionally, we found SBA did not report accurate and complete STEP grant program data in USAspending.gov. We also found SBA implemented new reporting requirements for the FY 2014 STEP program that significantly improved the quality of the grant recipients' performance and financial reports. As a result, FYs 2014 and 2015

grant recipients provided performance and financial reports that identified the amount spent for each designated export activity as stated in the grant program announcement. However, we were unable to determine how the grant recipients spent the funds in the first 2 years of the program, FYs 2011 and 2012, because SBA did not have defined program management procedures for the STEP grant program at that time. Additionally, we determined that most of the grant recipients we reviewed did not expend all of their Federal funds awarded and identified over \$1.1 million in unused funds. The OIG made three recommendations to improve SBA's oversight of the STEP grant program. SBA's management planned actions resolve all three recommendations. ([Report 17-11](#))

## **Reassessment of Eligibility Requirements for 30 Firms in SBA's 8(a) Business Development Program**

This report presents the results of our reassessment of eligibility requirements for 30 firms in SBA's 8(a) Business Development Program. In a prior audit of 8(a) program eligibility, we determined that for 30 of the 48 applicants we reviewed, the Associate Administrator for Business Development (AA/BD) approved the firms without fully documenting in the Business Development Management Information System how all areas of concern regarding eligibility raised by lower-level reviewers were resolved.

We determined that SBA resolved eligibility concerns for 20 of the 30 firms that we reviewed. However, we continue to question the eligibility of 10 of the 30 firms. The AA/BD, who has the final authority to determine whether an applicant is admitted into the 8(a) program, did not sufficiently establish that the 10 applicants met the eligibility requirements of the 8(a) program. The Office of Inspector General made three recommendations to the Associate Administrator for Government Contracting and Business Development to improve how SBA manages the 8(a) program. Although SBA initially agreed with all three of our recommendations, it did not concur with Recommendations 2 and 3 in its final response; SBA management's proposed actions, however, resolve all three of our recommendations. ([Report 17-15](#))

## **Program Manager Sentenced to Prison and Ordered to Pay Over \$1 Million**

A program manager with the U.S. Navy's Space and Naval Warfare Systems Center was sentenced in Federal court in Maryland to 3 months in prison after pleading guilty to conspiracy. His sentencing also contained an \$86,000 forfeiture and \$1,000,000 in restitution.

An investigation revealed that he shared pre-award information with two contractors, who participated in a scheme to defraud the Government by submitting fraudulent invoices that double-billed against the contract and made false claims for work not correctly performed.

The investigation is being conducted jointly with the U.S. Air Force Office of Special Investigations (OSI), the Defense Criminal Investigative Service (DCIS), and the Naval Criminal Investigative Service (NCIS).

## **Colorado Man and Illinois Woman Sentenced for Conspiracy in the 8(a) Program**

A Colorado man was sentenced in the U.S. District Court for the District of Columbia to 2 months of home confinement, 10 months of probation, \$105,000 in forfeiture, and 200 hours of community service. He is a former owner and CFO of a large Colorado construction corporation. The man previously had pled guilty to conspiracy to commit wire fraud.

In addition, an Illinois woman was sentenced in the same court to 6 months of incarceration and 24 months of supervised release. She also was ordered to pay a \$35,000 fine and \$169,166 in forfeiture. She had previously pled guilty to conspiracy to commit wire fraud. The woman is a former officer of a construction company and

a corporation. Both firms participated in the SBA Section 8(a) program, making them eligible to receive Federal contracts set aside for small and disadvantaged businesses.

The Colorado man's construction firm and others conspired with her two 8(a) companies with the understanding that his firm would illegally perform all of the work. In so doing, the man's firm was able to win 27 Government contracts worth over \$70 million from 2008 to 2011. The scope and duration of the scheme resulted in a significant number of opportunities lost to legitimate small and disadvantaged businesses. The man and others created agreements between his firm and the two 8(a) companies that formalized the understanding that his firm would perform all of the work on the 8(a) contracts while the 8(a) companies would receive a 3 percent pass-through fee. In one such contract, the U.S. General Services Administration (GSA) contracting officer filed a protest with SBA, claiming that one of the companies was other than a small business because of its relationship with the Colorado firm. SBA conducted a size determination to determine whether that firm's bid on behalf of one of the companies violated SBA rules and regulations. The man and others corruptly influenced, impeded, and obstructed the SBA size determination protest by knowingly making false statements to SBA about the relationship between the Colorado firm and one of the companies. This case is being jointly investigated by the FBI, DCIS, and GSA OIG.

### **Contractor to Serve 18 Months of Incarceration and Pay Over \$2.2 Million**

A co-founder of a Government contracting firm who had also worked for two other Virginia-based contracting firms was sentenced in the U.S. District Court for the District of Columbia to 18 months of incarceration and 36 months of supervised release. He also was ordered to pay \$1,231,091 in forfeiture and \$1,008,194 in restitution. He previously had pled guilty to bribery of a public official and conspiracy to commit bank fraud.

The investigation disclosed that, while the man was employed at these various firms between 2008 and 2011, he worked in South Korea. At each firm, he conspired to pay bribes and illegal gratuities to a former U.S. Department of the Army contracting official in exchange for Government contracts. The official was sentenced previously for his crimes.

In addition, the co-founder was involved in a mortgage fraud scheme between 2004 and 2008 that cost lenders more than \$1.2 million. He conspired to commit bank fraud by obtaining mortgage loans on properties through straw buyers, false loan applications, forged documents, and fraudulent settlements, which in turn generated large cash proceeds. During the conspiracy, he was involved in at least five fraudulent real estate sales and refinancing efforts, with loan amounts in excess of \$4.8 million. This investigation is being conducted jointly with the FBI, IRS CI, DCIS, Defense Contract Audit Agency, and U.S. Army Criminal Investigation Command (CID).

### **Defense Contractor to Serve 5 Years in Prison and Pay Over \$9.4 Million**

A U.S. Department of Defense account manager for an information technology firm was sentenced in the U.S. District Court in the District of Maryland to 60 months in prison after pleading guilty to conspiracy to commit wire fraud. He also must pay \$9,440,340 in restitution.

The investigation revealed that he participated in a scheme to defraud the Government by submitting fraudulent invoices that double-billed against the contract. He also submitted false claims for work not correctly performed, or that was performed with the contractor or subcontractors not complying with contractual or regulatory requirements. The investigation is being conducted jointly with the U.S. Air Force OSI, DCIS, and NCIS.

## **Florida Program Manager to Serve 30 Months in Prison and Pay \$500,000**

A program manager for a Florida-based information technology firm was sentenced in the U.S. District Court in the District of Maryland to 30 months in prison after pleading guilty to conspiracy to commit wire fraud. His sentencing also required \$500,000 in restitution.

The manager participated in a scheme to defraud the Government in which he submitted fraudulent invoices that double-billed Government contracts. He also submitted false claims for work not correctly performed, or that was performed with the contractor or subcontractors not complying with contractual or regulatory requirements. The investigation is being jointly conducted with the U.S. Air Force OSI, DCIS, and NCIS.

## **Five Firms to Pay \$16 Million in Civil Claims**

A diving supply firm and tactical equipment and apparel firm agreed to pay \$16 million to settle a False Claims Act suit related to a fraudulent scheme to use various small business entities to improperly bid on and receive set-aside contracts for which the diving supply firm was not eligible. This matter was jointly investigated with GSA OIG, alongside the U.S. Department of Justice Civil Frauds Division and the U.S. Attorney's Offices for the District of Columbia and the Eastern District of Virginia.

## **Ohio Men Pleads Guilty to Conspiracy to Commit Wire Fraud**

Two Ohio men pled guilty in Federal court to conspiracy to commit wire fraud. The men utilized a West Virginia-based 8(a) construction firm and numerous affiliated entities to receive over \$140 million of sole-sourced and set-aside Federal Government contracts. The pair, along with other accomplices, defrauded SBA by not disclosing the existence of the affiliates. The investigation continues in conjunction with the DCIS, FBI, U.S. Department of Veteran Affairs (VA) OIG, and U.S. Department of Labor OIG.

## **Two Men Sentenced to Prison for 8(a) Program Fraud**

The former demolition director for a large Washington, DC, area general contractor was sentenced in Federal court to 18 months of imprisonment and 36 months of supervised release. The amount of restitution will be determined later. He had previously pled guilty to making false statements.

In addition, the president of an 8(a)-certified small business in the same area was sentenced to 5 months of incarceration and 3 years of supervised release. He was also ordered to pay \$367,378 in restitution. The president had previously pled guilty to making false statements. Both men's guilty pleas were in connection with a scheme to defraud the Government under the 8(a) program.

The investigation disclosed that the 8(a) small business had been awarded a U.S. Department of the Air Force contract at Joint Base Andrews in Maryland. The 8(a) business entered into a pass-through arrangement with the large firm, whereby the latter performed substantially all of the contract work. In return, the large firm paid the 8(a) business a fee for passing the contract to the large firm. The former demolition director prepared the large firm's false invoices that were submitted to the 8(a) business for the Air Force contract. In addition, the director prepared the 8(a) business' false invoices that were submitted to the Air Force. The investigation was conducted jointly with the U.S. Air Force OSI, DCIS, U.S. Army CID, and GSA OIG.

