U.S. Small Business Administration

Office of Inspector General

FY 2019 Congressional Budget Justification

This page intentionally blank.

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. OIG provides taxpayers with a significant return-on-investment (ROI) as it roots out fraud, waste, and abuse in SBA programs. During FY 2016, OIG achieved nearly $145 million in monetary recoveries and savings—close to a sevenfold ROI, and in FY 2017, OIG achieved over $82 million in monetary recoveries and savings.

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. Challenges include fraudulent schemes affecting all SBA programs; significant losses from defaulted loans; procurement flaws that allow large firms to obtain small business awards; excessive improper payments; and outdated legacy information systems. OIG plays a critical role in addressing these and other challenges by conducting audits to identify wasteful expenditures and program mismanagement; investigating fraud and other wrongdoing; and taking other actions to deter and detect waste, fraud, abuse, and inefficiencies in SBA programs and operations.

For FY 2019, OIG requests $21.9 million, plus an additional $1.0 million transfer from the Disaster Loan program—for a total of $22.9 million. OIG needs these funds to provide effective independent oversight of SBA's programs and operations, including funding to: cover an expected increase in the cost of the independent audit of SBA's financial statements, due in large part to new OIG review mandates incorporated into the Digital Accountability and Transparency Act of 2014 (DATA Act); cover government-wide inflationary costs; meet specific congressional oversight requests and/or Hotline-originated review needs for SBA programs and operations; and ultimately, through monetary recoveries and savings, provide taxpayers a significant ROI.

In particular, the additional resources requested for FY 2019 will allow OIG to:

- SBA's Financial Statement Audit. OIG contracts with an Independent Public Accountant to ensure SBA's financial statements are prepared in accordance with Generally Accepted Government Auditing Standards (GAGAS), and to monitor the Agency's compliance with the Federal Information Security Management Act (FISMA) and the DATA Act. To meet these statutory obligations, the cost of the audit fees is anticipated to increase by $200,000 in FY 2019.

- Enhance audit, inspection, and evaluation review capacity to meet specific congressional oversight requests and/or Hotline-originated review needs for SBA programs and operations. Currently, the OIG's Audits Division is comprised of three groups that oversee SBA's principal, high-risk programs—Business Development and Contracting Programs, Credit Programs, and Financial Management and Information Technology. In the past two years, OIG received Hotline complaints in conjunction with inquiries from congressional stakeholders that resulted in four reviews (Reports 16-14, 17-01, 17-08, and 17-13) by the Audits Division that are not aligned with the expertise and focus of these three groups. OIG is requesting $500,000 in FY 2019 for an additional group in the Audits Division, comprised of an Audit Director and an additional review team, to address the oversight needs of significant allegations of misconduct or mismanagement. Resources currently are redirected from the other groups to address the oversight needs, which significantly diminish OIG's capacity to oversee SBA's approximate $100 billion loan and $100 billion contracting programs. Additionally, both Government Accountability Office (GAO) and OIG have documented the information technology challenges facing SBA, requiring the focus and attention of OIG's existing resources. As such, it is vital that additional resources be provided to OIG to focus on efficiency and effectiveness of SBA management challenges and internal operations.

- Maintain adequate staffing levels. Assuming the amount requested in the President's FY 2018 budget is enacted, OIG will have been funded at the same level for 3 years. OIG has partially offset the costs of hiring new staff through cost-saving measures such as hiring new employees at the entry level, filling positions with student interns instead of permanent staff, and delaying the filling of vacant positions. In FY 2019, OIG requests funds to be able to adequately support a full staffing level to meet increased demands.

- Develop a cross-functional data analytics capability. SBA's loan and contracting operations are increasingly automated and stored in complex databases. As a consequence, SBA is able to more efficiently deliver services but also is gathering and storing data that traditionally would have been organized and stored in paper files. Recognizing the importance of electronic data organization and standardization, the Congress enacted the DATA Act to make information on federal expenditures more easily accessible and transparent.

  Congress has also recognized the importance of data analytics to effective, independent oversight by OIGs. In December 2016, Congress enacted the Inspector General Empowerment Act of 2016. Among the provisions, Congress provided Inspectors General an exemption to the Computer Matching Act, eliminating a cumbersome approval process that was fraught with independence concerns for OIGs. OIG is well positioned with its auditing and investigative resources to use this new tool, but it is an exception for an auditor/analyst or criminal investigator to possess the IT expertise necessary to manipulate the massive databases underpinning SBA operations, whereby the full potential of new data matching tools can be realized. Additional funds to staff a data analytics team would provide a resident expertise to keep OIG on the leading edge of SBA innovations and allow OIG to more proactively root out fraud, waste, abuse, inefficiencies, and misconduct.

  The data analytics function also would work with OIG audit teams and investigators to help improve the organization's overall efficiency and effectiveness. It would promote the production of higher quality audit and investigative evidence and better correlating audit and investigative approaches to risks and assertions. At present, OIG uses high-level analytic tools to assess loan and contract data but believes an opportunity exists to improve effectiveness through the creation of more complex financial and nonfinancial data modeling tools and evaluations.

