
U.S. Small Business Administration Office of Inspector General

FY 2017 CONGRESSIONAL BUDGET JUSTIFICATION



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Overview

In fulfillment of the Inspector General Act of 1978, as amended, the U.S. Small Business Administration (SBA or Agency) Office of Inspector General (OIG) provides auditing, investigative, and other services to support and assist the SBA in achieving its statutory mission. The OIG provides taxpayers with a significant return-on-investment (ROI) as it roots out fraud, waste, and abuse in SBA programs. During FY 2015, the OIG achieved nearly \$134 million in monetary recoveries and savings—a more than a 6-fold ROI.

The mission of the SBA is to maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and to assist in the economic recovery of communities after disasters. While SBA's programs are essential to strengthening America's economy, the Agency faces a number of challenges in carrying out its mission. These include fraudulent schemes affecting SBA programs, significant losses from defaulted loans, procurement flaws that allow large firms to obtain small business awards, improper payments, and outdated legacy information technology (IT) systems. The 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.

The OIG used funding received in FY 2014 and FY 2015 to fill vacant positions, and the office is now operating at near full capacity. In addition, the OIG used its increased budget capacity to enhance investigative capacity, including obtaining investigative support services to more effectively utilize investigative resources, and to devote additional resources to target early defaulted loans for fraud and lender negligence. For FY 2017, the OIG requests \$19.9 million, plus an additional \$1.0 million transfer from the Disaster loan program—for a total of \$20.9 million. The OIG needs these funds to provide effective independent oversight of SBA's programs and operations, including funding for an expected increase in the cost of the independent audit of SBA's FY 2016 and future financial statements (due in large part to new OIG review mandates incorporated into the Digital Accountability and Transparency Act of 2014, P.L. 113-101) and cover the government-wide pay raise and other inflationary costs.

With the funds requested for FY 2017, the OIG will:

- Work an active caseload of about 215 criminal and civil fraud investigations of potential loan and contracting fraud and other wrongdoing. Many of these investigations involve complex, multimillion-dollar fraudulent financial schemes perpetrated by multiple suspects. (During FY 2015, OIG investigations resulted in 52 indictments/informations, 57 convictions, and over \$104 million in potential recoveries, fines, asset forfeitures, civil fraud settlements, or loans/contracts not being approved or being canceled.)
- Conduct risk-based audits and reviews of SBA activities with a focus on systemic, programmatic, and operational vulnerabilities. During FY 2015, the OIG issued 17 reports with 80 recommendations for improving the Agency's operations, identifying improper payments, and strengthening controls to reduce fraud and unnecessary losses in SBA programs.)
- Contract with an independent public accountant to perform the annual audit of the SBA's financial statements.



- Provide oversight and monitoring of the SBA's IT security and application development activities, including new systems under development and the Agency's compliance with the Federal Information Security Management Act (FISMA). The OIG has identified systemic problems with the SBA's IT systems, and this remains one of the most serious management challenges facing the Agency.
- Maintain a robust [OIG Hotline](#) to receive and process allegations of waste, fraud, abuse, or serious mismanagement in the SBA or its programs from employees, contractors, and the public. (During FY 2015, the OIG Hotline processed 486 complaints, which hotline staff reviewed and analyzed to determine the appropriate course of action.)
- Through a designated [Whistleblower Protection Ombudsman](#), established pursuant to the Whistleblower Protection Enhancement Act of 2012, educate SBA employees about prohibitions on retaliation for whistleblowing, as well as employees' rights and remedies if anyone retaliates against them for making a protected disclosure.
- Conduct name checks and, where appropriate, fingerprint checks on program applicants to prevent known criminals and wrongdoers from participating in SBA programs. (During FY 2015, more than \$14 million in loans were not approved as a result of the OIG's name check program, effectively protecting American taxpayers from potential losses.)
- Pay for required employee background investigations to achieve a high level of integrity in the Agency's workforce.
- Adjudicate OIG employees and contractors for issuance of Personal Identity Verification (PIV) cards pursuant to Homeland Security Presidential Directive 12 (HSPD-12) background investigations requirements.
- Review proposed revisions to SBA regulations, policies, procedures, and other directives with an emphasis on strengthening internal controls to preclude potential fraud and wasteful, confusing, or poorly planned initiatives. (During FY 2015, the OIG provided recommendations to improve 72 of the 129 proposed revisions it reviewed.)
- Recommend debarments, suspensions, and other administrative enforcement actions to foster integrity in SBA programs. (During FY 2015, the OIG sent 74 suspension and debarment referrals to the SBA and was involved with 25 actions other agencies pursued.)
- Continue to serve as an educational resource, ensuring that oversight and lending officials develop or maintain technical proficiency in small business issues; suspension and debarment; the Program Fraud Civil Remedies Act; and other topics related to deterring and detecting fraud in government lending and contracting programs. (During FY 2015, the OIG delivered 28 training and outreach sessions for approximately 1,067 attendees.)



Budget Request

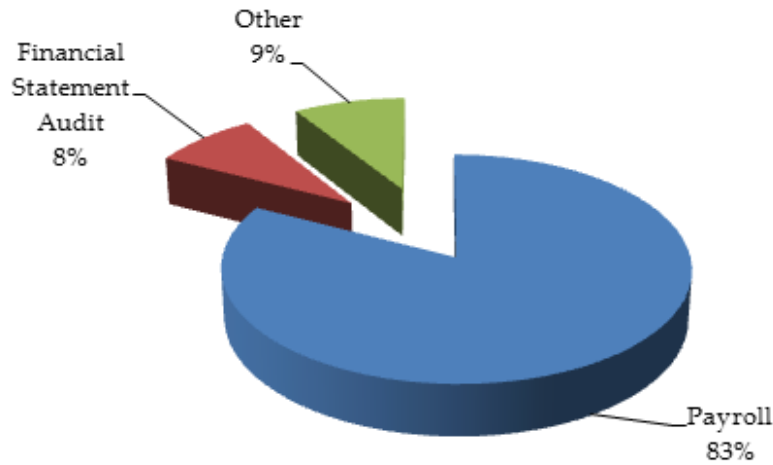
To address the challenges and risks discussed above and in the Critical Risks section below, the OIG requests a total of \$20.9 million for FY 2017—a direct appropriation of \$19.9 million and \$1.0 million to be transferred from SBA’s Disaster loan program account for work on disaster program issues.

FY 2017 Budget Request

<i>Dollars in Millions</i>	FY 2015 Actual	FY 2016 Enacted	FY 2017 Request	FY 2017 Incr/Decr
New Budget Authority	\$19.4	\$19.9	\$19.9	-
Transfer from Disaster Loan Program	1.0	1.0	1.0	-
Total	\$20.4	\$20.9	\$20.9	-

The majority of the funds requested for FY 2017 will be used for salary and benefits for 110 Full Time Equivalent (FTE) employees, as well as the cost of the annual audit of the SBA’s financial statements by an independent public accountant.

FY 2017 Estimated Obligations



Critical Risks Facing the SBA

Within available resources, the OIG must focus on the most significant risks to the SBA and the taxpayer. Some of the critical risks facing the SBA are discussed below. Many of these risks are addressed in the OIG's [Report on the Most Serious Management and Performance Challenges Facing the SBA](#), which the OIG issues annually in accordance with the Reports Consolidation Act of 2000.

