# U.S. Small Business Administration

# Office of Inspector General

## FY 2018 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) Office of Inspector General (OIG) provides auditing, investigative, and other services to support and assist 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 2016, the OIG achieved nearly $145 million in monetary recoveries and savings—close to a 7-fold ROI.

The mission of 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. 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loans, procurement flaws that allow large firms to obtain small business awards, excessive improper payments, and outdated legacy information systems. 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.

For FY 2018, 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 2018, 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 2016, OIG investigations resulted in 45 indictments/informations, 41 convictions, and over $141.5 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 2016, the OIG issued 23 reports with 81 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 SBA's financial statements and report on the Agency's compliance with the requirements of the Digital Accountability and Transparency Act of 2014 (DATA Act).

- Provide oversight and monitoring of SBA's information technology (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 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 SBA or its programs from employees, contractors, and the public. (During FY 2016, the OIG Hotline received 1,041, 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.

- Pay for required employee background investigations to achieve a high level of integrity in the OIG'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 2016, the OIG provided recommendations to improve 52 of the 119 proposed revisions it reviewed.)

- Make present responsibility referrals that may result in debarments, suspensions, and other administrative enforcement actions to foster integrity in SBA programs. (During FY 2016, the OIG sent 75 suspension and debarment referrals to SBA and was involved with 6 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 2016, the OIG delivered 74 training and outreach sessions for approximately 1,717 attendees.)

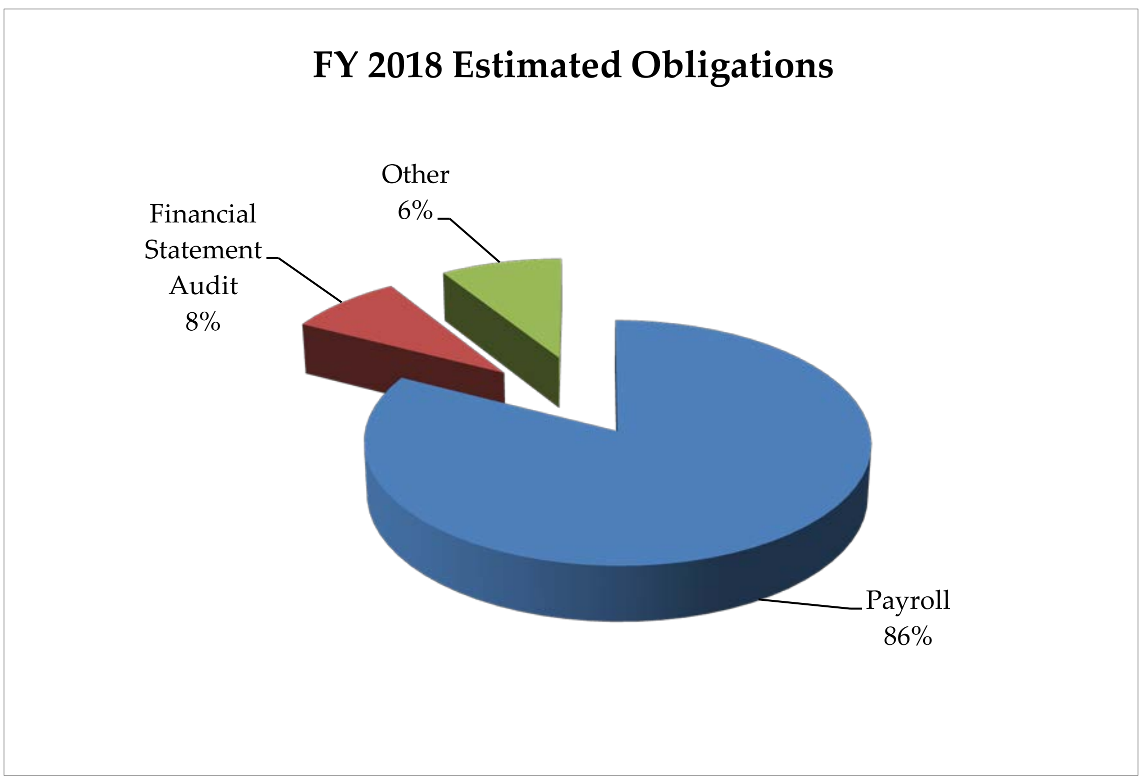
# Budget Request

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 2018—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 2018 Budget Request

| *Dollars in Millions* | FY 2016 Enacted | FY 2017 Annualized CR | FY 2017 Enacted | FY 2018 Request | FY 2018 Incr/Decr |
|---|---|---|---|---|---|
| New Budget Authority | $19.9 | $19.9 | $19.9 | $19.9 | $0.0 |
| Transfer from Disaster Loan Program | 1.0 | 1.0 | 1.0 | 1.0 | 0.0 |
| **Total** | **$20.9** | **$20.9** | **$20.9** | **$20.9** | **$0.0** |

The majority of the funds requested for FY 2018 will be used for salary and benefits for 102 Full Time Equivalent positions, as well as the cost of the annual audit of SBA's financial statements by an independent public accountant.