  Consequently, OIG requests an additional $300,000 in FY 2019 to establish a dedicated cross-functional data analytics function to improve OIG's audit and investigative use of data analytic tools to more efficiently oversee the highest risk areas. These tools are particularly important in a resource-constrained environment. OIG anticipates this capability would provide the following benefits:
  - Expanded OIG coverage through the identification of control issues/fraudulent activities

in near real time.

- Increased capacity of existing auditing and investigative resources without the need to increase the number of such staff.

- Enhanced communication among OIG divisions and creation of investigative leads that conventional audit or investigative teams might not have the current capacity to develop. In short, our existing resources can work both smarter and harder.

- Identification of the best data from governmental, private and public sources and, when necessary, the ability to cross-check them for data validity (i.e., computer match). These sources could include data from Dun and Bradstreet, state government business registration records, court records, university research databases. This activity is generally beyond the scope for conventional audit or investigation due to the time intensive nature of paper-based research.

The funding requested for FY 2019 will also allow OIG to continue to address critical areas and issues, including:

- Work an active caseload of approximately 225 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. During FY 2017, OIG investigations resulted in 35 indictments/informations, 25 convictions, and over $79.9 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, 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. During FY 2017, OIG issued 19 reports with 72 recommendations for improving the Agency's operations, identifying improper payments, and strengthening controls to reduce fraud and unnecessary losses in SBA programs.

- Provide oversight and monitoring of SBA's IT security and application development activities, including new systems under development and the Agency's compliance with FISMA. 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, OIG Hotline received 1,041 complaints, which hotline staff reviewed and analyzed to determine the appropriate course of action. During FY 2017, OIG Hotline received

848 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 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, OIG provided recommendations to improve 52 of the 119 proposed revisions it reviewed. During FY 2017, OIG provided recommendations to improve 36 of the 101 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, OIG sent 75 suspension and debarment referrals to SBA and was involved with 6 actions other agencies pursued. During FY 2017, OIG sent 106 present responsibility referrals to SBA and was involved with 5 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, OIG delivered 74 training and outreach sessions for approximately 1,717 attendees. During FY 2017, OIG delivered 220 training and outreach sessions for approximately 3,556 attendees.

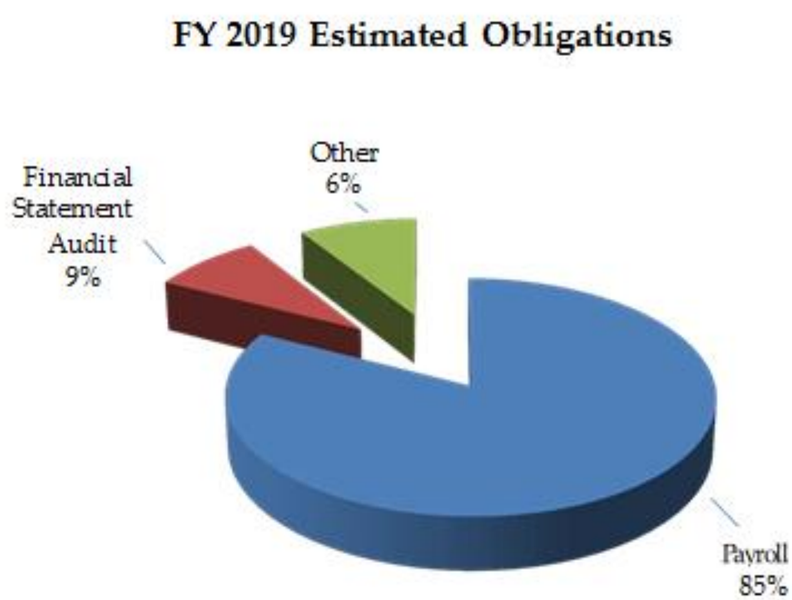
Budget Request

To address the challenges and risks discussed above and in the Critical Risks section below, OIG requests a total of $22.9 million for FY 2019—a direct appropriation of $21.9 million and $1.0 million to be transferred from SBA's Disaster Loan program account for work on disaster program issues.

FY 2019 Budget Request

Dollars in Millions	FY 2017 Actual	FY 2018 President's Budget	FY 2018 Annualized CR	FY 2019 Request	FY 2019 Incr/Decr
New Budget Authority	$19.9	$19.9	$19.8	$21.9	$2.1
Transfer from Disaster Loan Program	1.0	1.0	1.0	1.0	0.0
Total	**$20.9**	**$20.9**	**$20.8**	**$22.9**	**$2.1**

The majority of the funds requested for FY 2019 will be used for salary and benefits for 114 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 SBA

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

Risks in SBA's Lending Programs

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 nearly $131 billion outstanding, with more than $30 billion in new loans guaranteed each year. Over the years, OIG has worked closely with the Agency to identify potential points of risk and to improve SBA's oversight and controls to ensure that eligible participants most in need of assistance benefit from these programs.