### **Washington State Contractor to Pay \$2.1 Million to Settle False Claims Act Suit**

The U.S. Attorney's Office for the Eastern District of Washington reached a settlement agreement with an engineering firm. Under the agreement, the firm will pay \$2 million to the United States and \$100,000 to the complainant for attorney fees and costs.

In 2005, a multibillion dollar, 10-year contract was awarded to a major company by the U.S. Department of Energy (DOE) for the environmental restoration, cleanup, and closure of the Hanford Nuclear Site near the Columbia River corridor. As part of the contract, the major company was required to implement a small business subcontracting plan in accordance with SBA requirements. The engineering firm allegedly used a WOSB as a pass-through entity in order to qualify for subcontracts that were restricted to WOSBs. Consequently, the prime contractor submitted false claims for payment to DOE. OIG continues to support the U.S. Attorney's Office in ongoing litigation against the prime contractor for related claims.

### **German Firm to Pay \$2.1 Million to Settle False Claims Act Suit**

A large German firm and individual company officers agreed to pay \$2.1 million to settle a False Claims Act suit involving a pass-through scheme in which a small business would bid on and receive set-aside military base contracts for which the large firm was not eligible. The large firm went on to impermissibly control and perform virtually all aspects of the contract. This matter was the result of a joint investigation with the U.S. Attorney's Office for the Southern District of Georgia, along with DCIS, U.S. Army CID, and NCIS.

### **New York Firm and Related Individuals to Pay Over \$3 Million to Settle False Claims Act Suit**

An upstate New York construction firm agreed to pay the United States more than \$3 million to settle allegations that it violated the False Claims Act by improperly obtaining Federal set-aside contracts designated for service-disabled veteran-owned (SDVO) small businesses. The Government alleged the contractor obtaining the SDVO contracts was never legitimately qualified as an SDVO concern and that the SDVO was created to serve as a pass-through for the ineligible company, which controlled virtually all aspects of the contracts' performance. This settlement resulted in a joint investigation with the U.S. Department of Justice Civil Frauds Division, the U.S. Attorney's Office for the Western District of New York, the FBI, VA OIG, and U.S. Army CID.

## Agency Management

---

OIG is responsible for ensuring that Agency management appropriately safeguards SBA from fraud, waste, and abuse, and that SBA activities directly further Agency goals. As part of these efforts, OIG works with the Offices of the Chief Financial Officer, the Chief Information Officer, and the Chief Operating Officer to review financial reporting and performance management, human resources, procurements and grants, space and facilities, and maintenance of SBA's information systems and related security controls.

### **SBA's FY 2016 Compliance With the Improper Payments Elimination and Recovery Act**

The objectives of this report were to (1) determine whether SBA complied with Improper Payments Elimination and Recovery Act of 2010 (IPERA) using guidelines outlined in the Office of Management and Budget Memorandum (OMB) M-15-02, Appendix C, to Circular A-123, Requirements for Effective Estimation and Remediation of Improper Payments, and (2) assess SBA's progress in remediating improper payment-related recommendations. To achieve our objectives we assessed controls SBA has implemented to address prior year OIG recommendations and evaluated whether SBA mitigated those risks. We also assessed SBA's efforts to prevent and reduce improper payments and reviewed the accuracy and completeness of improper payment disclosures in the 2016 Agency Financial Report (AFR).

Our overall qualitative review showed that SBA continued to make progress in its efforts to prevent and reduce improper payments. SBA published and posted an AFR on its website, conducted program-specific risk assessments, published improper payment estimates for all programs and activities identified as susceptible to significant improper payments, published extracts from the applicable programmatic corrective action plans in the AFR, reported a gross improper payment rate of less than 10 percent for six of seven areas tested for FY 2016 reporting, and published and met the annual reduction target for six of the applicable seven areas tested. However, SBA was not compliant with IPERA reporting requirements because disbursements for goods and services had an improper payment rate that exceeded the 10 percent threshold; and 7(a) loan guaranty purchases did not meet their annual reduction target.

The report contains two recommendations to improve the effectiveness of improper payment controls over 7(a) loan guaranty purchases that SBA agreed to address. Both recommendations will remain open until OIG receives documentation demonstrating that these recommendations have been addressed. ([Report 17-12](#))

### **SBA's Management of Voluntary Early Retirement Authority and Voluntary Separation Incentive Payment Program**

This audit report presents the results of our audit of SBA's management of the FY 2014 Voluntary Early Retirement Authority (VERA) and Voluntary Separation Incentive Payment (VSIP) program. VERA provides agencies the option to offer voluntary early retirement when restructuring as well as when downsizing. VSIP, often combined with VERA, allows agencies to offer lump-sum payments to employees who are in surplus positions or have skills that are no longer needed in the workforce, as an incentive to separate. Our objective was to determine whether SBA accomplished its FY 2014 VERA-VSIP program goals.

We found that while SBA made limited progress in restructuring and reshaping the workforce, it did not accomplish its stated goals of the VERA-VSIP program. As a result, SBA paid \$2.1 million for early retirements for positions that were not restructured following VERA-VSIP. Overall, SBA may have been more successful in achieving its goals had it properly managed the VERA-VSIP program by developing specific and measurable VERA-VSIP goals, including accurate information in the VERA-VSIP plan, making significant changes to its organizational structure, and making substantial changes to job functions following VERA-VSIP. OIG made

two recommendations to improve SBA's management of its VERA-VSIP program. SBA's management planned actions resolve the two recommendations. ([Report 17-13](#))

## **Weaknesses Identified During the FY 2016 Federal Information Security Modernization Act Review**

The Federal Information Security Modernization Act (FISMA) requires that the OIG review SBA's Information Technology Security Program. To determine SBA's compliance with FISMA, OIG contracted with an independent public accountant, KPMG, to perform review procedures relating to FISMA. OIG monitored KPMG's work and reported SBA's compliance with FISMA in the Agency FISMA filings in November 2016. We also assessed the Agency's progress in implementing open recommendations and compared our current year assessment with our FY 2015 FISMA evaluation. In addition to the 28 open FISMA recommendations noted in Appendix II, OIG made 9 new recommendations to address FISMA-related vulnerabilities. SBA agreed with all nine recommendations. ([Report 17-14](#))

## **Review of SBA's Pay Setting Practices for Senior Executive Service Salary Increases**

This management advisory is the third and final report evaluating SBA's pay setting practices. We identified that SBA improperly approved pay increases for six Senior Executive Service (SES) members in 2015 and one SES member in 2014, for a total of \$19,277 in improper payments. Specifically, SBA's granting of maintain relative pay increases (MRPs), did not align with Office of Personnel Management guidance and Federal regulations. Three SES members received MRP pay adjustments in January 2015, even though their FY 2014 performance ratings were below the required threshold to receive any MRP increase. During the same appraisal period, three other SES members rated below an outstanding, received MRP pay adjustments without a proper justification to support the increase. Furthermore, Federal regulations prohibit more than one increase in the rate of basic pay during a 12-month period. Nonetheless, SBA provided one SES member a performance increase to base pay in January 2014 and another in December 2014. As a result, the pay increase granted to the SES member in December 2014 was unallowable. These instances occurred because the Office of Human Resources Solutions (OHRS) did not have effective internal controls in place to detect these improper payments. In addition, OHRS' policies and procedures did not include sufficient guidance for SES performance based pay increases. If these internal control deficiencies persist, SBA is susceptible to making future improper pay increases and risks losing the Certified SES Performance Appraisal System. Accordingly, this advisory contains four recommendations to strengthen internal controls over pay setting practices. Based on SBA management's response, we consider all recommendations resolved but open pending completion of final actions. ([Report 17-16](#))

## **FY 2017 Evaluation of SBA's Charge Card Programs**

This memorandum report presents the results of our evaluation of SBA's purchase cards and risk assessment for SBA's travel card program for FY 2017. This evaluation was performed in accordance with OMB Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012*. Our objectives were to (1) assess risks of illegal, improper, or erroneous purchases and payments associated with SBA's purchase and travel card programs and (2) determine the status of prior year recommendations.

While SBA has implemented internal controls and guidance to administer its travel and purchase charge card programs, vulnerabilities remain in the management and oversight of the purchase card program. Specifically, SBA personnel did not always comply with Federal guidance and SBA policies regarding the pre-purchase, purchase, and reconciliation processes when the Government purchase card was used to acquire goods and services. We made two recommendations to strengthen SBA's risk management controls for charge card programs. The agency agreed to implement the recommendations. ([Report 17-17](#))

## Other Significant OIG Activities

---

### OIG Background Investigations Ensure Agency Integrity

During this reporting period, OIG initiated 46 background investigations and issued 8 security clearances for Agency employees and contractors. Moreover, OIG adjudicated 7 background investigative reports. Finally, OIG processed 814 internal name check requests for Agency activities such as success stories and “Small Business Person of the Year” nominees.