# Critical Risks Facing the SBA

Within available resources, the OIG must focus on the most significant risks to 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 in the SBA's Lending Programs

The 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, the 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 the OIG continues its work to identify risks and/or control weaknesses associated with 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. The OIG dedicates a significant portion of its resources to identifying wrongdoers and, whenever possible, recovering funds.

Through the Disaster loan program, 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. OIG and General Accountability Office (GAO) audits have identified that this program is vulnerable to fraud and 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 audits and investigations have identified specific instances of fraud as well as necessary systemic improvements to reduce fraud, provide effective and efficient loan delivery, and protect taxpayer dollars.

## 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 2015—the latest year for which information is available—the SBA reported that small and disadvantaged firms were awarded $90.7 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 a Federal court ordering the co-owner of a Massachusetts construction firm to forfeit $6,756,205 and serve 30 months in prison. He had previously been found guilty of conspiracy to defraud the United States and wire fraud after making false statements to several agencies about his firm's qualifications. The firm had received over $113 million in service-disabled veteran-owned small business set-aside contracts. In addition, 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 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. 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), the SCORE Association (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 privateenterprise 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 an SBDC's subcenters did not adequately document employees' time and effort on the grant (Report 16-06). 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 17-09) and (Report 17-10).

# 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 the 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 2016 Accomplishments

During FY 2016, the OIG issued 23 reports containing 81 recommendations for improving the SBA's operations and reducing fraud and unnecessary losses in the Agency's programs. In addition, OIG investigations resulted in 45 indictments/informations and 41 convictions. Overall, the OIG achieved monetary recoveries and savings of nearly $141.5 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 an almost sevenfold 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.

### *Business Loans and Lender Oversight*

- A review of SBA's 504 loan liquidation process showed management and monitoring of the 504 liquidation portfolio at the Commercial Loan Servicing Centers (CLSC) during FYs 2015 and 2016 was effective. Additionally, SBA CLSCs generally maximized recovery when liquidating the 504 loans we reviewed. While the SBA had established effective policies and procedures and had experienced staff managing its current 504 loan liquidation operations, we identified opportunities to improve the SBA's internal controls. Specifically, we determined that one CLSC had not developed a formal training plan for staff in accordance with established goals and procedures. We also determined that the internal policies and procedures for liquidating 504 loans were unique to and applied inconsistently at the centers. In addition, components of the information systems used by each center were developed independently and were not utilized uniformly. Without consistent implementation and application of policies and procedures over the 504 loan liquidation process, the CLSCs' effectiveness in liquidating 504 loans could result in loss to the Agency. Further, in the event of significant turnover or workload fluctuation at a given center, differences in operations could impact the Agency's ability to effectively reallocate resources to meet demand. The OIG recommended two actions that will help improve the SBA's internal controls over servicing and liquidating 504 loans. The Agency agreed with the OIG's findings and recommendations. (Report 16-23)

- An OIG report presented the results of our ongoing High Risk 7(a) Loan Review program from April 2015 to September 2016 and an overall summary of our work to date. Our review of eight early-defaulted loans identified material lender origination and closing deficiencies that justified denial of the guaranty for three loans totaling $3.2 million. To facilitate SBA's timely review and recovery of these payments, we formally issued separate reports on each loan that included detailed descriptions of the identified material deficiencies. We also identified suspicious activity on two purchased loans totaling $1.4 million, resulting in formal referrals to our Investigations Division.

  To date, four loans that had material lender deficiencies or indications of suspicious activity financed change of ownership transactions. In our judgment, change of ownership transactions continues to be an area of high risk for the SBA. Furthermore, four loans we formally reported on or referred to our Investigations Division were included in either the SBA's FY 2014 or FY 2015 reviews for improper payments. The SBA did not identify or report the improper payments totaling $4.5 million associated with these loans.

  The OIG recommended in the previous management advisory memorandums that the SBA require the lenders to bring the three loans into compliance or seek recovery of approximately $3.2 million. The SBA agreed with the recommendations and is working with the lenders. In this report, we recommended that the SBA evaluate the time National Guaranty Purchase Center loan specialists have to review complex early-defaulted loans involving change of ownership transactions. The SBA agreed with the recommendation. (Report 16-22)

- As part of the High-Risk 7(a) Loan Review program, the OIG issued an Advisory Memorandum to provide the SBA with early notification of issues identified during our review. Specifically, we identified a loan with material lender non-compliance with the SBA's loan origination and closing requirements. Specifically, the lender neither ensured SBA loan proceeds were used for an eligible purpose nor assessed the borrower's repayment ability and size in accordance with the SBA's requirements. As a result, we determined a recovery from the lender for the SBA's guarantee payment of $850,791 would be appropriate to cure the lender's material deficiencies on this loan. The Agency agreed with the recommendation to recover funds from the lender. (Report 16-19)