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

The Small Business Act directs 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 2016—the latest year for which information is available—SBA reported that small and disadvantaged firms were awarded 23.34 percent of contracting dollars available to small businesses, which equates to $99.96 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, the co-owner of a Massachusetts construction firm was ordered in Federal court to forfeit $6,756,205 in assets. In addition to the asset forfeiture, the co-owner's sentence includes 30 months in prison, 1 year of supervised release, and a $10,000 fine. A Federal jury had previously found him guilty of conspiracy to defraud the United States and wire fraud. The investigation disclosed that, between 2006 and 2010, the co-owner made false statements to the Department of the Army, General Services Administration (GSA), Department of the Navy, and Department of Veterans Affairs (VA) about his firm's qualifications in order to receive service-disabled veteran-owned small business set-aside contracts. The investigation was conducted jointly with the U.S. Army Criminal Investigation Command, GSA OIG, Naval Criminal Investigative Service (NCIS), and VA OIG, under the direction of the U.S. Attorney's Office.

Risks Associated with 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 $124 billion loan portfolio. However, OIG audits and other reviews have identified serious shortcomings in SBA's information systems and related security controls. OIG reviews have found that 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. OIG has issued management challenges recommending corrective actions in SBA's IT security and acquisition processes.

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

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. 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 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, OIG found that 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, 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. OIG also supports SBA's mission by detecting, investigating, and deterring fraud and other wrongdoing in the Agency's programs and operations. OIG's Hotline operations are poised to receive complaints of fraud, waste, and abuse from the public, Agency employees, and stakeholders. 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 2018 and 2019 Planned Performance

During FY 2018 and 2019, in addition to conducting audits and reviews that are required by statutes and other directives, OIG will continue to focus on the most critical risks facing SBA. Several areas of emphasis are discussed below.

Financial Assistance

SBA paid guaranty claims totaling $0.8 billion FY 2016 and $1.0 billion in FY 2017 for defaulted 7(a) loans and 504 debentures. Some of 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.

OIG will continue to address financial losses in SBA's lending due to lender errors and various fraud schemes. 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). OIG will also target the most offending lenders to attain corrective actions and identify trends for operational improvement by SBA. When OIG identifies suspected fraud, those loans will be investigated.

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 SBA is forced to use taxpayer funds to purchase the guaranteed portions of the loans.

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.

SBA has implemented an all-electronic application and processing system in the 7(a) loan program. In FY 2017, approximately 24 percent of 7(a) loans were submitted through this system.

Disaster Assistance

OIG audits of SBA's Disaster Loan program will continue to focus on applicant eligibility, loan origination, disbursements, repayment ability, loan servicing, and liquidation activities related to disaster loans. Our focus in recent years has been on providing oversight to SBA's disaster assistance to Hurricane Sandy victims. As SBA responded to Hurricane Sandy, our oversight plans took shape and our work began to root out fraud, waste, and abuse. Aided by vital, supplemental funding, our Audits Division initially focused its reviews on timeliness, eligibility, technical assistance grants, and early defaults. OIG issued ten reports pertaining to our oversight efforts of SBA's Hurricane Sandy disaster assistance, including a review pertaining to loans made pursuant to the "RISE After Disaster Act of 2015." OIG will continue to investigate and audit disaster loans made in the aftermath of Hurricane Sandy—as well as those made in response to Hurricanes Harvey, Irma, and Maria in 2017—to prevent and minimize losses in this program.

Our Disaster Loan program 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 reviews that encompass Hurricane Sandy loans, OIG will also conduct audits to assess SBA's response and readiness associated with more recent disasters, such as the Louisiana Floods, Hurricanes Harvey, Irma, and Maria and ensuing disasters. We will continue to evaluate potential risks in the program such as: timely program delivery, training of reserve workforce, loss verification, and credit elsewhere.

For investigations, OIG will focus efforts against areas of known risk such as 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 September 30, 2017, our office has initiated 80 investigations involving allegations of fraud pertaining to Hurricane Sandy. As of September 30, 2017, OIG had 36 open cases involving disaster loans with potential dollar losses of nearly $14.3 million. From FY 2006 through FY 2017, OIG, in conjunction with other law enforcement agencies, produced 91 arrests, 108 indictments/informations, and 103 convictions related to wrongdoing in SBA's Disaster Loan program. As of September 30, 2017, these investigations have resulted in over $14.5 million in court-ordered restitution and related recoveries, as well as the denial of nearly $4.9 million in loans to potentially fraudulent borrowers.

Specific to Hurricane Sandy, in response to the potential for fraud, 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 2017, OIG, in conjunction with other law enforcement agencies, produced 48 indictments/informations and 33 convictions related to wrongdoing in SBA's Disaster Loan program for Hurricane Sandy. The first OIG Sandy investigation was opened in May 2013. Subsequently, OIG has had 80 Sandy investigations, totaling over $17.1 million in potential fraud. As of September 30, 2017, OIG had 33 Sandy cases open with potential fraud totaling nearly $12.8 million.

During 2017, three additional devastating hurricanes occurred. In August, Hurricane Harvey struck Texas. While the storm's full cost continues to unfold, the state's governor estimated losses at $180 billion. Two weeks later, Hurricane Irma caused significant damage to the U.S. Virgin Islands, Puerto Rico, Florida, Georgia, and South Carolina. Two weeks after that, Hurricane Maria struck the U.S. Virgin Islands and Puerto Rico. Based on early estimates, damage from the three hurricanes could reach $290 billion. OIG currently is conducting inspections to assess SBA's initial response to these disasters.