### OIG Promotes Debarment and Other Administrative Enforcement Actions

OIG promotes program integrity by making present responsibility referrals to SBA and other Agencies. These present responsibility referrals often result in suspensions, debarments, and similar administrative enforcement actions. These actions protect taxpayer funds from parties who are not a good risk for the Government. A typical OIG referral contains a summary of allegations, suggested administrative record (evidence supporting the case), and a draft notice of suspension or proposed debarment in certain instances. Most OIG administrative referrals involve SBA’s loan and contract programs. OIG ensures a suspension and debarment official reviews all appropriate allegations arising in other contexts, such as the investigation of False Claims Act qui tam cases.

During this reporting period, OIG sent 68 of these present responsibility referrals to SBA and had 3 actions taken based upon referrals to other agencies. (See the Statistical Highlights section of this report for additional suspension and debarment results.) A representative sample of matters referred to suspension and debarment officials follows:

False Statements Obtaining a Guaranteed Loan. OIG referred an individual for debarment following a conviction for bank fraud. OIG based its referral on both the conviction, and the underlying activity for which the Government prosecuted the Respondent. Specifically, in obtaining loans in excess of \$1.7 million, the Respondent misrepresented a \$150,000 loan as a gift, and claimed nearly \$300,000 in a bank account, that actually had one cent. The eventual default on the SBA guaranteed obligation cost approximately \$1.4 million.

Bankruptcy Case identifies 8(a) Contracting Scheme. After reviewing bankruptcy pleadings, OIG identified and referred two contractors and an owner for debarment. Those pleadings identified how a Federal contractor (the Puppeteer) set up an arrangement with an 8(a) BD certified firm (the Front), and the Front’s owner, whereby the Front would act as a pass-through on a set-aside 8(a) BD contract. The Front received all of the money from the Government, but failed to pass the money through to the Puppeteer (the Front paid outstanding tax obligation and other expenses with the contract money). The Puppeteer had, however, already paid the vendors for the contract. When the Front filed for bankruptcy, the Puppeteer sought to have the contract funds not passed through exempted from discharge. The Puppeteer’s complaint for the adversary proceeding laid out some clear violations of 8(a) BD program regulations such as the Puppeteer’s agreement to pay an “8a Fee” and the Puppeteer’s completion of all contract work.

Suspension Referral After Identifying Risk. OIG referred an 8(a) contractor for suspension upon receiving evidence of an apparent affiliation in violation of SBA regulations from a Business Opportunity Specialist. OIG made this referral after learning the contractor had bid on, and was at risk for winning, a substantial contract. Awarding set-aside contracts to a company in apparent violation of SBA regulations would have been detrimental to legitimate program participants by denying opportunity to deserving companies.

Program Participants Involved in Alleged Bribery, Bidding, and Fraud Schemes Referred. OIG referred several small business program participants and related parties to SBA suspending official for review after an indictment alleged a wide-ranging alleged bribery, bidding and fraud schemes. The alleged schemes involved both state and Federal contracts.

### **OIG Provides Training to Multiple Agencies on Small Business Procurement Integrity**

During this reporting period, OIG personnel participated in the training of criminal investigators from several Federal agencies by teaching a small business procurement fraud component within the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Training Academy's Contract and Grant Fraud course. This course distills the key lessons from the annual full-day Small Business Procurement Integrity Seminar into a 1.5–2 hour segment. Teaching this class in the context of broader fraud training allows OIG to expand the impact of its experience with small business fraud to the larger oversight community and use resources more efficiently.

OIG personnel also gave a presentation to the Federal Audit Executive Committee on small business procurement programs that focused on the risks inherent in those programs and methods for developing cases. Finally, OIG personnel presented multiple sessions to the Federal Oversight community on damages related to the presumption of loss with respect to small business contracting misrepresentations.

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

As part of OIG's proactive efforts to promote accountability and integrity and reduce inefficiencies in SBA programs and operations, OIG reviews changes that SBA proposes to make to its program directives such as regulations, internal operating procedures, Agency policy notices, and SBA forms that are completed by the public. OIG often identifies material weaknesses in the proposals and works with the Agency to implement recommended revisions to promote more effective controls and deter waste, fraud, or abuse. During the reporting period, OIG reviewed 53 proposed revisions of these program directives and submitted comments designed to improve 21 of these initiatives.

### **2004 Legislation Requires SBA Regulations and OIG Approval of SBDC Surveys**

In December 2004, Congress amended Section 21(a)(7) of the Small Business Act (15 U.S.C. 648(a)(7)) to restrict disclosing information regarding individuals or small businesses that have received assistance from an SBDC and to limit the Agency's use of such information. The provision also required SBA to issue regulations regarding disclosures of such information for use in conducting financial audits or SBDC client surveys. In 2009, the Agency represented to OIG that it would issue regulations as required by the statute. In April of 2014, SBA sent the proposed regulations for publication in the Federal Register for public comment.

In addition, Section 21(a)(7) of the Small Business Act states that until these SBDC information disclosure regulations are issued, the Inspector General must approve any SBDC client survey, as well as the use of any survey information, and must also include this approval in OIG's Semiannual Report to Congress. SBA did not submit any surveys of SBDC clients for OIG review during the reporting period.

### **OIG Hotline**

OIG's Hotline reviews allegations of waste, fraud, abuse, or serious mismanagement within SBA or its programs from employees, contractors, and the public. During this reporting period, the Hotline received 456 complaints. The Hotline conducts a preliminary review of each allegation and may consult with OIG's

Investigations Division, Audits Division, and Office of Counsel to determine the appropriate course of action. Referrals within OIG may result in corrective actions, audits, or administrative, civil, or criminal investigations. Matters referred to SBA program offices for further action are monitored by Hotline staff for timely response, adequate resolution of the allegations, and to document any corrective action taken.

In 2015, the OIG whistleblower ombudsman met the requirements of the Office of Special Counsel's 2302(c) Certification Program. The Program requires Federal agencies to inform their workforces about the rights and remedies available to them under the Whistleblower Protection Act, the Whistleblower Protection and Enhancement Act, and related civil service laws. In accordance with certification requirements, the whistleblower ombudsman provided comprehensive whistleblower information packets to all field and headquarters management officials, and advised all employees on protections against whistleblower retaliation and other prohibited personnel practices.

Comprehensive information on whistleblower protection may be found on OIG's website at <https://www.sba.gov/oig/whistleblower-rights-and-protection>.

## Statistical Highlights

---

### Summary of OIG Dollar Accomplishments

As a Result of Investigations and Related Activities	
Potential Investigative Recoveries & Fines	\$42,945,431
Asset Forfeitures Attributed to OIG Investigations	\$1,591,876
Loans/Contracts Not Approved or Canceled as a Result of Investigations	\$300,000
Investigations Subtotal	\$44,837,307
As a Result of Audit Activities	
Disallowed Costs Agreed to by Management	\$2,128,995
Recommendations that Funds Be Put to Better Use Agreed to by Management	—
Audit Subtotal	\$2,128,995
TOTAL	\$46,966,302

### Efficiency and Effectiveness Activities Related to Audit, Other Reports, and Follow-up Activities

Reports Issued	9
Recommendations Issued	30
Dollar Value of Costs Questioned	\$138,136,190
Dollar Value of Recommendations that Funds be Put to Better Use	\$0
Recommendations for which Management Decisions Were Made	44
Recommendations Without a Management Decision	14
Collections as a Result of Questioned Costs	\$238,286

### Indictments, Convictions, Case Actions

Indictments from OIG Cases	25
Convictions from OIG Cases	14
Cases Opened	49
Cases Closed	31

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

Dismissals	—
Resignations/Retirements	—
Suspensions	1
Reprimands	—
Other	—

### **Program Actions Taken During the Reporting Period as Result of OIG Action**

Present Responsibility Referrals to the Agency	68
Pending at the Agency as of September 30, 2017	41*
Suspensions Issued by the Agency	—
Proposed Debarments Issued by the Agency	13
Final Debarments Issued by the Agency	10
Proposed Debarments Declined by the Agency	—
Administrative Agreements Entered by the Agency in Lieu of Debarment	—
Present Responsibility Actions by Other Agencies	3

\*The Agency has sent notices on 13 of the 41 pending referrals. The number of pending matters does not include present responsibility referrals in active negotiations related to False Claims Act matters.