- A review of a $1.3 million 7(a) loan intended to acquire a limousine service identified that a 7(a) lender did not provide sufficient information to support that it approved the loan in accordance with the SBA's origination and closing requirements. Specifically, the lender did not inspect or adequately value the significant fixed assets for this limousine and transportation service business, resulting in increased losses to the SBA. The SBA has agreed to recover the $299,318 guarantee payment from the lender to cure the lender's material deficiencies on this loan. (Report 16-08)

- The OIG identified that another 7(a) lender did not provide sufficient information to support that it approved the loan in accordance with the SBA's origination and closing requirements. Specifically, the lender did not comply with material SBA requirements regarding new construction of and improvements to an existing building. We also determined that the lender failed to address and mitigate adverse changes affecting both project control and the borrower's financial condition, compounding the risk to the SBA loan. As a result, the SBA has agreed to recover from the lender the $2 million guarantee payment to cure the lender's material deficiencies on this loan. (Report 16-11)

### *Disaster Loans*

- Hurricane Sandy struck the East Coast of the United States in October 2012, causing approximately $67 billion in damage. As of November 2013, the SBA had approved and disbursed 19,295 loans, totaling approximately $758 million; 501 of these loans had defaulted by April 2015. A review of Early Defaulted Hurricane Sandy Disaster Loans found that despite the relatively low early default rate of Hurricane Sandy loans compared to other disasters, 17 of the 21 loans reviewed were approved without verifying borrowers' eligibility or were made to borrowers that lacked creditworthiness or repayment ability. We statistically projected our sample results to the universe of early-defaulted loans and determined with 95 percent confidence that at least 361 of the 501 early-defaulted loans, valued at $4.3 million, were not approved in accordance with SBA or other Federal requirements. The most prevalent area of concern we observed was borrower creditworthiness as the majority of loans in our sample were made to borrowers with unsatisfactory credit histories. We also determined that the Office of Disaster Assistance could improve its disaster loan portfolio risk analysis process to reduce the early default rate. We made recommendations to clarify creditworthiness guidance; train employees to adequately determine borrower eligibility, creditworthiness, and repayment ability; and improve portfolio risk analyses. (Report 16-18)

### *Entrepreneurial Development*

- The SBA awarded about $1.9 million to the Tennessee SBDC (Lead Center) hosted by Middle Tennessee State University for calendar year 2013. An OIG review found the Lead Center generally complied with grant requirements for reporting, budget management and control, and its Federal expenditures and matching contributions were, in general, properly authorized, classified, supported, and charged to the grant. However, a significant portion of the personnel expense transactions that we tested did not sufficiently document the actual time personnel spent working on the grant (of the $1.9 million that SBA awarded to the Lead Center, the approved budget designated nearly $1.2 million to be used for personnel costs). For every dollar that lead centers receive from the SBA, SBDCs must provide a dollar-for-dollar match. Because employees' time and effort spent on the grant counted towards the Lead Center and subcenters' required match, if this time and effort was overstated, the match could also be overstated. The SBA plans to implement both recommendations that we made. (Report 16-06)

- In 2012, the SBA provided Syracuse University $450,000 to develop a new, pilot veteran's assistance program, called the Boots to Business (B2B) program. In February 2014, the SBA announced the B2B program as a full program and posted the announcement on Grants.gov. SBA staff retrieved 10 eligible applications from the system and eventually selected Syracuse University for the $3 million grant. We found that SBA's program announcement included a process to evaluate B2B grant applications. However, reviewers responsible for evaluating and scoring applications did not consistently follow this evaluation guidance. Additionally, although officials in the Office of Veterans Business Development (OVBD) met with the reviewers to discuss which applicant should be selected to receive the $3 million award, the SBA has no documentation rationalizing its final selection of Syracuse University. Because the SBA lacked such documentation, it could not demonstrate that it made a merit-based selection in awarding the grant. Overall, these issues may have been prevented if officials in the Office of Grants Management and OVBD had provided effective oversight, and the SBA had a current Standard Operating Procedure for grants management that (1) provided clear guidance on how to develop program-specific review criteria, (2) clearly defined the roles and responsibilities of grants and program personnel involved in the evaluation process, and (3) ensured grants and program personnel maintained a record of the evaluation process. The SBA implemented our four recommendations. (Report 16-12)