Risks Due to Limited Oversight and Controls in the SBA's Lending Programs

The SBA faces a heightened risk of losses and improper payments due to expedited loan processing initiatives and its considerable reliance on outside financial institutions, over which the Agency has been found to not always exercise adequate oversight. The Agency's business loan programs include (1) the Section 7(a) loan program, in which the SBA guarantees loans to small businesses made by lenders, and (2) the Section 504 loan program, in which the SBA guarantees repayment of debentures sold by Certified Development Companies (CDCs) to investors to create funds for loans to small businesses. The majority of loans made under the Section 7(a) loan program undergo little or no review by the SBA prior to loan approval because the Agency has delegated most of the credit decisions to lenders originating these loans.

Audits of early defaulted loans and improper payments continue to note a number of lender errors in originating loans, resulting in undue risk and loss of taxpayer dollars. In addition, OIG reviews have detected vulnerabilities in the SBA's Standard Operating Procedure (SOP) for the Section 7(a) loan program. These vulnerabilities include a provision that allows financing of large amounts of intangible assets, including goodwill, in change-of-ownership transactions where the entire equity injection can be provided in the form of seller take-back financing. Further, the OIG has identified management challenges relating to the Agency's quality control process at the loan servicing centers and the National Guaranty Purchase Center, oversight of lenders and CDCs, efforts to prevent loan agent fraud in the Section 7(a) loan program, and improper payments under the Section 7(a) loan program. Finally, a recent OIG audit ([Report 15-06](#)) highlighted that the outsourcing of traditional lender functions in SBA lending programs to third party agents has significantly increased, further impacting the SBA's ability to maintain appropriate oversight.

Numerous OIG criminal investigations have identified fraud by borrowers, loan agents, lenders, and other participants in SBA business loan programs. A recent OIG audit ([Report 15-16](#)) highlighted that since 2005, the OIG has investigated at least 22 cases with confirmed loan agent fraud totaling at least \$335 million. Criminals fraudulently obtain—or induce others to obtain—SBA-guaranteed loans through a variety of techniques. 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. The result is a greater chance of financial loss to the Agency and its lenders. In addition, higher loan limits in recent years are likely to attract additional attention by criminals and increase the consequences of improper lending decisions.

Through the Disaster loan program, the SBA makes direct loans to homeowners and businesses harmed by disasters to fund repair or replacement of damaged property and to businesses to provide needed working capital. This program is vulnerable to fraud and unnecessary losses because (1) loan transactions are often expedited in order to provide quick relief to disaster victims; (2) lending personnel



hired in connection with a disaster declaration may lack sufficient training or experience; and (3) the volume of loan applications may overwhelm the SBA's resources and its ability to exercise careful oversight of lending transactions.

OIG reviews of SBA loan processing activities have disclosed significant problems in making, servicing, and liquidating disaster loans. For example, expedited processes implemented to reduce Hurricane Sandy application backlogs were not effective in reducing loan approval cycle times. Further, insufficient training and internal controls resulted in incorrect economic injury disaster loan amount determinations. ([Report 15-13](#)) In a separate audit, we found that principals' incomes are relied upon as a source to repay disaster business loans without sufficient consideration and analysis of the impact on the principals' ability to pay living expenses, placing the loans at a higher risk of default ([Report 15-05](#)). In addition, OIG investigations have led to numerous convictions of disaster loan borrowers for making fraudulent statements to obtain loans or misusing loan proceeds.

Risks Affecting the SBA's Oversight of Contracts for Small and Disadvantaged Businesses

The Small Business Act directs the SBA to promote the award of federal contracts to small businesses and firms owned by disadvantaged individuals (such as minorities, service-disabled veterans, women, firms from areas of low economic activity, and others). Under a statutory goal, the government directs approximately 23 percent of federal procurement funds to these programs. For FY 2014—the latest year for which information is available—the SBA reported that small and disadvantaged firms were awarded \$91.1 billion government-wide in prime contracting assistance. However, OIG audits and investigations have identified numerous instances where firms that do not meet the criteria to be either “small” or “disadvantaged” have improperly obtained contracts under SBA contracting programs. For example, a joint investigation with other agencies resulted in the president of a Colorado firm pleading guilty to conspiracy in connection with his concealment of millions of dollars in assets and income in order to maintain the company's 8(a) status. This led to the wrongful award of over \$17 million in 8(a) contracts to the firm. In addition, the Government Accountability Office (GAO) has issued a series of reports documenting that ineligible companies had been admitted to SBA contracting assistance programs and were seeking set-aside contracts. These improprieties have resulted from a variety of factors, including fraud by company managers, excessive control over small or disadvantaged firms by large companies or non-disadvantaged individuals, weak oversight by the SBA and federal procurement personnel, and regulatory ambiguities and loopholes. The OIG has issued management challenges recommending corrective actions to promote integrity in small business contract awards and oversight of the Section 8(a) Business Development program.

Risks Associated with the SBA's Information Security Controls and Other Operations

SBA's IT systems play a vital role in managing the Agency's operations and programs, including a loan portfolio that is approaching \$120 billion. However, OIG audits and other reviews have identified serious shortcomings in the SBA's information systems and related security controls. OIG reviews have found that the SBA has not fully implemented adequate oversight of its IT systems, has not established an effective process to remediate security vulnerabilities, and has not developed an effective process to



upgrade IT capabilities. The OIG has issued management challenges recommending corrective actions in SBA's IT security and acquisition processes.

Risks Associated with the SBA's Oversight and Controls of Grants for Entrepreneurial Development

The SBA provides training, mentoring, and counseling services to small businesses through a variety of strategic partnerships. In its FY 2016 Budget submission, the SBA requested \$206 million in funding to support these training and assistance programs. The Office of Entrepreneurial Development (OED) oversees a network of programs and services that support the training and counseling needs of small business. The OED manages and leverages three major resources: small business development centers (SBDCs), SCORE, and women business centers (WBCs). Although each resource program's goals and target audiences may vary, they share a common mission: to provide business advice, mentoring, and training to small businesses and entrepreneurs. The SBDC program is the largest grant program in the Agency's portfolio. The OIG has identified problems with co-mingling SBDC grant funds with private-enterprise contributions and accounting for required matching funds. Some SBDCs are also co-located with WBCs, which makes it difficult to determine what services are associated with each grant program. In addition, having two grant programs delivering similar services increases the risk of duplicating services and contributes to government waste. A recent OIG review determined that SBA's internal controls did not detect an SBDC's non-compliance with statutory matching requirements for grant funding and other critical grant requirements ([Report 14-19](#)). In addition, for grants awarded under the Disaster Relief Appropriations Act of 2013, the OIG found that the SBA did not enhance its internal controls to ensure program goals were achieved and expenditures were allowable ([Report 15-15](#)).

Risks Associated with the SBA's Acquisition Program

The SBA spends approximately \$120 million annually to acquire goods and services to assist in carrying out its mission. The OIG has identified common risks in the SBA's acquisition program, primarily inadequate acquisition planning, poorly defined requirements, internal control deficiencies, an incomplete acquisition policy, and inadequate oversight that contributed to ineffective or inefficient results and increased costs. A recent OIG review determined that SBA personnel did not adequately plan for contracts and inconsistently evaluated vendor quotes while performing a best value determination. In addition, the SBA did not establish effective controls to manage the Agency's use of assisted acquisitions ([Report 16-05](#)). An OIG investigation recently found a possible improper relationship between an SBA employee and the president of an 8(a) and Historically Underutilized Business Zone (HUBZone) business regarding the award of an SBA contract, resulting in the employee's removal from his position. Additionally, in FY 2015, the SBA reported an estimated improper payment rate of 13.52 percent for disbursements for goods and services, which is a significant increase from last year's estimated improper payment rate of 8.46 percent. The OIG has issued a management challenge recommending corrective actions in SBA's acquisition processes.