In the aftermath of Hurricane Harvey, the OIG is collaborating with Federal and local agencies to coordinate responses to disaster assistance fraud. These partners include the National Center for Disaster Fraud in Baton Rouge, LA, as well as the U.S. Attorney's Office (USAO). The OIG is also working with SBA program offices to alert Hurricane Harvey victims about possible fraud schemes.

In the case of the geographically widespread Hurricanes Irma and Maria, the OIG is coordinating its efforts with task forces consisting of other law enforcement agencies and USAOs. In addition, the OIG is exploring data analytic initiatives to combine SBA's and other agencies' data to identify possible fraud.

Government Contracting and Business Development

SBA directs significant efforts toward helping small businesses obtain federal contracts and providing other business development assistance. 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 2018 and 2019, OIG will focus on 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 September 30, 2017, OIG had 88 open government contracting cases, with potential dollar losses of over $20 billion based on the total dollar value of the contract. The funding requested for FY 2019 will allow OIG to continue investigating fraudulent schemes that take improper advantage of SBA's contracting assistance programs. In particular, OIG has experienced a significant increase in the number of *qui tam* cases that are brought by private-sector whistleblowers alleging fraud in SBA's small business and socio-economically disadvantaged contracting programs in the past 5 years. Although these cases were relatively rare 5 years ago, 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, OIG expects this number to increase through FY 2019. For example, during FY 2017, 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. OIG will continue to assess whether SBA is taking adequate steps to ensure the integrity of small business contracting. 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 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. OIG will continue to review these issues and SBA's management of the Section 8(a) program. 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 2019.

- 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, 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, 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. 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 Women-Owned Small Business (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 2016, the federal government awarded approximately $19.6 billion, or 4.8 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 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 WOSB program firms, (2) remove firms' ability to self-certify, and (3) require firms to be certified. These mandates will considerably increase SBA's oversight role. SBA has opted to implement the sole-source authority provision first—separate from a certification program. We believe allowing sole-source contracting authority in WOSB program, without implementing the contemporaneously required certification program, is inconsistent with SBA's statutory authorization and exposes the program to abuse. Absent a certification program, the Government is more likely to award WOSB program contracts to ineligible firms. OIG initiated a review of the WOSB program in the third quarter of FY 2017 and plans to continue monitoring SBA's implementation of these changes to the WOSB program.

- OIG has conducted a number of fraud investigations involving the mentor/protégé programs under the Section 8(a) program. In August 2016, SBA issued regulations to implement a statutory mandate that expanded mentor-protégé programs to all other small businesses. The Agency accepted a number of OIG recommendations to revise these regulations to limit the opportunity for fraudulent acquisition of government contracts. Nevertheless, 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 2018 and 2019, 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. 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). 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 Boots to Business (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. 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). 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, OIG reviewed SBA's STEP pilot grant program to determine how the funds were used. OIG could not determine the exact amounts awarded and expended for the STEP grant program because of inconsistent financial data provided by SBA. Specifically, the three program offices responsible for managing the STEP grant program reported different totals for the award and expenditure amounts (Report 17-11). As required by the act, 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

OIG will continue to oversee the audits of 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 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.

OIG will provide oversight and monitoring of 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 OIG evaluates Agency progress in implementing initiatives designed to strengthen and enhance federal cybersecurity. OIG and the Independent Public Accountant have previously identified systemic problems with security controls over SBA's IT systems and this area remains one of the most serious management challenges facing the Agency.

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, OIG will continue to 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.

OIG also will continue its mandated reviews of SBA's compliance with the DATA Act, 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, OIG annually develops the *Report on the Most Serious Management and Performance Challenges* facing 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. OIG will continue to identify and report serious management challenges facing SBA and will work throughout the year with Agency management to resolve identified issues as quickly and efficiently as possible.

Security Operations

OIG's Office of Security Operations will continue to perform required employee background investigations to achieve a high level of integrity in OIG's workforce and adjudicate OIG employees and contractors for issuance of PIV cards pursuant to HSPD-12 background investigation requirements.

OIG Hotline

OIG's Hotline received 1,041 complaints during FY 2016 and 848 complaints during FY 2017. Hotline staff conduct a preliminary review and analysis of all complaints received to determine the appropriate course of action. OIG's Hotline is staffed by OIG employees who process and analyze allegations of waste, fraud, abuse, or serious mismanagement in SBA or its programs from employees, contractors, and the public. As part of the hotline process, staff may coordinate reviews of allegations within 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 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, 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 OIG Hotline receiving an increased number of complaints. Additionally, this law mandates OIG investigations of these complaints and a report to SBA Administrator to consider corrective action on the part of the contractor/grantee.

Review of Proposed Regulations and Initiatives

As part of OIG's proactive efforts to promote accountability and integrity and reduce inefficiencies in SBA programs and operations, OIG reviews changes that SBA 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, OIG identifies concerns 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, OIG reviewed 119 proposed revisions of program management or SBA reorganization documents and provided comments on 52 of these. During FY 2017, OIG provided recommendations to improve 36 of the 101 proposed revisions it reviewed.