### *Improving IT Systems and Controls*

- FISMA requires that the OIG review SBA's information security program. This review found that the SBA continues to progress in certain FISMA evaluation categories, but still needs to implement 31 longstanding open recommendations and related unresolved vulnerabilities in the FISMA reporting areas (Report 16-10). Moreover, pursuant to *The Cybersecurity Act of 2015, Section 406, Federal Computer Security (Section 406),* the OIG evaluated whether the SBA designed and implemented effective internal controls over cybersecurity logical access and information security management. We selected a subset of personally identifiable information development and production systems and found that the Agency did not meet Federal standards relating to Section 406 of the Cybersecurity Act. The results of both the FISMA and Section 406 reports indicate that until the SBA takes steps to address longstanding weaknesses in its IT systems and control structures, the Agency will be at risk of data loss or system penetration. (Report 16-10) (Report 16-17)

- The OIG issued the DATA Act Readiness review to assess SBA's progress in meeting the requirements of the DATA Act. We found that SBA developed a project plan as prescribed by the eight key steps in Treasury's DATA Act Implementation Playbook. We further determined that the Agency has made significant progress implementing the initial steps of its project plan and identified two potential risk areas that may affect the Agency's ability to meet the DATA Act reporting requirements. (Report 17-05)

- The OIG issued Audit Report 16-16, *Weakness Identified During SBA's Office 365 Cloud Email* to determine whether SBA's email cloud migration to Office 365 followed applicable Federal guidance and standards, such as those outlined in FedRAMP. We identified multiple risk areas during the migration effort including the need for adherence to Federal email archive guidelines and improved reporting controls for all SBA IT investments on the Federal IT dashboard. (Report 16-16)

### *Preventing and Reducing Improper Payments*

- The OIG annually evaluates 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*. Our overall qualitative review showed that SBA continued to make progress in its efforts to prevent and reduce improper payments. The SBA published and posted its Agency Financial Report (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 2015 reporting, and published and met the annual reduction target for three of the applicable seven areas tested. (Report 16-15)

- The OIG also annually assesses the effectiveness of Agency controls over travel and purchase charge card programs in accordance with OMB Memorandum M-13-21, Implementation of the Government Charge Card Abuse Prevention Act of 2012. For FY 2016, we found SBA implemented most of the key internal controls and guidance to administer its travel and purchase charge card programs. (Report 17-07)

### *Agency Management*

- The OIG reviewed the SBA's procurement practices for contracts to acquire IT products and services. For FYs 2013 and 2014, the SBA obligated $161.7 million on new contract actions, of which $109 million (67 percent) were IT product or service contracts. We found that SBA personnel did not adequately plan for contracts and inconsistently evaluated vendor quotes while performing a best value determination for one contract. If these problems persist, the SBA will be unable to determine whether it is receiving its IT deliverables at fair and reasonable prices. In addition, for the six contracts awarded by the Department of the Interior's Interior Business Center (IBC) on behalf of SBA, the agency did not comply with Federal Acquisitions Regulation (FAR) requirements when determining whether using IBC was the best procurement approach. As a result, SBA spent over $600,000 in service fees to use IBC for the six contracts we reviewed. The SBA could incur an additional $1.3 million in contract services fees if the six contracts are fully exercised. We also found that SBA funded 8 of the 12 contracts—with a total estimated value of $64.3 million—using a variety of SBA appropriations that Congress authorized for specific purposes without providing justification or documentation. (Report 16-05)

- As part of the OIG's ongoing review of SBA's pay setting practices, we identified that Executive Resources set initial pay higher than allowed for 4 out of 10 Senior Executive Service (SES) employees we reviewed. Additionally, for one political SES hired in March 2015, Executive Resources set the initial pay based on the 2015 SES pay table instead of 2013, which resulted in an overpayment of $969. Furthermore, because SBA lost its SES certification on August 25, 2015, the pay levels for newly appointed political SESs hired after that date must be based on 2013 rates of basic pay for agencies without a certified SES performance appraisal system. Nevertheless, Executive Resources set the initial pay for three political SESs above level III of the 2013 executive pay schedule after SBA lost its SES certification, which amounted to overpayments totaling $6,704. In total, the four SES appointees received overpayments totaling $7,673. Accordingly, this advisory contains three recommendations to strengthen internal controls over pay setting practices. SBA management agreed to implement these recommendations, including recovering the overpayments. (Report 16-20)

In a subsequent review during the first half of FY 2017, we identified that SBA did not prepare the required documentation to justify the higher initial pay determinations for Schedule C political appointees (Schedule Cs) hired during 2014–2016. While we determined that all 10 Schedule C appointees SBA hired in 2014 met the criteria supporting superior qualifications for higher pay, SBA did not adequately document each use of the superior qualifications authority. SBA took steps to correct this deficiency during 2015–2016; however, SBA still hired six Schedule C employees without all the necessary documents to comply with Federal regulations and internal policies. Personnel responsible for setting pay did not receive fundamental training on the use of the superior qualifications authority. Additionally, SBA's SOP on the superior qualifications authority insufficiently provides guidance specifically for Schedule Cs. Without systematic controls in place to assure compliance with all documentation requirements, SBA is susceptible to improperly using the superior qualifications authority, resulting in potential salary overpayments for future Schedule C hiring. Accordingly, this advisory contains two recommendations to strengthen internal controls over pay setting practices. SBA management's planned actions resolve these recommendations. (Report 17-08)