OIG Oversight Activities

Through audits and other reviews, the OIG provides independent oversight of critical aspects of SBA's programs and operations to improve the Agency's efficiency and effectiveness. An important aspect of this work is identifying and following up on SBA's major management and performance challenges, as required by the Reports Consolidation Act. The OIG also supports the SBA's mission by detecting, investigating, and deterring fraud and other wrongdoing in the Agency's programs and operations. The OIG serves as a government-wide training resource for small business fraud and enforcement issues. These activities 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 programs because it helps ensure that the Agency's resources are utilized by those who deserve and need them the most.

FY 2015 Accomplishments

During FY 2015, the OIG issued 17 reports containing 80 recommendations for improving the SBA's operations and reducing fraud and unnecessary losses in the Agency's programs. In addition, OIG investigations resulted in 52 indictments/informations and 57 convictions. Overall, the OIG achieved monetary recoveries and savings of nearly \$134 million from recommendations that funds be put to better use agreed to by management, disallowed costs agreed to by management, court ordered and other investigative recoveries and fines, and loans or contracts not made as a result of investigations, and name checks. These results reflect more than a 6-fold ROI as compared to the resources that are available for OIG operations.

Following are summaries of some key reports, investigations, and activities that demonstrate the complex nature of the OIG's work and the importance to identifying more efficient and effective business practices. It is noted that OIG investigations often involve multiple subjects, large dollar losses, various joint agencies, and substantial restitution and forfeiture monies returned to the government.

Government Contracting and Business Development

- During FY 2015, the OIG continued its ongoing work to ensure only eligible firms receive small business set-aside contracts. A review of the SBA's Women-Owned Small Business (WOSB) Federal Contract program found that federal agencies' contracting officers awarded \$7.1 million in FY 2014 set-aside contracts to ineligible firms. The OIG determined that 10 of 34 WOSB set-aside awards were for ineligible work, and 9 of these 34 were awarded to firms that did not provide required documentation to prove they were eligible for WOSB awards. In addition to the 9 WOSB awards that did not have any documentation in the WOSB program repository, we identified that 13 of 25 firms uploaded some—but not all—of the required documentation to the repository necessary to prove their eligibility for the program. Additionally, 12 firms did not provide sufficient documentation to prove that a woman or women controlled the day-to-day operations of the firm. These firms, which received \$8 million, may be ineligible for their WOSB set-aside awards. ([Report 15-10](#))
- More than 100 officials from the federal oversight community attended the OIG's 2015 Small Business Procurement Fraud Seminar in April. Attendees represented around 50 oversight divisions, covering the majority of Small Business procurement dollars the federal government



spends. This seminar presented basic background information on small business procurement programs, identified typical fraudulent schemes, and then had break-out groups for investigators, auditors, and attorneys. Participants gave the training high marks. Ninety-seven percent of the participants returning an assessment rated the training as either “Excellent” or “Good”. Ninety-five percent would recommend the course to a co-worker. Eighty-nine percent affirmatively stated the course equipped them with sufficient knowledge to identify, develop, and pursue small business contracting violations, and a majority of participants returning the assessment noted that the course would make it more likely their office would pursue small business contracting violations.

Disaster Loans

- A review of the SBA’s evaluation of principal’s repayment ability for Hurricane Sandy business loans found that loan officers did not have guidance for performing the financial analysis to determine whether Hurricane Sandy business loan applicants had repayment ability. Because there was no guidance, loan officers used inconsistent methodologies when evaluating Hurricane Sandy business loans for repayment ability. We estimated that the SBA approved at least 530 Hurricane Sandy disaster business loans, totaling at least \$17.9 million, without sufficiently considering principals’ living expenses when determining repayment ability. Therefore, we believe that for those loans, the SBA did not have reasonable assurance that the borrowers had repayment ability, and these loans are at a higher risk of default. ([Report 15-05](#))
- In the wake of Hurricane Sandy, the SBA implemented two expedited loan processes: the Sandy Alternative Processing Pilot (SAPP), which streamlined the home loan process, and a modified Phase II method for EIDL loan processing. Both of these processes were intended to address a backlog of loan applications in the wake of Hurricane Sandy. The OIG found that the Agency’s home loan expedited process, SAPP, slightly reduced loan application processing time by loan officers and mitigated loan default risk. However, the expedited EIDL method for business loans did not result in any time savings. The OIG also found that the SBA incorrectly implemented the modified Phase II EIDL procedures in 15 loan applications, resulting in incorrect loan amounts. This was due to insufficient training for loan officers. ([Report 15-13](#))
- In the event of a disaster, multiple Federal, State, and local agencies and governments are often involved in providing disaster assistance. When agencies do not coordinate and ensure that one recipient is not receiving benefits from multiple agencies for the same purpose, there is a potential for overlap in funding. This overlap is considered a duplication of benefits. We reviewed the SBA’s controls to determine whether they adequately prevent duplication of benefits with community development block grants (CDBGs) administered by the Department of Housing and Urban Development (HUD). The SBA’s role to prevent duplication of benefits with HUD’s CDBG Program is to provide timely, accurate, and complete loan information to HUD grantees that administer the grants for HUD. We determined that the SBA’s internal controls to prevent duplication of benefits were adequately designed and generally working as intended. ([Report 15-14](#))



Business Loans and Lender Oversight

- An audit of the SBA's oversight of lender service providers (LSPs) found that the SBA will need to improve its internal controls to ensure LSPs' performance and conduct complies with SBA requirements. LSPs are deeply involved in all phases of a loans life cycle and the number of LSPs and their agreements with lenders have significantly increased in recent years. The OIG determined that the SBA had not adequately established a method to track LSP portfolio activities, and therefore could not adequately assess potential risks associated with LSP involvement in SBA loan programs. In addition, the SBA did not adequately investigate a number of potential violations of SBA policy by lenders and LSPs, such as a lack of approved agreements. ([Report 15-06](#))

- During FY 2015, the OIG issued two reports highlighting the continued efforts of its High-Risk 7(a) Loan Review program. In March 2015, the OIG issued the first report ([Report 15-09](#)). In this report, the OIG reviewed seven early-defaulted loans, and identified material lender origination and closing deficiencies that justified denial of the guaranty for three loans totaling \$1.8 million. Two of the three loans with material deficiencies financed change-of-ownership transactions. The OIG previously identified change-of-ownership transactions as high-risk. The OIG also identified material lender underwriting deficiencies (i.e., repayment ability) in all three loans. In addition, the National Guaranty Purchase Center quality control team reviewed one of the three loans during the purchase review process, but did not identify any material deficiencies with the loan. Further, this same loan was included in the SBA's FY 2014 review of improper payments, and was not identified as an improper payment. In September 2015, the OIG issued the second report ([Report 15-17](#)), which provided an update on our oversight activities of the High-Risk 7(a) Loan Review Program from April 2015 to September 2015. The report disclosed the OIG identified potential material lender noncompliance with SBA requirements on two high-dollar/early-defaulted loans and our intent to present our findings to SBA management in a future report for appropriate action. This report highlighted one loan that was referred to our Investigations Division due to suspicious activity and another loan referred to SBA management for appropriate action.