Debarment and Administrative Enforcement Actions

As a complement to criminal and civil fraud investigations, 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. 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. OIG also supports actions at other federal agencies through training and direct case assistance. During FY 2016, OIG sent 75 suspension and debarment referrals to SBA and was involved with 6 actions other agencies pursued, and during FY 2017, OIG sent 106 present responsibility referrals to SBA and was involved with 5 actions other agencies pursued. Most OIG administrative referrals involve the abuse of SBA's loan and preferential contracting programs. When appropriate, OIG recommends that 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

OIG will continue to conduct training and outreach sessions on topics related to fraud in government lending and contracting programs. During FY 2016, OIG provided 75 presentations for more than 1,747 attendees, including SBA and other government employees, lending officials, and law enforcement representatives, and during FY 2017, OIG delivered 220 training and outreach sessions for approximately

3,556 attendees. For example, OIG partnered with the National Science Foundation to present the second annual Small Business Procurement Integrity Seminar. This seminar, which 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 SBA 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 has also modified this training for use in one and two hour segments. An abbreviated version of the Small Business Procurement Integrity Seminar is now a component of the Council of the Inspectors General on Integrity and Efficiency Training Institute Criminal Investigator Academy's Contract and Grant Fraud Training Program. OIG personnel have offered the training within that course three times this fiscal year.

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.

FY 2016 and 2017 Accomplishments

During FY 2016, OIG achieved nearly $145 million in monetary recoveries and savings—close to a sevenfold ROI, and in FY 2017, OIG achieved over $82 million in monetary recoveries and savings—over.
During FY 2016, OIG issued 23 reports containing 81 recommendations to improve operations and reduce fraud and unnecessary losses in Agency programs. In addition, OIG investigations resulted in 45 indictments/informations and 41 convictions. During FY 2017, OIG issued 19 reports with 72 recommendations. OIG investigations resulted in 35 indictments and 25 convictions.

Following are summaries of some key reports, investigations, and activities that demonstrate the complex nature of 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 Microloan Program performed in FY 2017 determined that SBA management did not effectively implement all prior audit recommendations made as a result of a review conducted in 2009 to improve oversight. Furthermore, SBA management did not conduct adequate program oversight to measure program performance and ensure program integrity. In our review of a statistical sample of 52 microloan files from 14 intermediaries, we found that data contained in SBA's information system for 27 of the loans did not match the information included in the intermediaries' loan files. In addition, we found that intermediaries did not have sufficient documentation to support that it originated and closed 44 of the 52 microloans, or 85 percent, totaling approximately $910,000, in accordance with SBA's requirements. These deficiencies affect the reliability of the data reported to SBA by the intermediaries.

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

- An OIG report presented the results of our ongoing High Risk 7(a) Loan Review program from March 2017 to August 2017 and an overall summary of our work to date. To accomplish our objective, we used an internal loan scoring system to prioritize loans for review based on known risk attributes. A review of five early-defaulted loans identified material lender origination and closing deficiencies that justified denial of the guaranty for one loan totaling $917,107. We also identified suspicious activity on two purchased loans totaling $1.9 million, resulting in formal referrals to our Investigations Division. OIG recommended that SBA require the lender to bring the loan into compliance and, if not possible, seek recovery of $917,107, plus interest, on the guaranty paid by SBA. SBA agreed with the recommendation and has contacted the lender to obtain additional information to bring the loan into compliance.

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

- 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 OIG reviewed. While SBA had established effective policies and procedures and had experienced staff managing its current 504 loan liquidation operations, OIG identified opportunities to improve SBA's internal controls. Specifically, OIG determined that one CLSC had not developed a formal training plan for staff in accordance with established goals and procedures. OIG 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. OIG recommended two actions that will help improve SBA's internal controls over servicing and liquidating 504 loans. The Agency agreed with OIG's findings and recommendations. (Report 16-23)

- As part of the High-Risk 7(a) Loan Review program, OIG issued an Advisory Memorandum to provide SBA with early notification of issues identified during our review. Specifically, we identified a loan with material lender non-compliance with 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 SBA's requirements. As a result, we determined a recovery from the lender for 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 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 SBA. 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)

- OIG identified that another 7(a) lender did not provide sufficient information to support that it approved the loan in accordance with 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 SBA loan. As a result, 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, 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. OIG considers loans that default within 18 months of initial disbursement as defaulting early. OIG statistically projected 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 OIG observed was borrower creditworthiness, as the majority of loans in the sample were made to borrowers with unsatisfactory credit histories. OIG also determined that the Office of Disaster Assistance could improve its disaster loan portfolio risk analysis process to reduce the early default rate. OIG 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