### **Agency Legislative and Regulatory Proposals Reviewed**

Legislation, Regulations, Standard Operating Procedures, and Other Issuances Reviewed	53
Comments Provided by OIG to Improve Legislation, Regulations, Standard Operating Procedures, and Other Issuances	21

## Full Year Statistical Highlights, FY 2017

---

### Summary of OIG Dollar Accomplishments

As a Result of Investigations and Related Activities	
Potential Investigative Recoveries & Fines	\$53,742,750
Asset Forfeitures Attributed to OIG Investigations	\$12,723,538
Loans/Contracts Not Approved or Canceled as a Result of Investigations	\$534,155
Loans Not Made as a Result of Name Checks	\$12,951,400
Investigations Subtotal	\$79,951,843
As a Result of Audit Activities	
Disallowed Costs Agreed to by Management	\$2,134,349
Recommendations that Funds Be Put to Better Use Agreed to by Management	—
Audit Subtotal	\$2,134,349
<b>TOTAL</b>	<b>\$82,086,192</b>

### Efficiency and Effectiveness Activities Related to Audit, Other Reports, and Follow-up Activities

Reports Issued	19
Recommendations Issued	72
Dollar Value of Costs Questioned	\$138,588,897
Dollar Value of Recommendations that Funds be Put to Better Use	\$0
Recommendations for which Management Decisions Were Made	72
Recommendations Without a Management Decision	14
Collections as a Result of Questioned Costs	\$1,098,100

### Indictments, Convictions, Case Actions

Indictments from OIG Cases	35
Convictions from OIG Cases	25
Cases Opened	86
Cases Closed	63

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

Dismissals	—
Resignations/Retirements	—
Suspensions	1
Reprimands	—
Other	—

### **Program Actions Taken During the Fiscal Year as Result of OIG Action**

Present Responsibility Referrals to the Agency	106
Suspensions Issued by the Agency	—
Proposed Debarments Issued by the Agency	26
Final Debarments Issued by the Agency	33
Proposed Debarments Declined by the Agency	—
Administrative Agreements Entered by the Agency in Lieu of Debarment	2
Present Responsibility Actions by Other Agencies	5

### **Agency Legislative and Regulatory Proposals Reviewed**

Legislation, Regulations, Standard Operating Procedures, and Other Issuances Reviewed	101
Comments Provided by OIG to Improve Legislation, Regulations, Standard Operating Procedures, and Other Issuances	36

## Reports Issued

---

### Contracting/Counseling Programs

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Review of the Small Business Administration's State Trade and Export Promotion Grant Program	17-11	5/04/2017	\$0	\$0
Reassessment of Eligibility Requirements for 30 Firms in SBA's 8(a) Business Development Program	17-15	7/17/2017	\$0	\$0
<b>Program Subtotal</b>	<b>2</b>		<b>\$0</b>	<b>\$0</b>

### Agency Management

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
SBA's FY 2016 Compliance with the Improper Payments Elimination and Recovery Act	17-12	5/10/2017	\$0	\$0
SBA's Management of Voluntary Early Retirement Authority and Voluntary Separation Incentive Payment Program	17-13	5/30/2017	\$0	\$0
Weaknesses Identified During the FY 2016 Federal Information Security Modernization Act Review	17-14	6/15/2017	\$0	\$0
Review of SBA's Pay Setting Practices for Senior Executive Service Salary Increases	17-16	8/15/2017	\$19,277	\$0
FY 2017 Evaluation of SBA's Charge Card Programs	17-17	9/14/2017	\$0	\$0
<b>Program Subtotal</b>	<b>5</b>		<b>\$19,277</b>	<b>\$0</b>

### Credit/Capital Programs

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
The OIG High Risk 7(a) Loan Review Program	17-18	9/28/2017	\$917,107	\$0
Audit of SBA's Microloan Program	17-19	9/28/2017	\$137,199,806	\$0
<b>Program Subtotal</b>	<b>2</b>		<b>\$138,116,913</b>	<b>\$0</b>

## Reports With Questioned Costs

	Reports	Recommendations*	Questioned Costs**	Unsupported Costs***
A. No management decision made by April 1, 2017	3	11	\$4,666,110	—
B. Issued during this reporting period	3	4	\$138,136,190	\$138,136,190
SUBTOTAL (Universe from which management decisions could be made in this reporting period)	6	15	\$142,802,300	\$138,136,190
C. Management decisions made during this reporting period	3	5	\$4,391,762	\$19,277
(i) Disallowed costs	2	4	\$2,128,995	\$19,277
(ii) Costs not disallowed	2	3	\$2,262,767	—
D. No management decision made by September 30, 2017	4	10	\$138,410,538	\$138,116,913

\* Reports may have more than one recommendation.

\*\* Questioned costs are those that are found to be improper.

\*\*\* Unsupported costs may be proper, but lack documentation. Unsupported costs are a subset of questioned costs.

## Reports With Recommendations That Funds Be Put to Better Use

	Reports	Recommendations	Recommended Funds For Better Use
A. No management decision made by April 1, 2017	—	—	—
B. Issued during this reporting period	—	—	—
SUBTOTAL (Universe from which management decisions could be made in this reporting period)	—	—	—
C. Management decisions made during this reporting period	—	—	—
(i) Recommendations agreed to by SBA management	—	—	—
(ii) Recommendations not agreed to by SBA management	—	—	—
D. No management decision made by September 30, 2017	—	—	—

## Reports From Prior Periods With Overdue Management Decisions

Report Number	Report Title	Issue Date	Recommendation	Reason for Delay	Timetable for Resolution
15-16	SBA Needs to Improve Its Oversight of Loan Agents	9/25/2015	Develop benchmarks for contractor performance and require the FTA to implement appropriate application controls and follow-up procedures with lenders to ensure the integrity of the Form 159 database.	Agency management is still in the process of determining the best plan for implementing this recommendation. OIG will continue to work with the Agency to get a Management Decision. If we do not receive Management's Decision within the next 60 days, we will pursue audit resolution in accordance with the SOP.	1/23/2016
17-09	Audit of New York Small Business Center's Phase 2 Technical Assistance Grant	3/31/2017	Recover \$51,985 from NYSBDC for unallocable personnel costs directly charged to the Hurricane Sandy technical assistance grant.	Agency management did not agree to the finding and recommendation.	Referral to Audit Follow-up Official within 60 days
17-09	Audit of New York Small Business Center's Phase 2 Technical Assistance Grant	3/31/2017	Recover \$2,842 from NYSBDC for advertising expenses and related indirect costs that were not allocable to the Hurricane Sandy technical assistance grant.	Agency management did not agree to the finding and recommendation.	Referral to Audit Follow-up Official within 60 days
17-10	The SCORE Association's Disaster Technical Assistance Grant	3/31/2017	Remedy \$140,488 in unsupported management and consulting expenses.	OIG is in the process of notifying the Audit Follow-up Official of the disputed recommendation.	12/31/2017

Report Number	Report Title	Issue Date	Recommendation	Reason for Delay	Timetable for Resolution
17-10	The SCORE Association's Disaster Technical Assistance Grant	3/31/2017	Remedy \$31,200 in unsupported web-design expenses.	OIG is in the process of notifying the Audit Follow-up Official of the disputed recommendation.	12/31/2017
17-10	The SCORE Association's Disaster Technical Assistance Grant	3/31/2017	Remedy \$30,000 in unsupported costs related to Sandy client follow-up.	OIG is in the process of notifying the Audit Follow-up Official of the disputed recommendation.	12/31/2017
17-10	The SCORE Association's Disaster Technical Assistance Grant	3/31/2017	Recover \$27,375 for unallowable workshop fees charged to the Sandy grant.	OIG is in the process of notifying the Audit Follow-up Official of the disputed recommendation.	12/31/2017
17-10	The SCORE Association's Disaster Technical Assistance Grant	3/31/2017	Remedy \$4,575 for unsupported advertising expense.	OIG is in the process of notifying the Audit Follow-up Official of the disputed recommendation.	12/31/2017
17-10	The SCORE Association's Disaster Technical Assistance Grant	3/31/2017	Remedy \$5,160 for unsupported and unallowable meetings.	OIG is in the process of notifying the Audit Follow-up Official of the disputed recommendation.	12/31/2017

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

## Reports From Prior Periods With Open Recommendations as of September 30, 2017

Report Number	Title	Date Issued	Number of Open Recommendations	Aggregate Potential Cost Savings
12-04	Small Business Administration's Rationale for Excluding Certain Types of Contracts from the Annual Small Business Procurement Calculations Needs to be Documented	12/6/2011	4	—
12-15	Weaknesses Identified During the FY 2011 Federal Information Security Management Act Review	7/16/2012	2	—
13-03	Benefits of Mentor Protégé Joint Ventures are Unknown: Robust Oversight is Needed to Avoid Abuse and Assure Success	10/23/2012	3	—
13-04	Independent Auditor's Report on the SBA's FY 2012 Financial Statements	11/14/2012	1	—
13-08	The SBA Mismanaged Certain 8(a) Information Technology Contracts	12/3/2012	1	—
14-04	Independent Auditors' Report on the SBA's FY 2013 Financial Statements	12/16/2013	2	—
14-12	Weaknesses Identified During the FY 2013 Federal Information Security Management Act Review	4/30/2014	1	—
14-15	Opportunities Exist for the SBA to Improve the Monitoring of Non-Manufacturer Rule Waivers and Determine the Impact on Small Businesses	8/14/2014	2	—
14-19	Improvements Needed in the SBA's Oversight of the Financial Management of the District of Columbia Small Business Development Center	9/29/2014	2	—
15-07	Weaknesses Identified During the FY 2014 Federal Information Security Management Act Review	3/13/2015	2	—
15-12	Improvement is Needed in SBA's Separation Controls and Procedures	5/26/2015	1	—
15-16	SBA Needs to Improve Its Oversight of Loan Agents	9/25/2015	4	—
16-02	Independent Auditors' Report on the SBA's FY 2015 Financial Statements	11/16/2015	2	—
16-10	Weaknesses Identified During the FY 2015 Federal Information Security Management Act Review	3/10/2016	1	—