- An audit of the SBA's oversight of loan agents confirmed that loan agent tracking and enforcement continues to be one of the SBA's Top 10 Management Challenges. The OIG found that while loan agents play an important role within SBA lending, these third-party relationships have resulted in SBA program loss and risk. Since 2005, the OIG has investigated at least 22 cases with confirmed loan agent fraud totaling at least \$335 million. Further, our analysis determined that loan agents were involved in approximately 15 percent of all 7(a) loans and resulted in increased risk of default. The OIG determined that the quality of the SBA's loan agent data was poor and materially incomplete. Further, although previously recommended in 1998, the SBA had yet to establish effective controls over the tracking and monitoring of loan agent performance and, therefore, could not adequately assess potential risks or identify problem agents. Finally, the SBA had not established a method to track loan agents and their compensation on 504 loans. The OIG recommended nine actions that will help strengthen the SBA's oversight of loan agents and their relationships with SBA lenders. ([Report 15-16](#))



Entrepreneurial Development

- The Disaster Relief Appropriations Act of 2013 gave the SBA's Office of Entrepreneurial Development \$19 million to provide technical assistance to small businesses' recovering from Hurricane Sandy. The OIG focused on the two largest recipients, the New York Small Business Development Center (NYSBDC) and the New Jersey Small Business Development Center (NJSBDC), which together received \$12.6 million of the \$19 million appropriated for Hurricane Sandy technical assistance grants. For Phase I, the NYSBDC and NJSBDC faced challenges in operating under an initial aggressive 6-month timeline, while delivering an increased level of technical assistance services supported by multiple funding sources. For Phase 2, both SBDCs may not meet their goals for long-term resiliency as several of the SBDCs' goals lagged behind schedule, with \$6.6 million remaining to be spent by August 2015. Both SBDCs faced challenges with attracting technical assistance clients and spending Sandy funds concurrent with funds from other grants, including residual Phase I funding. ([Report 15-15](#))

Preventing and Reducing Improper Payments

- The OIG annually evaluates the SBA's compliance with the Improper Payments Elimination and Recovery Act (IPERA) requirements. Our objectives were to (1) assess progress made by the SBA to remediate improper payment-related recommendations, and (2) determine whether the SBA complied with IPERA reporting requirements using guidelines outlined in the Office of Management and Budget (OMB) Memorandum M-15-02, Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*. Overall, we found the SBA continued to make progress in its efforts to prevent and reduce improper payments but still needs to improve the effectiveness and development of SBA improper payment controls and processes for Hurricane Sandy disaster relief grants and 7(a) loan guaranty purchases. Specific areas include the accuracy of the reported improper payment rates and completeness of test plans. The OIG's review found that the SBA was not compliant with IPERA reporting requirements in accordance with OMB Memorandum M-15-02 because the improper payment rate for the disaster assistance loan disbursements exceeded the 10 percent threshold, and 7(a) guaranty loan approvals did not meet their annual reduction target. ([Report 15-11](#))

Improving IT Systems and Controls

- The Federal Information Security Management Act (FISMA) requires that the OIG review the SBA's Information Technology Security Program. This review found that the SBA continues to progress in certain FISMA evaluation categories. However, the SBA still needs to implement 32 longstanding open recommendations and related unresolved vulnerabilities in the SBA's FISMA areas. Until the SBA takes steps to address these longstanding weaknesses in its IT systems and control structures, the Agency will be at risk of data loss or system penetration. ([Report 15-07](#))
- In a review of the SBA's separation controls and procedures, the OIG found that existing separation controls were not effectively followed. These controls include deactivating network accounts within 24 hours of separation and collecting federal property from separated personnel. The OIG's analysis of network accounts identified 73 active accounts that should have been deactivated when the personnel separated from the SBA. Two of these accounts were accessed after the personnel had separated from the Agency. ([Report 15-12](#))



Periodic Monitoring and Oversight of the Loan Management and Accounting System project

- The Loan Management and Accounting System (LMAS) Incremental Improvement Projects (IIPs) are a series of focused and cost-effective IT projects intended to upgrade existing financial software and application modules in the SBA's Loan Accounting System. The OIG monitored progress related to the individual LMAS IIPs and assessed if management actions complied with related federal guidance. The OIG also determined whether the SBA complied with federal IT investment controls, and whether the governance mechanisms that monitor IT capital investments were effective. During FY2015, the SBA successfully completed its remaining IPP encompassing the migration of financial data off a mainframe COBOL production environment to a Micro Focus COBOL software server based environment. ([Report 16-07](#))

Investigative Actions

- Alabama Man Sentenced for Loan Fraud and Contracting Schemes. An investigation resulted in an Alabama man being sentenced to 108 months of confinement for wire fraud, making false statements on loan and credit applications, and money laundering. He was also sentenced to a concurrent term of 24 months of confinement for making false statements to the SBA. In addition, the man was ordered to serve 36 months of supervised release and forfeit \$1,019,760 to the United States. This case originated from information provided by Internal Revenue Service (IRS) Criminal Investigation (CI) and involved both the 8(a) program and an SBA loan. The man and his company had failed to file tax returns from 2002 through 2009. He admitted to providing false and unfiled tax returns to a bank to secure an SBA-guaranteed loan and to the SBA itself to obtain and maintain his firm's 8(a) certification. Consequently, a \$300,000 line of credit was approved, and an outstanding balance of \$80,876 was eventually charged off. A review of the SBA 8(a) file for the firm revealed that the man submitted false and unfiled corporate and personal tax returns with the initial application for 8(a) certification in June 2003 and with annual updates through September 2008. As a result, his firm received 22 8(a) set-aside contracts and task orders worth \$14,187,084 in payments.
- Elaborate 7(a) Fraud Scheme Results in \$1.6 Million in Restitution. A California man was sentenced to 6.5 years in federal prison and 5 years of supervised release for his involvement in fraudulently obtaining SBA 7(a) guaranteed loans. He was also ordered to pay \$1.6 million in restitution, of which \$930,000 will be paid to the SBA. He previously pled guilty to mail fraud, bank fraud, and wire fraud. A co-conspirator who had pled guilty to mail fraud was sentenced to 6 months of home detention and 3 years of supervised release, and was ordered to pay restitution of \$210,000 and to participate in mental health treatment. The investigation found that the California man orchestrated a scheme in 2006 and 2007 to defraud a financing corporation, which provided a \$4.5 million loan for the purchase of a gas station. He was unable to obtain the loan himself because of his poor credit rating, history of being sued by creditors, and failure to pay judgments. Accordingly, he created a shell corporation, recruited an unemployed truck driver to act as a "straw buyer" by posing as the owner of the shell company, and applied for the loan in its name. The man and a co-conspirator included false information in the loan application about the straw buyer's experience and assets. He and a co-conspirator also falsely advised that a \$600,000 equity down payment had been used for the purchase, when no down payment had been made. During this scheme, he worked with his wife, his step-daughter, a business associate,



and others. After obtaining the financing corporation loan, the man coordinated a scheme to defraud a bank. He formed another shell corporation, installed his wife as owner, and had the new shell corporation purchase the gas station. He then had his wife and step-daughter apply to the bank for a loan to refinance the purported debt one shell company owed the other, without disclosing that they controlled both companies. The bank was provided false information about both his wife's credit history and a \$600,000 deposit. The man and his family used the bank loan proceeds and money from the gas station to pay personal expenses, including luxury items. The shell corporations defaulted on the financing corporation and bank loans, causing losses to each financial institution. SBA lost nearly \$1 million. After the man was charged, he, his defense attorney, and his step-daughter engaged in a similar plot to defraud a small business lending firm. The man and his attorney recruited a straw buyer and former attorney to pose as the owner of a new shell corporation and to apply for \$4.5 million in loans to finance the purchase of two California gas stations. This scheme also involved providing false information about the straw buyer's experience and assets and falsely stating that there were \$2.1 million in down payments, while overstating the businesses' sale prices. The lending firm funded the 7(a) loans. From the loan proceeds, the man and his family received nearly \$300,000; the defense attorney received \$250,000; and the former attorney received \$100,000. Over the next 6 months, the man and his family used the loan proceeds and substantial funds from the gas stations for personal expenses, as they defaulted on the loans from the small business lending firm. This was a joint investigation with the FBI.