### *Investigative Actions*

- Former Missouri Banker Sentenced to Prison and Ordered to Pay Over $4.2 Million in Restitution. The former executive vice president of a Missouri bank was sentenced in Federal court to 3 years imprisonment and 3 years of supervised release, and was ordered to pay $4,223,917 in restitution. He had previously pled guilty to conspiracy to defraud the United States in connection with a complex commercial loan fraud scheme in which 16 others had been charged via a 185-count indictment. As part of the scheme, a number of SBA loans were fraudulently obtained by businesses ineligible to receive them. The co-conspirators concealed past due loan payments, made loans to nominee borrowers, created false bank record entries, structured loans to avoid the bank board of directors' scrutiny, and concealed unrecorded letters of credit. They also utilized SBA loan proceeds for personal use, misapplied loan proceeds, prepared fraudulent SBA loan applications, and paid and accepted bribe money to secure loans. Finally, the former executive and another individual pled guilty for providing false information to the U.S. Department of Housing and Urban Development (HUD) and Federal Housing Administration in order to obtain a $18,219,400 loan for the operation of a Missouri apartment complex. The former executive is the last of the 17 original co-conspirators to be sentenced. This investigation was conducted jointly with the Federal Bureau of Investigation (FBI) and HUD OIG.

- Bank Agrees to Pay $9.5 Million under the False Claims Act. A bank agreed to pay the United States $9.5 million to settle claims under the False Claims Act after having been found civilly liable for not adhering to SBA Preferred Lenders program requirements. Such requirements include demanding adequate bank and Internal Revenue Service tax records from borrowers, ensuring that borrowers have the ability to repay the loans, and applying prudent lending standards. The bank had approved 74 SBA loans brokered by an investment firm. After many of these loans went into default, the bank submitted guaranty claims to SBA. SBA approved claims for 24 loans and paid the bank the SBA-guaranteed portion of the unpaid balances, minus any asset liquidation recovery. The U.S. Attorney's Office for the District of Maryland subsequently prosecuted a major principal and others associated with the investment firm for conspiring to commit bank fraud. The scheme was designed to fraudulently obtain SBA-guaranteed business loans, with resulting losses of over $100 million. The conspirators admitted creating and submitting fraudulent documents to secure the bank's loan approvals. The bank in turn approved the loans based on this documentation. The main principal and five other defendants were sentenced to Federal prison. This investigation was worked jointly with the FBI.

- <u>Bank Fraud Conspirators Sentenced to Prison, Probation, and over $7.4 Million in Restitution</u>. A Texas man was sentenced in Federal court to 5 years of probation after having previously pled guilty to conspiracy to commit bank fraud. He was also ordered to pay $3,740,165 in restitution to be divided among the bank, SBA, and the U.S. Department of Agriculture (USDA). The court also ordered $3,140,272 in forfeiture, which, if collected, will lower the restitution amount. In addition, one of two other individuals who conspired with the Texas man was sentenced in Federal court to 6.5 years of imprisonment after having pled guilty to conspiracy to commit bank fraud. He will later serve 5 years of probation. As was the case with the Texas man, this individual was ordered to pay $3,740,165 in restitution, with the same allocation as above. The court also ordered $1 million in forfeiture which, if collected, will lower the restitution. The Texas man and the two other individuals had conspired to obtain SBA and USDA guaranteed loans under fraudulent pretenses. The Texas man applied for a $2 million SBA-guaranteed loan from a Utah bank in order to purchase a hotel in Tyler, TX. One of the two other individuals submitted a financial statement signed by the Texas man containing materially false information. This misled the bank into believing that the man had over $2.3 million in personal assets. Because the man was required to provide $687,000 in cash injection, the second individual created the appearance of more than $250,000 in the Texas man's business account to mislead the bank into believing that the cash injection could be satisfied. In another situation, the Texas man applied for a $4,650,000 USDA Rural Development guaranteed loan from the same bank to purchase a hotel in Paris, TX. This time, one of the two individuals submitted documents signed by the Texas man containing false information that misled the bank into believing that the man had over $6 million in personal assets. Because a $1,550,000 cash injection was required, the second individual caused $1,475,000 to be transferred into business accounts in the man's name, although the second individual controlled the funds. Again, this misled the bank into believing that the Texas man could satisfy the loan's cash injection requirement.