Report Number	Title	Date Issued	Number of Open Recommendations	Aggregate Potential Cost Savings
16-11	Management Advisory Memorandum	3/17/2016	1	\$2,046,465
16-13	SBA's 8(a) Business Development Program Eligibility	4/7/2016	1	—
16-19	Management Advisory Memorandum 16-19	8/16/2016	1	\$850,791
16-23	Audit of SBA's 504 Loan Liquidation Process	9/30/2016	1	—
17-03	Independent Auditors' Report on the SBA's FY 2016 Financial Statements	11/14/2017	3	—
17-09	Audit of New York Small Business Center's Phase 2 Technical Assistance Grant	3/31/2017	4	\$54,827
17-10	The SCORE Association's Disaster Technical Assistance Grant	3/31/2017	10	\$238,798
TOTAL			49	\$3,190,881

## Significant Recommendations From Prior Reporting Periods Without Final Action as of September 30, 2017

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
12-04	12/6/2011	Revise the Goaling Guidelines for the Small Business Preference Programs to include contracts awarded and/or performed overseas in the small business goaling baseline beginning with FY 2011.	9/23/2015	11/30/2015
13-03	10/23/2012	Develop specific, measurements (outputs and outcomes) to evaluate benefits of the joint venture agreements to protégé.	1/24/2013	9/30/2013
14-04	12/16/2013	Enforce a network access security baseline(s) across the network, consistent with SBA security policy, OMB directives, and U.S. Government Configuration Baseline requirements.	4/9/2014	9/30/2014
14-15	8/14/2014	Complete and publish the Standard Operating Procedure for the Non-Manufacturer Rule Waiver Program.	8/11/2014	11/30/2014
14-19	9/29/2014	Update SOPs 60 15 and 60 16 to address subsequent statutory and regulatory changes, and to establish adequate controls to ensure effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.	9/29/2014	3/31/2016
14-19	9/29/2014	Implement controls to ensure that Lead Centers exclude excess sub-recipient costs when computing indirect costs.	9/29/2014	9/30/2016
15-16	9/25/2015	Develop benchmarks for contractor performance and require the FTA to implement appropriate application controls and follow-up procedures with lenders to ensure the integrity of the Form 159 database.	Overdue	Target Date Not Established
15-16	9/25/2015	Implement a process using permissible information to uniquely identify loan agents involved with SBA lending programs for tracking purposes.	7/27/2017	6/7/2018
16-02	11/16/2015	Improve SBA's administration of logical system access by taking the following actions: implement an effective off-boarding process, and periodically verify that controls to remove logical access for separated employees are implemented and operating as designed; establish a process	2/24/2016	3/31/2017

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
		for the identification and removal of separated contractors to help ensure that access is timely removed upon contractor separation; and timely remove access to general support systems and major applications (including development and test environments) when employees and contractors are terminated.		
16-11	3/17/2016	Require California Bank & Trust to bring the loan into compliance and, if not possible, seek recovery of \$2,046,465 from California Bank & Trust on the guaranty paid by SBA.	3/10/2016	3/14/2017
16-13	4/7/2016	Update policy to require the AA/BD and OCE's director to clearly document their justification for approving or denying applicants into the 8(a) Program, particularly when those decisions differed from lower-level recommendations.	4/7/2016	10/31/2016
16-19	8/16/2016	Require Newtek Small Business Finance, Inc. to bring the loan into compliance and, if not possible, seek recovery of \$850,791, plus interest on the guaranty paid by SBA for the loan.	8/23/2016	7/25/2017
17-03	11/14/2016	Implement procedures to ensure that (1) user access, including user accounts and associated roles, is reviewed on a periodic basis consistent with the nature and risk of the system, and any necessary account modifications are performed when identified, and (2) accounts are independently reviewed for appropriateness in accordance with SBA policy.	3/31/2017	9/30/2017

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
17-03	11/14/2016	Improve SBA's administration of logical system access by taking the following actions: implement an effective off-boarding process, and periodically verify that controls to remove logical access for separated employees are implemented and operating as designed; establish a process for the identification and removal of separated contractors to help ensure that logical access is timely removed upon contractor separation; and timely remove access to general support systems and major applications (including development and test environments) when employees and contractors are terminated.	3/31/2017	9/30/2018
17-03	11/14/2016	Address the existing configuration and patch management vulnerabilities noted during our assessment to be in compliance with SBA policies. In addition, implement procedures to ensure the consistent implementation and monitoring of SBA approved security configuration baselines across SBA's workstations, servers, databases, network devices, and other security relevant appliances.	3/31/2017	9/30/2018
17-09	3/31/2017	Recover \$51,985 from NYSBDC for unallocable personnel costs directly charged to the Hurricane Sandy technical assistance grant.	Overdue	Target Date Not Established
17-10	3/31/2017	Develop and implement policies and procedures to ensure: <ul style="list-style-type: none"> <li>a. SCORE provides quarterly financial and performance reports as dictated in the NoA.</li> <li>b. Future disaster grants awarded to SCORE are issued separate from SCORE's core award to ensure the grant award is reported on separately by SCORE and monitored separately by SBA.</li> </ul>	4/5/2017	9/1/2017
17-10	3/31/2017	Develop and implement policies and procedures to ensure: <ul style="list-style-type: none"> <li>a. The reallocation of funds between budget cost categories is assessed for the percentage of increases and decreases on a quarterly basis.</li> <li>b. The SCORE volunteer program uses</li> </ul>	4/5/2017	9/1/2017

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
		<p>current standards for internal control in the Federal Government as a guide.</p> <p>c. SBA personnel conduct grant closeout procedures for SCORE's disaster grants.</p> <p>d. SCORE submits copies of proposed contracts to SBA for approval before executing the contracts.</p>		
17-10	3/31/2017	<p>Ensure SCORE revises its operating manual and accounting policies and procedures to include controls and processes for travel expenditures that provide reasonable assurance that SCORE and its chapters are aware of and comply with the NoA, OMB uniform grant guidance for Federal awards, and the Federal Travel Regulation.</p>	4/5/2017	9/1/2017

## Significant Recommendations From This Reporting Period

Report Number	Title	Date Issued	Recommendation
17-11	Review of SBA's State Trade and Export Promotion Grant Program	5/4/2017	Implement corrective actions to ensure consistency in financial reporting within SBA.
17-11	Review of SBA's State Trade and Export Promotion Grant Program	5/4/2017	Establish and document oversight procedures to ensure that the STEP program managers effectively monitor the grant recipient's progress in meeting targeted milestones.
17-13	SBA's Management of Voluntary Early Retirement Authority and Voluntary Separation Incentive Payment Program	5/30/2017	Conduct and document a lessons learned on the FY 2014 VERA-VSIP performance, including planning, implementation, results, and recommended improvements. Include input from multiple stakeholders within the Agency, specifically administrative and program office senior officials.
17-13	SBA's Management of Voluntary Early Retirement Authority and Voluntary Separation Incentive Payment Program	5/30/2017	Develop and issue procedural guidance to ensure that SBA officials conduct future VERA-VSIP programs in accordance with VERA and VSIP regulations and OPM guidance.
17-14	Weaknesses Identified During the FY 2016 Federal Information Security Modernization Act Review	6/15/2017	Document policies and procedures regarding the organizational risk management strategy, including risk profile, and define the organization's significant risks, mitigation measures, risk tolerances, and processes as defined in NIST SP 800-37 and required by OMB Circular A-123.

Report Number	Title	Date Issued	Recommendation
17-14	Weaknesses Identified During the FY 2016 Federal Information Security Modernization Act Review	6/15/2017	Ensure that SBA program offices ensure that security controls implemented for contractor systems comply with SBA policies and Federal requirements.
17-14	Weaknesses Identified During the FY 2016 Federal Information Security Modernization Act Review	6/15/2017	Enforce SBA and NIST policies to maintain accurate inventories of SBA software/hardware and implement an automated tool to ensure these inventories are updated annually.
17-14	Weaknesses Identified During the FY 2016 Federal Information Security Modernization Act Review	6/15/2017	Establish detailed policies and procedures regarding data exfiltration and implement a robust data exfiltration program across the Agency.
17-14	Weaknesses Identified During the FY 2016 Federal Information Security Modernization Act Review	6/15/2017	Implement data rights management capabilities in order to secure sensitive data.
17-14	Weaknesses Identified During the FY 2016 Federal Information Security Modernization Act Review	6/15/2017	Where feasible, implement an automated mechanisms tool and file integrity checking that are configured for aggregation/analysis of log data and to detect changes to significant files, respectively. Additionally, update the incident response plan to include procedures for using such automated capabilities.
17-14	Weaknesses Identified During the FY 2016 Federal Information Security Modernization Act Review	6/15/2017	Enhance their current process for tracking incidents to ensure that incidents are comprehensively validated and controls are implemented so that incidents are reported compliant with US-CERT requirements.