- Defense Contracting Kickbacks Uncovered. As a result of a complex, multi-agency investigation, a former U.S. Department of Defense supervisor for the construction and service contracts branch at a Navy and Marine base in California was sentenced to 24 months in prison and supervised release for 2 years. He was also ordered to forfeit \$106,964 from illegal proceeds. He had been convicted of bribery of a public official and conspiracy to bribe public officials. The sentencing related to a scheme involving bribery and kickbacks at the base. From 2008 to 2011, the supervisor, who called himself the "godfather" of the base, accepted over \$100,000 in bribes from two former 8(a) prime construction contractors in San Diego. The bribe payments were made to the supervisor with the understanding that their respective businesses would be awarded 8(a) contracts. In addition to the bribe payments, the two 8(a) contractors did free remodeling work at a property owned by the supervisor. The investigation, in which nine individuals have been sentenced thus far, is being conducted jointly with the FBI, Naval Criminal Investigative Service, IRS CI, Defense Criminal Investigative Service, and General Services Administration OIG.
- Texas Women Sentenced for Conspiracy to Commit Bank Fraud. Two Texas women were sentenced after having pled guilty to conspiracy to commit bank fraud. The first woman was sentenced to 27 months in federal prison and 2 years of supervised release and was ordered to pay \$4.2 million in joint restitution with the co-defendant. The second woman (the co-defendant) was sentenced to 18 months in federal prison and 2 years of supervised release. The women and a man previously had been indicted for conspiracy to commit bank fraud, bank fraud, and aiding and abetting. In 2007, the second woman applied for and received a \$1.85 million SBA 7(a) loan to purchase a laundromat from a company affiliated with the first woman. In 2008, the second woman applied for and received two commercial loans totaling \$1.33 million to purchase land from companies affiliated with the first woman. During the loan process, the two women and the man conspired to defraud the SBA and two banks to gain loan approval and receive funds. On the loan applications and during conversations with bank personnel, the three individuals



misrepresented the second woman's assets and the source of her equity injection and down payment funds. This is a joint investigation with the FBI.

Additional information on the OIG's accomplishments are provided in the Statistical Highlights section of this document and in the OIG's [Fall 2015 Semiannual Report to Congress](#).

FY 2016 and 2017 Planned Performance

During FY 2016 and 2017, in addition to conducting audits and reviews that are required by statutes and other directives, the OIG will continue to focus on the most critical risks facing the SBA. Several areas of emphasis are discussed below.

Financial Assistance

The SBA paid guaranty claims totaling \$1.3 billion FY 2014 and \$1.1 billion in FY 2015 for defaulted 7(a) loans and 504 debentures. Some of the SBA's losses correlate to similar root causes reported in the mortgage industry, such as limited SBA oversight of lenders and loan agents, poor lender loan processing, unscrupulous borrowers, and complicit brokers and lenders.

The OIG will continue to address financial losses in the SBA's lending due to lender errors and various fraud schemes. The OIG's Early Defaulted Loan Review Group will continue to perform in-depth analyses of loans that default within approximately 18 months of final disbursement. When lender negligence is found, this group will recommend non-payment of the guaranty (or recovery if the guaranty is already paid). The OIG will also target the most offending lenders to attain corrective actions and identify trends for operational improvement by the SBA. When the OIG identifies suspected fraud, those loans will be investigated.

The OIG will continue to focus on detecting fraud committed by loan agents, such as packagers and brokers. A loan agent is sometimes hired by an applicant or lender to assist the applicant in obtaining an SBA loan. Although honest loan agents help small businesses gain access to capital, some dishonest ones have perpetrated fraudulent schemes involving tens of millions of dollars in loans. These fraudulent loans often default for non-payment, and the SBA is forced to use taxpayer funds to purchase the guaranteed portions of the loans. A recent joint investigation resulted in a loan broker being ordered to pay over \$1.1 million in restitution and being sentenced to time served and 36 months of probation. The broker was involved with a group of Korean nationals that had obtained credit cards and loans by using false identities, documents, and business names. Most of the 275 loans identified, totaling approximately \$19 million, were SBA loans, with the majority of them having defaulted.

The OIG will also continue to conduct audits of the SBA's internal loan program operations and oversight, including audits of the SBA's loan origination, servicing, and liquidation processes, as well as audits of the SBA's oversight of loan agents and loan officers. Past work has shown that loans were not always properly originated and that effective controls and procedures were not in place to prevent improper payments.

The SBA is moving to an all-electronic application and processing system in the 7(a) loan program. The OIG will include this module in its FISMA evaluation scope to ensure that IT security is maintained.



Government Contracting and Business Development

The SBA directs significant efforts toward helping small businesses obtain federal contracts and providing other business development assistance. The SBA's Office of Government Contracting and Business Development is tasked with helping small businesses obtain federal contracting opportunities and helping small, disadvantaged, veteran-owned, and women-owned businesses build their potential to compete more successfully in a global economy. During FY 2016 and 2017, the OIG will focus on the SBA's oversight of—and current issues affecting—government contracting and business development programs, including investigating allegations that ineligible companies are fraudulently benefitting from these programs.

As of the end of FY 2015, the OIG had 95 open government contracting cases, with potential dollar losses of over \$4 billion based on the total dollar value of the contracts. The funding requested for FY 2017 will allow the OIG to continue investigating fraudulent schemes that take improper advantage of the SBA's contracting assistance programs. In particular, the OIG has experienced a significant increase in the number of *qui tam* cases that are brought by private-sector whistleblowers alleging fraud in the SBA's small business and socio-economically disadvantaged contracting programs in the past 5 years. Although these cases were relatively rare 5 years ago, the OIG is currently expending considerable resources to investigate and assist with the government's prosecution of an average of 25 active cases on an ongoing basis. In light of the fact that all *qui tam* actions filed with the government between FY 2008 and FY 2013 nearly doubled, the OIG expects this number to increase through FY 2017. For example, during FY 2015, 6 new *qui tam* cases were opened.

Aside from these issues, there are other reasons to be concerned about government contracting programs.