- <u>Colorado Real Estate Firm Owner to Pay over $950,000 in Restitution and Serve 48 Years in Prison</u>. The owner of a Denver, CO, real estate investment firm was ordered to pay $951,571 in restitution after having been sentenced in State court to 24 years of incarceration and 5 years of parole. This sentence will run consecutively to his earlier sentence of 24 years for domestic violence. A jury had found him guilty on 11 counts, including making false statements to SBA, a California bank, and the State of Colorado; criminal impersonation; and theft of funds from various lenders. He and five other family members had been originally indicted on 37 total counts. Those family members have been sentenced. The investigation showed that the owner obtained a $2,323,000 SBA-guaranteed loan to refinance his office building and other debt. To obtain the loan, he concealed his extensive criminal history and probation. He also falsified documents related to his debts. The owner and five other family members had created a criminal enterprise by using their status as real estate industry professionals to execute a large long-term fraud-for-profit scheme. The scheme primarily centered on mortgage fraud, including the manipulation of multiple real estate transactions through fraudulent statements, material omissions, false identification and notary commissions, and "straw buyers" to buy and sell real estate. This case was initiated after the OIG received a referral from the California bank. This was a joint investigation with the Colorado Attorney General's Office, Colorado Bureau of Investigation, FBI, and Federal Housing Finance Agency OIG.

- Texas Minister Sentenced to 66 Months in Prison and over $1.3 Million in Restitution. A Texas minister was sentenced to 66 months in prison and 5 years of supervised release and was ordered to pay $1,305,800 in restitution to SBA. He previously had pled guilty to fraud in connection with a major disaster. The minister had obtained a $1,310,300 SBA disaster assistance loan for Hurricane Ike-related damages to his non-profit organizations. The investigation determined that several contractor and vendor invoices submitted to SBA were never paid or were merely proposals. The minister initially deposited a $250,000 SBA disbursement in his bank account and then wrote a $200,000 check to a roofing contractor. The roofing firm owner wrote a $200,000 check to the minister with "donation" reflected in the memo section. The roofing firm had not even started repairs prior to the first disbursement. The minister then withdrew $223,000 and purchased a cashier's check. He deposited it into an escrow account for his attempted purchase of a radio station for $8.75 million. The minister later manipulated a bank employee into withdrawing escrow funds, which violated his brokerage agreement. The radio station's owner then filed a lawsuit against the bank for releasing funds without his consent and later received a monetary settlement. In another matter, SBA instructed the minister to address liens and judgments appearing on his title commitment. In response, he submitted copies of checks never negotiated by lien holders. He apparently used the same ploy with the title company and obtained a clear title policy. According to attorney's offices representing the clients who were awarded the judgments, the liens were still in place, and the judgments were still outstanding. A title search determined the liens still existed. The investigation also found that SBA loan funds had been transferred to Louisiana casinos for gambling. The minister and his wife debited $263,775 primarily in SBA funds. Finally, the minister purchased his two non-profit locations in an arrangement with two Florida financial institutions. He issued several hundred thousand dollars in church bonds for one non-profit. Although required to pay a monthly mortgage payment to bond holders, he defaulted, making only one nominal payment with SBA disaster loan proceeds. Although he formed a third non-profit organization, he foreclosed on all locations to eliminate existing liens. This investigation was conducted jointly with the FBI.

Additional information on the OIG's accomplishments is provided in the Statistical Highlights section of this document and in the OIG's *Spring and Fall 2016 Semiannual Reports to Congress*.

## FY 2017 and 2018 Planned Performance

During FY 2017 and 2018, 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 high risk 7(a) 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. For example, a joint investigation resulted in the former bank vice president of a now-defunct California bank being sentenced in Federal court to 3 years of supervised release and ordered to pay restitution of $973,789 to SBA and $482,283 to the Federal Deposit Insurance Corporation (FDIC). A loan broker for the bank was sentenced in Federal court to 3 years of supervised release and ordered to pay $82,185 in restitution to the FDIC. The loan broker admitted paying cash bribes in return for the bank vice president's assurance that loans for the business customers the broker referred would be approved and funded, and that tens of thousands of dollars in broker's commissions would be paid. In turn, the bank vice president made certain that the broker's clients' loans were approved, regardless of the loans' soundness. Moreover, the two individuals supplied or accepted false information in loan applications. Finally, the broker admitted lying to law enforcement agents by concealing the bribes and hiding her relationship with the bank vice president.

The OIG will also continue to conduct audits of SBA's internal loan program operations and oversight, including audits of SBA's loan origination, servicing, and liquidation processes, loans sold on the secondary market, Microloans, loans to poultry farmers, as well as audits of 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.

### *Disaster Assistance*

OIG audits will continue to focus on applicant eligibility, loan origination, disbursements, repayment ability, loan 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 SBA processed homeowner and business loans in accordance with the Agency's procedures and established goals, ensured applicant eligibility, verified uses of loan proceeds before loans were fully disbursed, and appropriately identified duplicate benefits. In addition to the Hurricane Sandy audits we are performing, the OIG will also conduct audits to assess SBA's response and readiness associated with more recent disasters, such as the Louisiana Floods. In addition, we will continue to evaluate potential risks in the program such as: timely program delivery, training of reserve workforce, loss verification, and credit elsewhere.