Report Number	Title	Date Issued	Recommendation
17-15	Reassessment of Eligibility Requirements for 30 Firms in SBA's 8(a) Business Development Program	7/17/2017	We recommend that the Associate Administrator for the Office of Government Contracting and Business Development: Conduct continuing eligibility reviews for the 10 firms we identified with unresolved eligibility concerns.
17-16	Review of SBA's Pay Setting Practices for Senior Executive Service Salary Increases	8/15/2017	Update SOP 39 20 2A, Senior Executive Service, to include policies and procedures to ensure compliance with Federal rules and regulations governing performance management systems, to include specific guidance on MRP increases and 12-month rule violations.
17-18	The OIG High Risk 7(a) Loan Review Program	9/28/2017	Require Wells Fargo to bring the loan into compliance, and, if not possible, seek recovery of \$917,107, plus interest, on the guaranty paid by SBA for the loan.
17-19	Audit of SBA's Microloan Program	9/28/2017	Continue efforts to improve the information system to include outcome-based performance measurements and ensure the data captured can be used to effectively monitor the Microloan Program compliance, performance, and integrity.
17-19	Audit of SBA's Microloan Program	9/28/2017	Develop and implement a site visit plan to comprehensively monitor microloan portfolio performance and ensure program results can be evaluated program-wide.
17-19	Audit of SBA's Microloan Program	9/28/2017	Update SOP 52 00A to clarify requirements regarding evidence for use of proceeds and credit elsewhere.
17-19	Audit of SBA's Microloan Program	9/28/2017	Update the microloan reporting system manual to reflect current technology capabilities.

## **Significant Management Decisions With Which OIG Disagrees**

---

There were no significant management decisions with which OIG disagrees during this reporting period.

## **Significant Revised Management Decisions**

---

There were no significant revised management decisions during this reporting period.

## **Federal Financial Management Improvement Act**

---

Our independent auditor, KPMG, in the FY2017 Financial Statement Audit, is performing tests with certain provisions of the Federal Financial Management Improvement Act of 1996 to ensure compliance with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, (3) the U.S. Government Standard General Ledger at the transaction level. At the present time, there are no outstanding remedial actions to ensure compliance with this Act.

## **Instances of Interference**

---

There were no attempts by SBA officials to interfere with OIG independence during the reporting period.

## Investigations Reporting Statistics

---

### Investigative Reports Issued

Report Type	Number of Reports
Report of Investigation	35
Preliminary Case Closing Memorandum	17
TOTAL	52

### Persons Referred for Prosecution

Referred To	Number of Persons
Department of Justice	31
State Attorney	6
TOTAL	37*

\*Number includes persons and entities referred for prosecution.

## Whistleblower Retaliation Cases

---

There were no OIG investigations of reprisal against a whistleblower closed during the reporting period.

### Investigations Involving a Senior Government Employee Where Misconduct Was Substantiated

---

There were no OIG investigations involving a senior Government employee where misconduct was substantiated during the reporting period.

### Investigations Involving a Senior Government Employee That Is Closed and Not Disclosed to the Public

---

There were no OIG investigations involving a senior Government employee that were closed and not disclosed to the public during the reporting period.

## Legal Actions Summary

State	Program	Jointly With	Alleged Violation(s) Prosecuted	Legal Action
AL	CC	Army/CID, DCIS	An individual submitted false statements on U.S. Army contracts by misrepresenting the firm's principle office location to obtain HUBZone status with SBA.	Individual pled guilty.
AZ	BL	FBI, IRS/CI	An individual submitted fraudulent documents to obtain a SBA 7(a) loan.	Criminal information was filed against three individuals. All three individuals have pled guilty.
CA	BL	DHS, FBI	Individuals submitted false statements on an SBA loan application.	Individual was sentenced to 12 months' and 1 day's imprisonment, followed by 3 years' supervised release. The same individual was ordered to pay \$1.3 million in restitution.
CT	DL	HUD/OIG, Stratford PD	An individual submitted false documents and receipts when they applied for an SBA disaster loan.	Two individuals were arrested.
DC	GC	FBI, GSA/OIG	A corporation was serving as a pass-through contractor on 8(a) contracts.	Three individuals were sentenced. One received 10 months' probation and 2 months' home confinement. Another was sentenced to 6 months' incarceration followed by 24 months' supervised release. The third was sentenced to 7 months' incarceration followed by 24 months' supervised release.
FL	GC	Army/CID, DOL/OIG, NASA/OIG	An individual failed to disclose their prior criminal history at the time of their admission into the 8(a) Business Development Program.	Individual pled guilty.
GA	BL	IRS/CI, TIGTA	An individual made false statements on his SBA loan application and used funds for purposes unrelated to his business.	Individual was charged via information and pled guilty.
GA	GC	Army/CID, DCIS	Army employees illegally directed 8(a) contracts to a company in return for kickbacks.	Two individuals were indicted.
IL	BL	FRB/OIG	Bank employees conspired with a business owner to conceal significant derogatory information from SBA. The business owner	Three individuals were indicted.

State	Program	Jointly With	Alleged Violation(s) Prosecuted	Legal Action
			submitted inflated income projections supported by false rental income, which was used by the bank and SBA to support their approvals of the proposed SBA Loan.	
IL	BL	ED/OIG, FHFA/OIG, HUD/OIG	Individuals used another individual's personal identifying information to obtain a bank loan guaranteed by SBA.	Individual sentenced to 39 months' imprisonment, followed by 1 year's supervised release. Another individual was sentenced to 33 months' imprisonment and 1 year's supervised release. Both were ordered to pay \$398,211 in joint restitution.
IL	BL	FBI	A bank employee was diverting funds intended to pay off borrower's SBA loans to his personal bank account.	Individual was sentenced to 6 months' imprisonment followed by 3 years' supervised release, and to pay \$126,890 in restitution.
IL	BL	FBI, FDIC/OIG, IRS/CI	Individuals, including a bank employee, conspired to flip gas stations to unqualified buyers financed by SBA-guaranteed loans.	Individual pled guilty.
MD	BL	FDIC/OIG, FHFA/OIG	Bank executives planned a fraudulent scheme to raise capital by issuing loans to straw borrowers, and then used the proceeds to purchase stock in the bank.	Individual was indicted.
MD	GC	Army/CID, Air Force/OSI, DCIS, GSA/OIG	A certified 8(a) business entered into a pass-through agreement with another business that performed substantially all of the work on a Department of Air Force contract.	Two individuals were indicted and pled guilty. One was sentenced to 18 months' imprisonment, followed by 36 months' supervised release. The other individual was sentenced to 5 months' imprisonment followed by 36 months' supervised release.
MD	GC	Army/CID, FBI, IRS/CI, DCIS, DOL/OIG, GSA/OIG, VA/OIG	An individual conspired to pay bribes and illegal gratuities to a U.S. Department of Army contracting officer in exchange for Government contracts.	Individual was sentenced to 18 months' imprisonment; 36 months' supervised release, a forfeiture money judgement of \$1,231,091 and restitution of \$1,008,194.

State	Program	Jointly With	Alleged Violation(s) Prosecuted	Legal Action
MD	GC	Air Force/OSI, DCIS	Individuals participated in a scheme to submit false and fraudulent invoices that double-billed the Government and submitted false claims for work not performed.	One individual was sentenced to 30 months' imprisonment and to pay \$500,000 in restitution. Another was sentenced to 60 months' imprisonment followed by 36 months' supervised release, and to pay \$9,441,340 in restitution.
MO	BL	FBI, IRS/CI	An individual failed to disclose negative information on his SBA loan application.	Individual was charged via information and pled guilty.
MO	BL	FBI, IRS/CI	An individual provided false information on their SBA loan application.	Individual was indicted.
NJ	BL	FBI, SIGTARP	Individual misused the proceeds of an SBA loan by using the funds to pay gambling debts, settle a Federal tax bill and send money to family members.	Individual pled guilty to criminal information. Individual agreed to pay restitution of \$2,657,687 and forfeit \$1,696,506.
NJ	DL	DHS/OIG, HUD/OIG, NJ/DCA	An individual attempted to obtain a disaster loan for property that was not their primary residence.	Individual charged by complaint-summons.
NJ	DL	DHS/OIG, HUD/OIG, NJ/DCA	An individual attempted to obtain a disaster loan for property that was not their primary residence.	Individual charged by complaint-summons.
NJ	DL	DHS/OIG, HUD/OIG, NJ/DCA	An individual attempted to obtain a disaster loan for property that was not their primary residence.	Individual pled guilty and agreed to pay restitution in the amount of \$190,213.
NJ	DL	DHS/OIG, HUD/OIG, NJ/DCA	An individual attempted to obtain a disaster loan for property that was not their primary residence.	Individual charged by complaint-summons.
NJ	DL	HHS/OIG, DHS/OIG, HUD/OIG, NJ/DCA	An individual attempted to obtain a disaster loan for property that was not their primary residence.	Individual pled guilty.
NJ	DL	DHS/OIG, HUD/OIG, NJ/DCA	An individual attempted to obtain a disaster loan for property that was not their primary residence.	Individual pled guilty and was sentenced to 24 months' probation and ordered to pay \$30,000 restitution. In addition, the individual signed a civil consent judgement for restitution in the amount of \$115,471.