- An OIG report presented the results of our reassessment of eligibility requirements for 30 firms in SBA's 8(a) Business Development program. In a prior audit of 8(a) program eligibility, OIG determined that for 30 of the 48 applicants reviewed, the Associate Administrator for Business Development (AA/BD) approved the firms without fully documenting in the Business Development Management Information System how all areas of concern regarding eligibility raised by lower-level reviewers were resolved. OIG's reassessment determined that SBA resolved eligibility concerns for 20 of the 30 firms that we reviewed. However, OIG continues to question the eligibility of 10 of the 30 firms. The AA/BD, who has the final authority to determine whether an applicant is admitted into the 8(a) program, did not sufficiently establish that the 10 applicants met the eligibility requirements of the 8(a) program. (Report 17-15)

- SBA awarded approximately $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 OIG 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 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. SBA plans to implement both recommendations that we made. (Report 16-06)

- In 2012, 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, 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, SBA has no documentation rationalizing its final selection of Syracuse University. Because 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 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. SBA implemented our four recommendations. (Report 16-12)

Improving IT Systems and Controls

- FISMA requires that OIG review SBA's information security program. This review found that SBA continues to progress in certain FISMA evaluation categories, but still needs to implement

28 longstanding open recommendations and related unresolved vulnerabilities in the FISMA reporting areas. The results of the FISMA report indicates that until 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 17-14)

- OIG issued the DATA Act Readiness review to assess SBA's progress in meeting the requirements of the DATA Act. OIG 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)

Preventing and Reducing Improper Payments

- OIG annually evaluates SBA's compliance with the Improper Payments Elimination and Recovery Act (IPERA) requirements. OIG objectives were to (1) assess progress made by SBA to remediate improper payment-related recommendations, and (2) determine whether 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. SBA published and posted an 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 2016 reporting, and published and met the annual reduction target for six of the applicable seven areas tested. However, SBA was not compliant with IPERA reporting requirements because disbursements for goods and services had an improper payment rate that exceeded the 10 percent threshold; and 7(a) loan guaranty purchases did not meet their annual reduction target. (Report 17-12)

- 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

- OIG reviewed purchase cards and conducted a risk assessment for SBA's travel card program for fiscal year 2017. This evaluation was performed in accordance with Office of Management and Budget Memorandum M-13-21, Implementation of the Government Charge Card Abuse Prevention Act of 2012. Our objectives were to (1) assess risks of illegal, improper, or erroneous purchases and payments associated with SBA's purchase and travel card programs and (2) determine the status of prior year recommendations.

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

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

  We found that while SBA made limited progress in restructuring and reshaping the workforce, it did not accomplish its stated goals of the VERA-VSIP program. As a result, SBA paid $2.1 million for early retirements for positions that were not restructured following VERA-VSIP. Overall, SBA may have been more successful in achieving its goals had it properly managed the VERA-VSIP program by developing specific and measureable VERA-VSIP goals, including accurate information in the VERA-VSIP plan, making significant changes to its organizational structure, and making substantial changes to job functions following VERA-VSIP. (Report 17-13)

- OIG reviewed SBA's procurement practices for contracts to acquire IT products and services. For FYs 2013 and 2014, 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, 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. 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 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 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, OIG 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)

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

Investigative Actions

- Colorado Real Estate Firm Owner to Pay over $950,000 in Restitution and Serve 48 Years in Prison. The owner of a Denver, CO, real estate investment firm was ordered to pay $951,571 in restitution and $3,745 in prosecutorial costs. He had previously 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 of incarceration for domestic violence. In June 2016, a jury had found the man guilty on 11 counts, including violating the Colorado Organized Crime Control Act; making forged (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 pled guilty and have been sentenced. The investigation showed that the owner obtained a $2,323,000 SBA-guaranteed loan to refinance his office building and other existing debt. To obtain the loan, he concealed his extensive criminal history and the fact that he was on probation. He also falsified documents related to his debts. The investigation also discovered that the owner and five other family members 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, Federal Bureau of Investigation (FBI), and Federal Housing Finance Agency OIG.

- <u>New Jersey Man to Pay over $4.3 Million.</u> A New Jersey man pled guilty in Federal court to making false statements. In December 2007, he submitted an SBA loan application for $1,750,000 and a commercial loan application for $2,000,000 to a bank, purportedly for restaurant financing. The $1,750,000 SBA loan and commercial loan funds, for a total package of $2,082,229, were disbursed in March 2008. The loan terms required that the money be used for construction, acquisition of machinery and equipment, and working capital. The man instead used the funds for his own benefit, including paying off gambling debts, sending money to family members, and paying a federal tax bill. Under his plea agreement, he must pay $2,657,687 in restitution and forfeit $1,696,506. This investigation is being conducted in conjunction with the FBI and the Special Inspector General for the Troubled Asset Relief Program (SIGTARP).

- <u>Defense Contractor to Serve 5 Years in Prison and Pay over $9.4 Million.</u> A Department of Defense account manager for an information technology firm was sentenced in the U.S. District Court in the District of Maryland to 60 months in prison after pleading guilty to conspiracy to commit wire fraud. He also must pay $9,440,340 in restitution. His firm was one of two subcontractors to an SBA Section 8(a) company. The investigation revealed that he participated in the three companies' scheme to defraud the Government by submitting fraudulent invoices that double-billed against the contract. He also submitted false claims for work not correctly performed, or that was performed with the contractor or subcontractors not complying with contractual or regulatory requirements. The investigation is being jointly conducted with the U.S. Air Force Office of Special Investigations, Defense Criminal Investigative Service, and Naval Criminal Investigative Service.