- There is a high level of congressional interest in the government meeting its small business contracting goals. The OIG will continue to assess whether the SBA is taking adequate steps to ensure the integrity of small business contracting. The OIG's work will focus on issues such as the accuracy of reporting small business contract activity, the classification of large businesses as small, adherence to regulations to protect small businesses, training of government contracting personnel, deterring fraudulent acquisition of government contracts, and bundling of contracts.
- The Section 8(a) Business Development program continues to be susceptible to major vulnerabilities. These include limited program oversight; inequitable distribution of contracting opportunities among participants; a lack of reasonable, measurable, consistent, and mandatory criteria pertaining to economic disadvantage; a lack of implemented criteria defining business success for purposes of program graduation; failure to study the long-term effects of the program on former participants; and misrepresentation by companies as small, minority-owned, or disadvantaged businesses to gain an unfair advantage in the federal marketplace. The OIG will continue to review these issues and the SBA's management of the Section 8(a) program. The OIG is currently conducting an audit and a number of fraud investigations relating to the Section 8(a) program and will continue to devote resources to these investigations in FY 2017.
- The HUBZone program provides federal contracting assistance to small businesses located in economically distressed areas with the intent of stimulating economic development. The Service-Disabled Veteran-Owned Small Business (SDVOSB) program provides more opportunities in federal contracting for disabled veterans who own small businesses. The GAO has identified



significant control weaknesses in these programs that have allowed ineligible firms to receive millions of dollars in contracts. Accordingly, the SBA implemented a more rigorous HUBZone certification and recertification process in the hopes of preventing ineligible firms from achieving certification. However, in a recent review of the HUBZone certification process, the OIG found that 12 firms certified into the program, including 3 ineligible ones, received 94 percent (\$34.9 million) of federal contract dollars awarded during a 6-month period in 2012, even though 367 firms were certified during that period. The OIG is currently investigating numerous fraud cases under the HUBZone and SDVOSB programs and will continue to pursue prosecution, civil fraud recovery, and debarment of contractors who improperly obtain HUBZone, SDVOSB, and other preferential contracts.

- The WOSB Federal Contract program provides greater access to federal contracting opportunities for WOSBs and economically-disadvantaged WOSBs (EDWOSBs). The program allows contracting officers to set aside specific contracts for certified WOSBs and EDWOSBs and will help federal agencies achieve the existing statutory goal of 5 percent of federal contracting dollars being awarded to WOSBs. To encourage an increase in WOSB and EDWOSB contract awards, the National Defense Authorization Act (NDAA) for 2013 removed the caps on the contract award size for which WOSB and EDWOSB concerns have been able to compete. In FY 2014, the federal government awarded approximately \$17.2 billion, or 4.7 percent of federal contracting dollars, to businesses in the WOSB program. Similar to other federal government programs, WOSB and EDWOSB contracting may be vulnerable to fraud and abuse. False or incorrect WOSB self-certifications may be a significant government-wide problem, according to an [audit report](#) issued by NASA's OIG and the SBA OIG ([Report 15-10](#)). The National Defense Authorization Acts (NDAA) for FY 2013 and 2015 made major programmatic changes to the WOSB the program. Specifically, the FY 2015 Act will (1) grant contracting officers the authority to award sole-source awards to WOSBP firms, (2) remove firms' ability to self-certify, and (3) require firms to be certified. These mandates will considerably increase the SBA's oversight role. The SBA has opted to implement the sole-source authority provision first—separate from a certification program. We believe allowing sole source contracting authority in WOSBP, without implementing the contemporaneously required certification program, is inconsistent with the SBA's statutory authorization and exposes the program to abuse. Absent a certification program, the Government is more likely to award WOSBP contracts to ineligible firms. The SBA OIG plans to continue monitoring the SBA's implementation of these changes to the WOSB program.
- The OIG has conducted a number of fraud investigations involving the mentor/protégé programs under the Section 8(a) program. The SBA is in the process of implementing a statutory mandate by issuing regulations that will expand mentor-protégé programs to other disadvantaged contractors and these regulations are anticipated to be issued prior to FY 2016. The Agency did accept a number of OIG recommendations to revise these regulations to limit the opportunity for fraudulent acquisition of government contracts. Nevertheless, the OIG anticipates that these expanded programs will create opportunities for additional fraud by large, non-disadvantaged contractors, and that greater OIG resources will need to be devoted to investigating this fraud.

Financial Management and Information Technology

The OIG will continue to oversee the audits of the SBA's financial statements, as well as FISMA and Federal Information Systems Controls Audit Manual (FISCAM) reviews, which are conducted by an



independent public accountant under a contract with the OIG. The OIG and the Agency completed the contract solicitation for the FY 2016 audit. The scope and complexity of the audit may increase as a result of growing direct and guaranteed loan portfolios and as the Agency implements guidance prescribed in the Digital Accountability and Transparency Act (DATA).

The OIG will provide oversight and monitoring of the SBA's IT security and application development activities, including new systems under development and the Agency's compliance with FISMA. The scope of the FISMA evaluation is anticipated to expand as the OIG evaluates Agency progress in implementing initiatives designed to strengthen and enhance federal cybersecurity. The OIG and the Independent Public Accountant (IPA) have previously identified systemic problems with security controls over the SBA's IT systems and this area remains one of the most serious management challenges facing the Agency.

The OIG also will continue to monitor systems development activities related to improvements to financial and program related systems as well as investments in cloud computing. The OIG's efforts will include determining whether adequate system development lifecycle and related capital investment controls are in place and effectively monitored. We will also evaluate cloud computing investment controls to include the SBA's oversight of cloud service providers, and related data that resides within its cloud systems. Specific areas of focus will encompass adequacy of service level agreements, data preservation responsibilities, audit and investigative access to data, and accuracy of cloud inventories.

The OIG also will continue its mandated reviews of the SBA's compliance with IPERA and cash gifts acceptance and reporting guidelines.

Disaster Assistance

OIG audits will continue to focus on loan origination, disbursement, repayment, servicing, and liquidation activities related to disaster loans. In October 2012, Hurricane Sandy struck the northeastern United States. It was the second costliest storm in U.S. history. The OIG will investigate and audit disaster loans made in the aftermath of Hurricane Sandy to prevent and minimize losses in this program. Such audits will assess whether the SBA processed homeowner and business loans in accordance with the Agency's procedures and established goals, verified uses of loan proceeds before loans were fully disbursed, and appropriately identified duplicate benefits.

The OIG will also continue to investigate allegations of unauthorized use of loan proceeds; overstatement of financial losses, material false statements in the application process, false or counterfeit supporting documentation, and false assertions regarding primary residency in affected areas at the times of the disasters. As of the end of FY 2015, the OIG had 29 open cases involving disaster loans with potential dollar losses of nearly \$6.6 million.

In response to the potential for fraud following Hurricanes Katrina, Wilma, and Rita, the OIG joined other law enforcement organizations in establishing the National Center for Disaster Fraud. From FY 2006 through FY 2015, the OIG, in conjunction with other law enforcement agencies, produced 86 arrests, 97 indictments/informations, and 96 convictions related to wrongdoing in the SBA's Disaster loan program for these three hurricanes. Investigations for these disasters to date have resulted in over \$6.6 million in court-ordered restitution and related recoveries, as well as the denial of nearly \$4.5 million in loans to potentially fraudulent borrowers.



In response to the potential for fraud following Hurricanes Sandy, the OIG joined other law enforcement organizations in support of the New Jersey Attorney General's Office Sandy Fraud Task Force. From FY 2013 through FY 2015, the OIG, in conjunction with other law enforcement agencies, produced 22 indictments/informations and 13 convictions related to wrongdoing in the SBA's Disaster loan program for Hurricane Sandy. The first OIG Sandy investigation was opened in May 2014. Subsequently, the OIG has had a total of 33 Sandy investigations, totaling over \$4.6 million in potential fraud. As of the end of FY 2015, the OIG had 12 Sandy cases open with potential fraud totaling nearly \$1.5 million.