State	Program	Jointly With	Alleged Violation(s) Prosecuted	Legal Action
NV	BL	FBI	A business owner misappropriated client insurance premiums and comingled client premiums with business operating funds. This caused the owner to misrepresent the financial condition of the business when applying for an SBA guaranteed loan.	Individual was sentenced to 120 months' imprisonment and \$275,000 in restitution.
NY	BL	IRS/CI, SIGTARP	An individual falsely minimized his ownership interests in numerous businesses allowing them to obtain SBA loans and other loans they would have otherwise been qualified to receive.	Individual was sentenced to 6 months' imprisonment, 1 year's supervised release, and \$229,288 in restitution.
NY	DL	FBI, HUD/OIG, SIGTARP	Individual made false statements in support of their SBA disaster loan application. In addition, the individual used the loan proceeds for personal expenses.	Individual was sentenced to 180 months in prison and ordered to forfeit \$2,500,050.
NY	DL	N/A	Individual failed to disclose negative financial information on SBA disaster loan application.	Individual voluntarily surrendered pursuant to a criminal complaint.
NV	BL	FBI	A business owner misappropriated client insurance premiums and comingled client premiums with business operating funds. This caused the owner to misrepresent the financial condition of the business when applying for an SBA guaranteed loan.	Individual was sentenced to 120 months' imprisonment and \$275,000 in restitution.
WV	GC	FBI, IRS/CI, DCIS, DOL/OIG, VA/OIG	Individuals conspired to defraud SBA by not disclosing the existence of undisclosed affiliates.	Two individuals pled guilty.

## Legal Actions Summary Program Codes

BL Business Loans

DL Disaster Loans

GC Government Contracting and Section 8(a) Business Development

IA Internal Affairs

## Joint Investigation Agency Acronyms

Defense Criminal Investigative Service (DCIS)

Department of Education Office of Inspector General (ED/OIG)

Department of Homeland Security Office of Inspector General (DHS/OIG)

Department of Housing and Urban Development Office of Inspector General (HUD/OIG)

Department of Labor Office of Inspector General (DOL/OIG)

Department of Veterans Affairs Office of Inspector General (VA/OIG)

Federal Bureau of Investigation (FBI)

Federal Deposit Insurance Corporation Office of Inspector General (FDIC/OIG)

Federal Housing Finance Agency Office of Inspector General (FHFA/OIG)  
Federal Reserve Bank Office of Inspector General (FRB/OIG)  
General Services Administration Office of Inspector General (GSA/OIG)  
Internal Revenue Service – Criminal Investigation (IRS/CI)  
National Aeronautics and Space Administration Office of Inspector General (NASA/OIG)  
New Jersey Department of Community Affairs (NJ/DCA)  
Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP)  
Treasury Inspector General for Tax Administration (TIGTA)  
United States Air Force Office of Special Investigations (Air Force/OSI)  
United States Army/Criminal Investigation Command (Army/CID)

## Cosponsored and Other Activities

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
National Hispanic Heritage Month Program	Massachusetts DO-Eastern Bank, Santander Bank, Boston Private Bank & Trust Co	Boston, MA	9/26/2017
Business programming Series	Pittsburgh DO-Seton Hill University	Greensburg PA	9/22/2017
Webinar	Pittsburgh DO-Starfield & Smith, P.C.	World Wide Web	9/22/2017
Webinar	Pittsburgh DO-Strategic Banking Partners, Inc.	World Wide Web	9/22/2017
Webinar	Pittsburgh DO-Partner Engineering & Science, Inc.	World Wide Web	9/22/2017
2017 Mentor Protégé Conference	HQ/Government Contracting & Business Development- American Small Business Alliance - Sevatec, Inc.	Crystal City, VA	9/20/2017
2017 Small Business Saturday Campaign	HQ/Office of Communications and Public Liaison - American Express, Women Impacting Public Policy	Nationwide, World Wide Web	9/12/2017
Opening Doors to Government Contracting for Women & Minority Small Businesses	Syracuse DO-State University of New York Mohawk Valley Small Business Development Center, Women's Business Center of New York State, SCORE Utica Chapter, North Country Procurement Technical Assistance Center	New York, NY	9/7/2017
E-chats and Webinars	Pittsburgh DO-JARI Procurement Technical Assistance Center, North Central Procurement Technical Assistance Center, North Central PA Regional Planning and Development Commission	World Wide Web	8/29/2017
Emerging Leaders 2017	South Florida DO-Florida SBDC at USF, Port Tampa Bay, Suncoast Credit Union, VISTRA Communications, LLC, Walk Law Firm, Florida Business Development Corporation	Tampa, FL	8/21/2017
Small Business Workshop Series	Nebraska DO-Bellevue University Military Veterans Services Center	Bellevue, NE	8/17/2017
Spirit of Small Business Awards Program & Luncheon	Los Angeles DO-Pacific Coast Business Times	Santa Barbara, CA	8/8/2017
Vermont's 21st Annual Women's Economic Opportunity Conference	Vermont DO-The Center for Women & Enterprise, Change the Story-Vermont, Office of U.S. Senator Patrick Leahy, The Vermont Women's Fund, Vermont Agency of Human Services - Office of Economic Opportunity, Vermont Agency of Transportation, Vermont Business Education Corporation, Vermont Center for Emerging Technologies, Vermont Commission on Women, Vermont Community Loan Fund, Vermont Department of Labor, Vermont Economic Development Authority, Vermont Manufacturing	Randolph, VT	8/8/2017

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
	Extension Center, Vermont Procurement Technical Assistance Center, Vermont Small Business Development Center, Vermont Technical College, Vermont Works for Women, Women Business Owners Network		
Emerging Leaders 2017	Michigan DO-Automation Alley, Detroit Economic Growth Corporation, Detroit Regional Chamber, Great Lakes Women’s Business Council, Michigan Economic Development Corporation, Michigan Black Chamber of Commerce, Michigan Minority Supplier Development Council, Michigan SBDC, Michigan State University, SCORE	Detroit, MI	6/29/2017
Emerging Leaders 2017	Indiana DO-Indiana Economic Corporation, Indiana SBDC, Indy Chamber of Commerce, SCORE Indianapolis, Central Indiana WBC, Fifth Third Bank, Byline Bank, Saline Bank	Indianapolis, IN	6/23/2017
Emerging Leaders 2017	New Mexico DO-ACCION New Mexico, Air Force Research Laboratories, Albuquerque Hispano Chamber of Commerce, Albuquerque SCORE, Albuquerque SBDC, American Indian Chamber of Commerce, Albuquerque Economic Development Department, Sandis National Laboratories, The Loan Fund, WESST	Albuquerque, NM	6/23/2017
Emerging Leaders 2017	Tennessee DO-Growth Enterprise Nashville dba NBIC	Nashville, TN	6/16/2017
Small Business Week & Small Business Awards Luncheon	Illinois DO-SCORE Chicago, SBDC Illinois	Chicago, IL	6/15/2017
Emerging Leaders 2017	North Carolina DO-Central Piedmont Community College, The Charlotte Chamber of Commerce, Charlotte Mecklenburg Black Chamber of Commerce, Carolinas Virginia Minority Supplier Development Council, City of Charlotte, Charlotte Business Inclusion, Mecklenburg County, Charlotte SCORE, NC Small Business & Technology Development Center, NC Institute of Minority & Economic Development, Latin American Economic Development Corporation	Charlotte, NC	6/9/2017

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
Emerging Leaders 2017	Minnesota DO-Mayor Betsy Hodges and the City of Minneapolis, Mayor Christopher Coleman and the City of Saint Paul, Ewald Consulting, Metropolitan Economic Development Association, Minnesota Procurement Technical Assistance Center, Saint Paul Area Chamber of Commerce, SCORE, SBDC, Women Venture, WBC, NAWBO, Small and Disadvantaged Business Opportunity Council, Metropolitan State University, North Central Minority Supplier Development Council, Quorum, LGBT Chamber of Commerce, Northside Economic Opportunity Network	Minneapolis, MN	6/9/2017
2017 Vermont Small Business Awards Ceremony	Vermont DO-Vermont Business Magazine	Middlebury, VT	5/24/2017
2017 SBA Maryland Small Business Week Awards Luncheon and Trade Show	Baltimore DO-Maryland Small Business Week Awards Program, Inc.	Woodlawn, MD	5/4/2017
Emerging Leaders 2017	San Antonio DO-Dell Inc., Broadway Bank	San Antonio, TX	5/4/2017
Emerging Leaders 2017	Wisconsin DO-SCORE, City of Milwaukee, Wisconsin Women's Business Initiative Corp., University of Wisconsin-Milwaukee, Metropolitan Milwaukee Sewerage District, Milwaukee County, Milwaukee Urban League, Wisconsin Economic Development Corporation	Milwaukee, WI	5/4/2017
West Virginia 2017 Small Business Week Awards Ceremony	West Virginia DO-First Microloan of West Virginia, Huntington National Bank, Impakt Marketing, MVB Bank, Regional Development Funding Corporation, SCORE, WV Small Business Development Center	Fairmont, WV	5/1/2017
Emerging Leaders 2017	Massachusetts DO-Hispanic-American Chamber Institute, Inc., University of Massachusetts Amherst - Massachusetts Small Business Development Centers, City of Boston, Mayor's Office of Economic Development, SCORE Boston Chapter 20, Center for Women & Enterprise, Inc., Supplier Diversity Office of the Commonwealth of Massachusetts, Greater New England Minority Supplier Development Council, Eastern Bank, Boston Private Bank, Mass Growth Capital Corporation, Santander Bank, Webster First Federal Credit Union	Boston, MA	4/25/2017
Oregon Small Business Week Award Event 2017	Portland DO-Albina Community Bank, Banner Bank, Columbia State Bank, KeyBank, SCORE Portland Chapter 11, Umpqua Bank, Union Bank, U.S. Bank, Wells Fargo	Portland, OR	4/25/2017
Emerging Leaders 2017	Illinois DO-Wintrust Financial Corporation, Chicago SCORE	Chicago, IL	4/24/2017