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

- Chicago-Area Entrepreneur to Serve 4 Years in Prison and Pay over $2.1 Million in Restitution. A Chicago-area entrepreneur was sentenced after two separate prosecutions in State court. Pursuant to his prior guilty plea to financial institution fraud, he was sentenced to 4 years of incarceration and 2 years of mandatory supervised release. He was also ordered to pay $2,117,842 in restitution. Pursuant to his guilty plea to sales tax evasion, the man was sentenced to 5 years of incarceration and 2 years of mandatory supervised release. The entrepreneur previously had been charged in connection with schemes to defraud SBA, a participating bank, the Illinois Department of Commerce and Economic Development, and the Illinois Department of Revenue. The schemes involved the commercial financing and retail sales tax for his theater businesses. The investigation revealed that, to obtain approval for over $4.86 million in refinancing for his failing business, the man directed his staff accounting manager to prepare false financial statements, alter profit and loss statements, and create bogus tax returns portraying a profitable business. He grossly inflated 2009 through 2012 sales income figures by $50,000 each and every month. Moreover, he submitted the false documents to a lender service provider and a financial institution to support his loan applications. A concurrent investigation by the Illinois Department of Revenue revealed sales tax evasion schemes at his two theaters. The businesses failed to pay at least $1.3 million in collected sales tax. Both businesses defaulted on their mortgages and filed for bankruptcy. This was a joint investigation with the Illinois Department of Revenue and the Illinois Attorney General's Office.

- New York Man to Serve 15 Years in Prison and Forfeit over $2.5 Million. A New York man was sentenced in Federal court to 15 years in prison and ordered to forfeit $2,500,050. Restitution will be determined at a later date. He had previously pled guilty to conspiracy to commit wire fraud. A second man was also named in the original indictment, but was not charged with disaster loan fraud. The two men are accused of participating in mortgage flip and loan modification schemes. In the flip scheme, they are alleged to have fraudulently induced lenders to issue mortgages and then kept some of the proceeds. In the modification scheme, they allegedly defrauded more than a thousand homeowners who paid them advance fees to have their troubled mortgages modified, only to do little or no work on the modifications. Regarding the disaster loan fraud scheme, the investigation disclosed that the first man obtained a $113,900 SBA disaster assistance loan in October 2013 to repair property damaged by Hurricane Sandy. The indictment alleged that he submitted false information to SBA to support his loan application. He also allegedly misused the loan proceeds by paying for personal expenses, including his wedding in Cancun, Mexico. This investigation was jointly conducted with the FBI, SIGTARP, and HUD OIG, under the direction of the U.S Attorney's Office.

- Guam Construction Firm Fraud Results in Nearly $1.9 Million in Forfeiture. A Guam construction firm, its owner, and its vice president (the owner's sister) were individually sentenced in Federal court, subsequent to previous plea agreements. The firm was sentenced to 5 years of probation and a $27,000 fine. The owner was sentenced to 3 years of probation, a $10,000 fine, and $2,334 in restitution. Finally, the vice president was sentenced to 3 years of probation, a $7,500 fine and $1,875,407 in forfeiture, which represented assets frozen by previous investigative efforts. All fines, fees, restitution, and forfeiture claims were paid on the date of sentencing. The firm and the owner had previously pled guilty to conspiracy to commit visa fraud. The vice president had pled guilty to conspiracy to commit money laundering. After the original indictments in 2014, investigators had served a seizure warrant to a bank for $1,875,407. The bank quickly froze the funds and issued an official check payable to the U.S. Department of the Treasury. Immediately after the bank seizure, the owner was located at his firm and arrested. The investigation revealed that the owner and vice president had misused the H-2B visa worker program while working on Section 8(a) set-aside contracts awarded to the firm. Moreover, the owner had a prior criminal history associated with a similar visa fraud violation in March 1998. He failed to disclose this while applying to the 8(a) program and in the firm's annual updates to SBA. His prior criminal history and misuse of the H-2B visa program are violations of the 8(a) program's entry and continued eligibility requirements related to "good character." Because of the non-disclosures, the firm was granted 8(a) status and improperly awarded over $20 million in 8(a) set-aside contracts. The investigation was worked jointly with IRS Criminal Investigation and Homeland Security Investigations.

Additional information on OIG's accomplishments is provided in the Statistical Highlights section of this document and in OIG's *Spring 2017 and Fall 2017Semiannual Reports to Congress*.

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 2017 Actual**	**FY 2018 President's Budget**	**FY 2018 Annualized CR**	**FY 2019 Initial Agency Submission**	**FY 2019 President's Budget**
New Budget Authority	$19.9	$19.9	$19.8	$21.9	$21.9
Transfer from Disaster Loan Program Account	1.0	1.0	1.0	1.0	1.0
Total	**$20.9**	**$20.9**	**$20.8**	**$22.9**	**$22.9**

The OIG's FY 2019 budget request includes $160,000 for training, which is sufficient to satisfy all training needs for the fiscal year, and $51,000 for the operation of the Council of Inspectors General on Integrity and Efficiency.