Entrepreneurial and Veterans Business Development

During FY 2016 and 2017, the OIG will focus on SBA oversight of and current issues affecting entrepreneurial and veterans business development programs, with emphasis on Hurricane Sandy recovery technical assistance grants awarded to SBDCs and SCORE Association and the Boots to Business (B2B) program. The Disaster Relief Appropriations Act of 2013 gave the SBA's Office of Entrepreneurial Development \$19 million to provide technical assistance to small businesses recovering from Hurricane Sandy. An audit of the two largest Hurricane Sandy technical assistance grant recipients, which together received \$12.6 million of the \$19 million, determined that recipients faced challenges in operating under an initial aggressive 6-month timeline, while delivering an increased level of technical assistance services supported by multiple funding sources. As of March 31, 2015, several of the recipients' goals lagged behind schedule, with \$6.6 million remaining to be spent by August 2015 ([Report 15-15](#)). In FY 2014, the SBA awarded a \$3 million grant—with an anticipated 2 option years and \$3 million in funding for each option year—to provide entrepreneurial development training to transitioning service members through the B2B program administered by the Office of Veterans Business Development. The OIG has an ongoing audit of the B2B program.

Acquisition Process

The OIG's audits will continue to focus on the SBA's compliance with federal contracting regulations and its policies and procedures over IT systems acquisition and project oversight. The OIG's efforts will include determining whether the SBA's acquisition strategy to use assisted acquisition services to acquire IT support is the most economical and in the best interest of the SBA.

Agency Management Challenges

As required by the Reports Consolidation Act, the OIG annually develops the [Report on the Most Serious Management and Performance Challenges Facing the SBA](#). The management challenges focus on areas that are particularly vulnerable to fraud, waste, error, and mismanagement, or otherwise pose a significant risk and generally have been the subject of one or more OIG or GAO reports. The OIG will continue to identify and report serious management challenges facing the SBA and will work throughout the year with Agency management to resolve identified issues as quickly and efficiently as possible.

Security Operations

The OIG's Office of Security Operations will continue processing name checks and, where appropriate, fingerprint checks to ensure that applicants meet certain character standards before participating in programs involving business loans, disaster assistance loans, Section 8(a) certifications, surety bond



guarantees, SBICs, and CDCs. As a result of OIG referrals during FY 2015, SBA's business loan program managers declined 23 applications totaling over \$13.3 million, and disaster loan program officials declined 27 applications totaling nearly \$900,000, due to character issues of loan applicants. In addition, the Section 8(a) program declined 15 applications for admission and the Surety Bond Guaranty program declined 1 application for admission during FY 2015. From FY 2008 through FY 2015, nearly \$218 million in loans have been declined due to character problems identified by the OIG, thereby making credit and SBA assistance available to other applicants with no such issues. The OIG will also perform required employee background investigations to achieve a high level of integrity in the Agency's workforce and adjudicate OIG employees and contractors for issuance of PIV cards pursuant to HSPD-12 background investigation requirements.

OIG Hotline

The [OIG Hotline](#) processed 486 complaints during FY 2015. Hotline staff conduct a preliminary review and analysis of all complaints received to determine the appropriate course of action. The OIG Hotline is staffed by OIG employees who process and analyze allegations of waste, fraud, abuse, or serious mismanagement in the SBA or its programs from employees, contractors, and the public. As part of the hotline process, staff may coordinate reviews of allegations within the OIG, Investigations, Auditing, Counsel, and SBA program offices, or other governmental agencies. The majority of hotline complaints are submitted through an online complaint submission system located on the OIG's website. Those who report information can do so openly, anonymously, and confidentially, without fear of reprisal.

Pursuant to the Whistleblower Protection Enhancement Act of 2012, the OIG has designated a [Whistleblower Protection Ombudsman](#) within the hotline function to educate SBA employees about prohibitions on retaliation for whistleblowing, as well as employees' rights and remedies if anyone retaliates against them for making a protected disclosure. In addition, the National Defense Authorization Act of 2013 extended whistleblower protections to government contractors, subcontractors, and grantees. These provisions may result in the OIG Hotline receiving an increased number of complaints.

Review of Proposed Regulations and Initiatives

As part of the OIG's proactive efforts to promote accountability and integrity and reduce inefficiencies in SBA programs and operations, the OIG reviews changes that the SBA is proposing to make to its program directives such as regulations, internal operating procedures, policy notices, and SBA forms that are completed by lenders and the public. Frequently, the OIG identifies material weaknesses in these proposals and works with the Agency to implement recommended revisions to promote controls that are more effective and deter waste, fraud, or abuse. During FY 2015, the OIG reviewed 129 proposed revisions of program management or SBA reorganization documents and provided comments on 72 of these.

Debarment and Administrative Enforcement Actions

As a complement to criminal and civil fraud investigations, the OIG continually promotes the use of suspensions, debarments, and other administrative enforcement actions as a means to protect taxpayer funds from those who have engaged in fraud or otherwise exhibited a lack of business integrity. The OIG regularly identifies individuals and organizations for debarment and other enforcement actions and



submits detailed recommendations with supporting evidence to the responsible SBA officials. The OIG also supports actions at other federal agencies through training and direct case assistance. During FY 2015, the OIG sent 74 suspension and debarment referrals to the SBA and was involved with 25 actions other agencies pursued. Most OIG administrative referrals involve the abuse of SBA's loan and preferential contracting programs. When appropriate, the OIG recommends that the SBA suspend the subject of an ongoing OIG investigation given program risk presented by the continued participation of those individuals and entities.

Training and Outreach

The OIG will continue to conduct training and outreach sessions on topics related to fraud in government lending and contracting programs. During FY 2015, the OIG provided 28 presentations for more than 1,067 attendees, including SBA and other government employees, lending officials, and law enforcement representatives. Topics included types of fraud, fraud indicators and trends; how to report suspicious activity that may be fraudulent; suspension and debarment, the Program Fraud Civil Remedies Act, and other topics related to deterring and detecting fraud in government lending and contracting programs. During FY 2015, the OIG hosted an in-depth presentation on preparing Program Fraud Civil Remedies Act referrals and coordinated the 2015 Small Business Procurement Integrity Seminar previously discussed. The OIG also provides substantial instructional support to the Council of Inspectors General on Integrity and Efficiency (CIGIE) Training Institute in both the criminal investigator and audit, inspection, and evaluation groups.



Reporting Requirements Under the Inspector General Reform Act of 2008

The following information is provided in accordance with the Inspector General Reform Act of 2008, as amended (P.L. 110-409).

<i>Dollars in Millions</i>	FY 2015 Actual	FY 2016 Enacted	FY 2017 Initial Agency Submission	FY 2017 President's Budget
New Budget Authority	\$19.4	\$19.9	\$19.9	\$19.9
Transfer from Disaster Loan Program Account	1.0	1.0	1.0	1.0
Total	\$20.4	\$20.9	\$20.9	\$20.9

The OIG's FY 2017 budget request includes \$150,000 for training, which is sufficient to satisfy all training needs for the fiscal year, and \$42,000 for the operation of the Council of Inspectors General on Integrity and Efficiency (CIGIE).