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. To date, our office has initiated 72 investigations involving allegations of fraud pertaining to Hurricane Sandy. As of April 6, 2017, the OIG had 33 open cases involving disaster loans with potential dollar losses of nearly $13.5 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 2016, the OIG, in conjunction with other law enforcement agencies, produced 86 arrests, 97 indictments/informations, and 96 convictions related to wrongdoing in 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 2014 through FY 2016, the OIG, in conjunction with other law enforcement agencies, produced 37 indictments/informations and 26 convictions related to wrongdoing in SBA's Disaster loan program for Hurricane Sandy. The first OIG Sandy investigation was opened in May 2013. Subsequently, the OIG has had 69 Sandy investigations, totaling over $16.6 million in potential fraud. As of the end of FY 2016, the OIG had 22 Sandy cases open with potential fraud totaling nearly $9.1 million.

### *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 2017 and 2018, 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 2016, the OIG had 76 open government contracting cases, with potential dollar losses of over $2.4 billion based on the total dollar value of the contracts. The funding requested for FY 2018 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 provide both investigative and legal assistance to 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 2018. For example, during FY 2016, 11 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 2018.

- 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 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 OIG plans to continue monitoring the SBA's implementation of these changes to the WOSB program and will be initiating a review of the WOSBP in the 3rd quarter of FY 2017.

- 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.

### *Entrepreneurial and Veterans Business Development*

During FY 2017 and 2018, the OIG will focus on SBA oversight of and current issues affecting entrepreneurial and veterans' business development programs, with emphasis on grants awarded to SCORE's B2B program and the State Trade and Export Promotion Grant program. The OIG audited the $840,000 Hurricane Sandy technical assistance grant SBA awarded to the SCORE to determine whether SCORE complied with grant requirements related to Federal expenditures and program performance. We found that SCORE did not always comply with financial grant requirements. Consequently, we questioned costs totaling over $391,000, or 47 percent, of SCORE's Hurricane Sandy grant (Report 17-10). The OIG plans to initiate and a review of SCORE to determine whether SBA's controls ensure that is complying with grant requirements.

An OIG review of the B2B program found that SBA's program announcement included a process to evaluate B2B grant applications. However, reviewers responsible for evaluating and scoring applications did not consistently follow this evaluation guidance. The SBA had no documentation rationalizing its final selection of Syracuse University and it could not demonstrate that it made a merit-based selection in awarding the $3 million grant to Syracuse University (Report 16-12). The OIG has an ongoing audit of the B2B program to determine whether SBA's oversight of the B2B program ensured (1) efficiency of program operations, (2) that program goals and objectives were achieved, and (3) that grant recipients complied with grant requirements.

As required by the Trade Facilitation and Trade Enforcement Act of 2015, the OIG reviewed SBA's STEP pilot grant program to determine how the funds were used. We could not determine the exact amounts awarded and expended for the STEP grant program because of inconsistent financial data provided by the SBA. Specifically, the three program offices responsible for managing the STEP grant program reported different totals for the award and expenditure amounts (Report 17-11). As required by the act, the OIG has also initiated a review of the new STEP grant program to determine the extent to which recipients of grants under the program are measuring the performance of the activities being conducted and the results of the measurements; and the overall management and effectiveness of the program.

### *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 reviews, which are conducted by an independent public accountant under a contract with the OIG. The scope and complexity of the audit is anticipated to increase as a result of growing direct and guaranteed loan portfolios and as the Agency complies with the DATA Act.

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 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 plans to continue monitor systems development activities related to improvements to financial and program related systems as well as investments in cloud computing. Specifically, the OIG will assess Agency progress in implementing the Federal Information Technology Acquisition Reform Act. This Act requires the Chief Information Officer (CIO) to play a critical leadership role in driving reforms to help control system development risks, better manage technology spending, and achieve measurable improvements in agency performance. Furthermore, the CIO must ensure Federal IT security is deployed in SBA's highly decentralized and dynamic IT environment.

The OIG has found through previous reviews that the Office of Chief Information Officer (OCIO) needs to improve its leadership roles in overseeing and addressing IT investments. For example, our recent evaluation of the Office 365 migration indicated the lack of IT investment controls such as system development methodology, enterprise architecture, modular project phases, baseline controls, and TechStat sessions. Also, our periodic assessments of FISMA controls and Financial Statement Audit results showed security vulnerabilities were not prioritized and remediated in a timely manner.

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

### *Acquisition Processes*

OIG audits will continue to focus on SBA's compliance with federal contracting regulations and its policies and procedures over IT systems acquisition and project oversight. OIG efforts will also include monitoring system development activities related to SBAcertify.gov. We will validate capital investment and data security controls as well as assess whether software functionality was delivered to end users in accordance with project requirements.