Statistical Highlights

FY 2017

Summary of Office-Wide Dollar Accomplishments

As a Result of Investigations & Related Activities:	
–Potential Investigative Recoveries & Fines	$53,742,750
–Asset Forfeitures Attributed to OIG Investigations	$12,723,538
–Loans/Contracts Not Approved or Canceled as a Result of Investigations	$534,155
–Loans Not Made as a Result of Name Checks	$12,951,400
Investigations Sub-Total	**$79,951,843**
As a Result of Audit Activities:	
–Disallowed Costs Agreed to by Management	$2,134,349
–Recommendations that Funds Be Put to Better Use Agreed to by Management	$0
Audit Sub-Total	**$2,134,349**
TOTAL	**$82,086,192**

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

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

Indictments, Informations, Convictions, and Other Case Actions

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

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

Present Responsibility Referrals to the Agency	106
Suspensions Issued by the Agency	0
Proposed Debarments Issued by the Agency	26
Final Debarments Issued by the Agency	33
Proposed Debarments Declined by the Agency	0
Administrative Agreements Entered by the Agency in Lieu of Debarment	2
Present Responsibility Actions by Other Agencies	5

Agency Legislative and Regulatory Proposals Reviewed

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

OIG Organizational Structure

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 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 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 OIG's workforce and adjudicates OIG employees and contractors for issuance of PIV cards pursuant to HSPD-12 background investigations requirements.

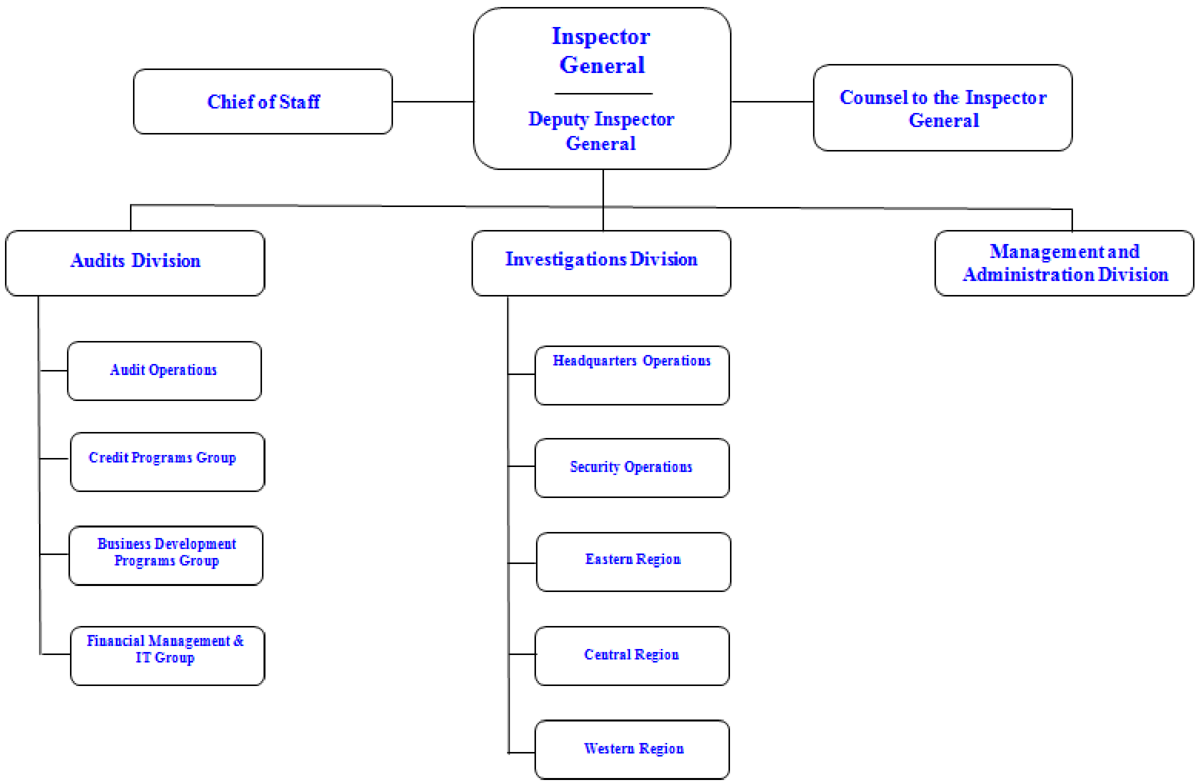
The **Management and Administration Division** provides business support (e.g., budget and financial management, human resources, IT, and procurement) for the various OIG functions and activities.

The **Office of Counsel** provides legal and ethics advice to all OIG components; represents 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, designs trainings, provides course instructors, and reviews and comments on proposed policies, regulations, legislation, and procedures.

OIG **Hotline,** under the purview of the **Chief of Staff**, reviews allegations of waste, fraud, abuse, or serious mismanagement within SBA or its programs from employees, contractors, and the public. 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 OIG, with SBA program offices, or with other governmental agencies.

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

Small Business Administration
Office of Inspector General



This page intentionally blank.