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
Emerging Leaders 2017	Dallas DO-North Texas SBDC, Dallas Black Chamber of Commerce, Greater Dallas Asian American Chamber of Commerce, DFW Minority Supplier Development Council, Greater Dallas Hispanic Chamber of Commerce, City of Dallas-Office of Business Development and Procurement Services, Tri County Regional Hispanic Chamber of Commerce, U.S. Pan Asian American Chamber of Commerce, SW, North Texas Association of Government Guaranteed Lenders, SCORE Dallas/Fort Worth District	Dallas, TX	4/24/2017
Emerging Leaders 2017	South Florida DO-Cambridge Innovation Center, BizNest, MICROScholarships, Inc., SCORE Miami-Dade Chapter, Florida International University SBDC	Miami, FL	4/24/2017
U.S. Small Business Administration Awards Breakfast	Wisconsin DO-SCORE, The Milwaukee Business Journal, Byline Bank	Milwaukee, WI	4/24/2017
Emerging Leaders 2017	Utah DO-Rio Vista Management, LLC, Utah SCORE, Salt Lake Women's Business Center, Utah Small Business Development Centers Network	Salt Lake City, UT	4/12/2017
2017 Philadelphia District Office Small Business Week Awards	Philadelphia DO-The Pennsylvania Community Development and Finance Corporation	Ambler, PA	4/12/2017
Emerging Leaders 2017	Fresno DO-University of LaVerne Bakersfield County Campus	Bakersfield, CA	4/10/2017
Small Business Week 2017 Matchmaking Event	Puerto Rico & Virgin Island DO-Colegio de Ingenieros y Agrimensores de Puerto Rico	San Juan, PR	4/10/2017
New Hampshire Small Business Week 2017 Awards Program	New Hampshire DO-New Hampshire Bankers Association	Bedford, NH	4/10/2017
2017 New York District Small Business Week Award Ceremony	New York DO-Hongkong and Shanghai Banking Corporation Limited	New York, NY	4/10/2017
Emerging Leaders 2017	Nevada DO-ACCION Nevada, CPLC Southwest/Prestamos CDFI, SCORE Nevada Chapter 0243, Bank of Nevada, Bank of George, First Security Bank of Nevada	Las Vegas, NV	4/10/2017
Emerging Leaders 2017	North Dakota DO-Eide Bailly, LLP, North Dakota State University Research and Technology Park	Fargo, ND	4/7/2017
Lender Appreciation Breakfast	Springfield BO-Rural Missouri, Inc.	Springfield, MO	4/3/2017
2017 SBA Small Business Awards Luncheon	Nevada DO-Southern Nevada Public Television	Las Vegas, NV	4/3/2017
Woostapreneurs Forum – New Americans Business Expo	Massachusetts DO-Worcester Area Chamber of Commerce	Worcester, MA	4/3/2017

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
Emerging Leaders 2017	St. Louis DO-Grace Hill Women's Business Center, Veterans Business Resource Center, Small Business & Technology Development Center, SCORE Chapter 21, Procurement Technical Assistance Center, Midwest Regional Bank, Enterprise Bank & Trust, Fortune Bank, Capital Consulting Services, LC, The HIVE 44, First Bank	St. Louis, MO	4/3/2017
Emerging Leaders 2017	Wichita DO-Wichita State University: WSU Ventures Kansas Small Business Development Center Kansas Procurement Technical Assistance Center, SCORE Wichita Chapter 0143, Rose Hill Bank, Intrust Bank, Westar Energy, Cargill Meat Solutions, Clark Investment Group, Swindoll, Janzen, Hawk & Loyd, LLC, Textron Aviation, Wichita Public Schools (USD 259) Operations Division, Wichita Regional Chamber of Commerce, Simmons National Bank	Wichita, KS	4/3/2017
Emerging Leaders 2017	Puerto Rico & Virgin Islands DO-Virgin Islands Small Business Development Center	St. Croix, VI	4/3/2017
Small Business Week 2017 Breakfast and Awards Ceremony	Puerto Rico & Virgin Islands DO-Puerto Rico Bankers Association	Carolina, PR	4/3/2017
Small Business Week 2017 Awards and Conference	Los Angeles DO-Los Angeles Area Chamber of Commerce	Los Angeles, CA	4/3/2017
Emerging Leaders 2017	Syracuse DO-Arsenal Business & Technology Partnership, Capital Region Chamber of Commerce, New York Business Development Corporation, New York State Small Business Development Center Albany, SCORE Albany Chapter	Albany, NY	4/3/2017
Emerging Leaders 2017	New Hampshire DO-New Hampshire Small Business Development Center, TD Bank, Enterprise Bank	Manchester, NH	4/3/2017
Emerging Leaders 2017	Syracuse DO-Blackstone Launchpad, CenterState Corporation for Economic Opportunity, Central NY Technology Development Organization, City of Syracuse Office of Neighborhood and Business Development, Manufacturers Association of Central New York, New York State Small Business Development Center Onondaga, Onondaga County Office of Economic Development, SCORE Syracuse Chapter, State University of New York College of Environmental Science and Forestry, The Downtown Committee of Syracuse, Inc., The Falcone Center for Entrepreneurship, The Tech Garden, Upstate Minority Economic Alliance, WISE Women's Business Center	Syracuse, NY	4/3/2017

## Appendix: External Peer Reviews

---

Section 5(a) of the IG Act requires OIGs to report peer review results in their Semiannual Reports to Congress. The following information is provided in accordance with these requirements.

### **Audits Division**

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

OIG's Audits Division was reviewed by the Smithsonian Institution OIG for the period ending March 31, 2015. In December 2015, SBA OIG received a peer review rating of "pass." By September 30, 2016, our office had implemented all recommendations.

### **Investigations Division**

Section 6(e)(7) of the IG Act, Attorney General Guidelines for Offices of Inspector General with Statutory Law Enforcement Authority, and the CIGIE Quality Standards for Investigations require external peer reviews of OIG investigative functions be conducted every 3 years.

In September 2017, the U.S. Federal Deposit Insurance Corporation's OIG reviewed our Investigations Division. The review concluded during the reporting period. A final report regarding the system of internal safeguards and management procedures for the investigative function of our office is pending and will be documented in the next reporting period.

### **Peer Reviews Conducted**

OIG did not conduct any peer reviews this period.

## Reporting Requirements in the Inspector General Act of 1978, As Amended

Section	Reporting Requirement	Location
4(a)(2)	Review of legislation and regulations	Other Significant OIG Activities
5(a)(1)	Significant problems, abuses, and deficiencies	Throughout
5(a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies	Significant Recommendations From This Reporting Period
5(a)(3)	Prior significant recommendations on which corrective action has not been completed	Significant Recommendations from Prior Reporting Periods Without Final Action as of September 30, 2017
5(a)(4)	Matters referred to prosecutive authorities	Legal Actions Summary
5(a)(5)	Instances in which requested information was refused	N/A
5(a)(6)	List of audit, inspection, and evaluation reports	Reports Issued; Reports With Questioned Costs
5(a)(7)	Significant reports	Throughout
5(a)(8)	Audit, inspection, and evaluation statistical tables	Statistical Highlights
5(a)(9)	Audit, inspection, and evaluation reports with recommendations that funds be put to better use	Reports With Recommendations That Funds Be Put to Better Use
5(a)(10)	Audit, inspection, and evaluation reports without management decision, without comment within 60 days, or with unimplemented recommendations	Reports From Prior Periods With Overdue Management Decisions; Reports From Prior Periods With Open Recommendations as of September 30, 2017
5(a)(11)	Revised management decisions	Significant Revised Management Decisions
5(a)(12)	Management decisions with which the Inspector General disagrees	Significant Management Decisions With Which OIG Disagrees
5(a)(13)	Information described under section 05(b) of the Federal Financial Management Improvement Act of 1996	Federal Financial Management Improvement Act
5(a)(14)–(16)	Peer review results	External Peer Reviews
5(a)(17),(18)	Investigative statistical tables and supporting metrics	Investigations Reporting Statistics
5(a)(19)	Investigations involving a senior Government employee where allegations of misconduct were substantiated	Investigations Involving a Senior Government Employee Where Misconduct Was Substantiated
5(a)(20)	Whistleblower retaliation	Whistleblower Retaliation Cases
5(a)(21)	Attempts to interfere with the independence of the OIG	Instances of Interference
5(a)(22)	Each closed inspection, evaluation, and audit not disclosed to the public; each closed investigation involving a senior Government employee not disclosed to the public	Investigations Involving a Senior Government Employee That Is Closed and Not Disclosed to the Public

## **Make a Difference**

---

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

**Online:**

<https://www.sba.gov/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

\*In accordance with Sections 7 and 8L(b)(2)(B) of the Inspector General's Act, confidentiality of a complainant's personally identifying information is mandatory, absent express consent by the complainant authorizing the release of such information.