FY 2015 Statistical Highlights

Summary of Office-Wide Dollar Accomplishments

As a Result of Investigations & Related Activities:	
– Potential Investigative Recoveries & Fines	\$61,002,352
–Asset Forfeitures Attributed to OIG Investigations	\$4,924,745
–Loans/Contracts Not Approved or Canceled as a Result of Investigations	\$38,659,800
–Loans Not Made as a Result of Name Checks	\$14,216,555
Investigations Sub-Total	\$118,803,452
As a Result of Audit Activities:	
–Disallowed Costs Agreed to by Management	\$3,591,516
–Recommendations that Funds Be Put to Better Use Agreed to by Management	\$11,441,309
Audit Sub-Total	\$15,032,825
TOTAL	\$133,833,277

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

Reports Issued	17
Recommendations Issued	80
Dollar Value of Costs Questioned	\$2,474,048
Dollar Value of Recommendations that Funds be Put to Better Use	\$9,141,309
Recommendations for which Management Decisions Were Made	84
Recommendations Without a Management Decision	17
Collections as a Result of Questioned Costs	\$2,561,955

Indictments, Informations, Convictions, and Other Case Actions

Indictments/Informations from OIG Cases	52
Convictions from OIG Cases	57
Cases Opened	78
Cases Closed	90



SBA Personnel Actions Taken as a Result of Investigation

Dismissals	1
Resignations/Retirements	0
Suspensions	0
Reprimands	0
Other	0

Program Actions Taken During the Reporting Period as a Result of Investigations

Suspensions and/or Debarments Recommended to the Agency	74
—Pending at the Agency as of September 30, 2015*	52
Suspensions Issued by the Agency	18
Proposed Debarments Issued by the Agency	30
Final Debarments Issued by the Agency	28
Proposed Debarments Declined by the Agency	0
Administrative Agreements Entered by the Agency in Lieu of Debarment	2
Suspension and Debarment Actions by Other Agencies	25

*These numbers are based on SBA actions reported to the OIG. The SBA did not, however, confirm the current state of several referrals in response to OIG queries. We have, therefore, included the numbers in this table based on the best information available, but caution the reader that the Agency may have made more progress than indicated.

Agency Legislative and Regulatory Proposals Reviewed

Legislation, Regulations, Standard Operating Procedures, and Other Issuances Reviewed	129
Comments Provided by OIG to Improve Legislation, Regulations, Standard Operating Procedures, and Other Issuances	72



OIG Organizational Structure

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

The **Auditing Division** performs and oversees audits and reviews to promote the economical, efficient, and effective administration of SBA programs and operations. Key areas of emphasis are the SBA's loan, disaster assistance, business development, and government contracting programs, as well as mandatory and other statutory audit requirements involving computer security, financial reporting, and other work. The balance of the engagements is discretionary and focuses on high-risk activities and management issues facing the 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 name checks and, where appropriate, fingerprint checks on program applicants to prevent known criminals and wrongdoers from participating in SBA programs. The security operations staff also 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 PIV cards pursuant to HSPD-12 background investigations requirements.

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

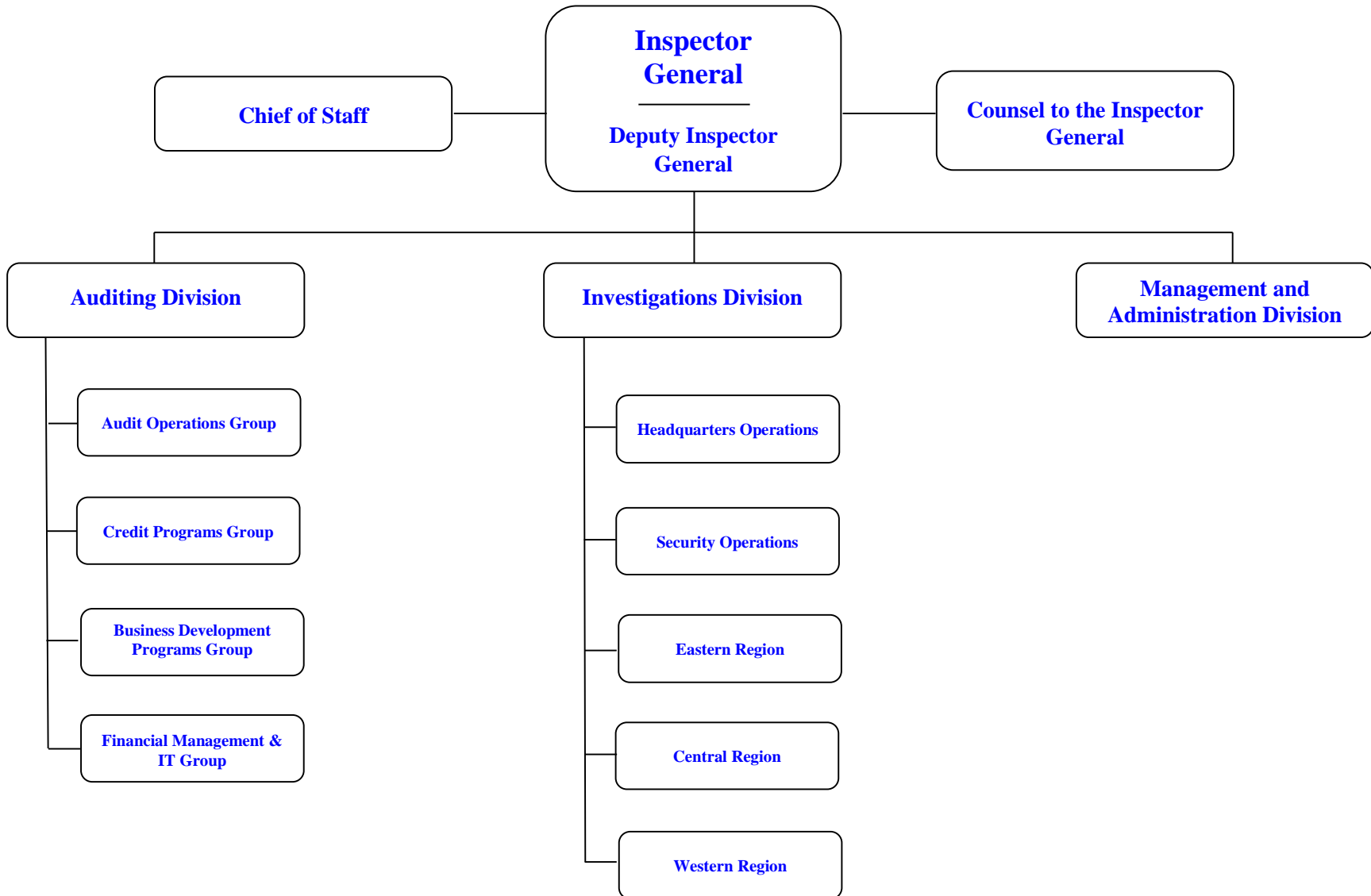
The **Office of Counsel** provides legal and ethics advice to all OIG components; represents the OIG in litigation arising out of or affecting OIG operations; assists with the prosecution of criminal, civil, and administrative enforcement matters; processes subpoenas; responds to Freedom of Information 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 the SBA or its programs from employees, contractors, and the public. A preliminary review of all complaints is conducted to determine the appropriate course of action. As part of the review process, hotline staff may coordinate reviews of allegations within the OIG, SBA program offices, or other governmental agencies.

An organizational chart for the OIG is provided on the next page.



Small Business Administration Office of Inspector General



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