### *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 to 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 received 1,041 complaints during FY 2016. 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, with SBA program offices, or with 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 created a pilot program extending whistleblower protections to government contractors, subcontractors, and grantees, which was made permanent in December 2016. These provisions may result in the OIG Hotline receiving an increased number of complaints. Additionally, this law mandates OIG investigations of these complaints and a report to the SBA Administrator to consider corrective action on the part of the contractor/grantee.

### *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 2016, the OIG reviewed 119 proposed revisions of program management or SBA reorganization documents and provided comments on 52 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 present responsibility referrals with supporting evidence to the appropriate SBA officials. The OIG also supports actions at other federal agencies through training and direct case assistance. During FY 2016, the OIG sent 75 suspension and debarment referrals to the SBA and was involved with 6 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 2016, the OIG provided 75 presentations for more than 1,747 attendees, including SBA and other government employees, lending officials, and law enforcement representatives. For example, the OIG partnered with the National Science Foundation OIG to present the second annual Small Business Procurement Integrity Seminar. This seminar, which the OIG offered in two locations, equipped Federal oversight personnel with the knowledge to identify, develop, and pursue small business contracting fraud cases. The course covered the major small business contracting programs and included a discussion of typical fraud schemes, program rules, and key procurement databases accentuated by multiple case studies. At the end of the session, participants took part in a hypothetical case, which allowed the application of principles taught during the day.

OIG personnel also participated in the training of criminal investigators from several Federal agencies and the District of Columbia Office of Inspector General. This training included information on subpoenas, civil remedies, administrative remedies, and small business procurement cases.

# 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).

| *Dollars in Millions* | **FY 2016 Enacted** | **FY 2017 Annualized CR** | **FY 2017 Enacted** | **FY 2018 Initial Agency Submission** | **FY 2018 President's Budget** |
|---|---|---|---|---|---|
| New Budget Authority | $19.9 | $19.9 | $19.9 | $19.9 | $19.9 |
| Transfer from Disaster Loan Program Account | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| **Total** | **$20.9** | **$20.9** | **$20.9** | **$20.9** | **$20.9** |

The OIG's FY 2018 budget request includes $160,000 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.

# FY 2016 Statistical Highlights

### Summary of Office-Wide Dollar Accomplishments

| | |
|---|---|
| **As a Result of Investigations & Related Activities:** | |
| – Potential Investigative Recoveries & Fines | $71,707,848 |
| –Asset Forfeitures Attributed to OIG Investigations | $32,951,259 |
| –Loans/Contracts Not Approved or Canceled as a Result of Investigations | $460,000 |
| –Loans Not Made as a Result of Name Checks | $36,419,588 |
| **Investigations Sub-Total** | **$141,538,695** |
| **As a Result of Audit Activities:** | |
| –Disallowed Costs Agreed to by Management | $3,200,812 |
| –Recommendations that Funds Be Put to Better Use Agreed to by Management | $0 |
| **Audit Sub-Total** | **$3,200,812** |
| **TOTAL** | **$144,739,507** |

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

| | |
|---|---|
| Reports Issued | 23 |
| Recommendations Issued | 81 |
| Dollar Value of Costs Questioned | $8,037,107 |
| Dollar Value of Recommendations that Funds be Put to Better Use | $1,342,438 |
| Recommendations for which Management Decisions Were Made | 84 |
| Recommendations Without a Management Decision | 14 |
| Collections as a Result of Questioned Costs | $207,165 |

### Indictments, Informations, Convictions, and Other Case Actions

| | |
|---|---|
| Indictments/Informations from OIG Cases | 45 |
| Convictions from OIG Cases | 41 |
| Cases Opened | 104 |
| Cases Closed | 84 |

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

| | |
|---|---|
| Dismissals | 0 |
| 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 | 75 |
| —Pending at the Agency as of September 30, 2016* | 81* |
| Suspensions Issued by the Agency | 9 |
| Proposed Debarments Issued by the Agency | 42 |
| Final Debarments Issued by the Agency | 23 |
| Proposed Debarments Declined by the Agency | 0 |
| Administrative Agreements Entered by the Agency in Lieu of Debarment | 0 |
| Suspension and Debarment Actions by Other Agencies | 6 |

*The Agency has sent notices on 36 of these referrals.

### Agency Legislative and Regulatory Proposals Reviewed

| | |
|---|---|
| Legislation, Regulations, Standard Operating Procedures, and Other Issuances Reviewed | 119 |
| Comments Provided by the OIG to Improve Legislation, Regulations, Standard Operating Procedures, and Other Issuances | 52 |

# OIG Organizational Structure

The 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 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 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, with SBA program offices, or with other governmental agencies.

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

# Small Business Administration
# Office of Inspector General