



Office of Inspector General U.S. Small Business Administration

December 2003 Update

Agency Management

The OIG Issues an Audit Report on Cosponsorship Activities. On December 17, 2003, the Office of Inspector General (OIG) issued an audit report on Cosponsorship Activities – Los Angeles District Office. Nine district cosponsored events conducted between January 2000, and November 2002, were reviewed. The OIG concluded that the events were not planned and conducted in accordance with Federal laws and SBA policies and procedures. Cosponsorships are to be planned such that they do not generate a profit. If profits occur, they are to be applied to similar events. The cosponsors inappropriately accumulated \$248,000 in profits from cosponsored events, and used \$121,000 for activities unrelated to the events, and received \$7,500 from prohibited sources. In addition, gift funds totaling \$122,500 were solicited by district office employees in support of cosponsored activity from donors whose participation could result in a potential conflict of interest. The report contained five recommendations to the Associate Administrator for Field Operations.

Business Loan Program

The OIG Issues an Audit Report on an SBA-Guaranteed Loan. On December 23, 2004, the OIG issued a final audit report of an SBA guaranteed loan. The report found that the lender's inaction allowed a creditor to accept payments contrary to the terms set forth in a standby agreement. As a result, SBA made an improper payment of a portion of the guaranty totaling \$105,000. The OIG recommended that SBA seek recovery of \$105,000 from the lender for the improper payment made by the borrower to a standby creditor. SBA management agreed to the recommended recovery on the guaranty based on the results of the audit.

Agency Completes Final Action on Audit of the Disaster Credit Management System. In the audit, Monitoring of SBA's Implementation of the Disaster Credit Management System (DCMS), the OIG recommended that the Associate Administrator for Disaster Assistance, in conjunction with the Office of the Chief Information Officer, immediately conduct a security risk assessment for the DCMS project. As a result, SBA management provided OIG a copy of its Security Profile Package for DCMS. It consists of the results of a physical and computer security review and identifies vulnerabilities to the system.

Final Action Completed on Audit of SBA's Acquisition, Development and Implementation of the Joint Accounting and Administrative Management System (JAAMS). In the audit, the OIG recommended that the Chief Information Officer complete Certification and Accreditation (C&A) reviews prior to placing new SBA major applications and general support systems into production. As a result, the Agency affirmed that current policy requires a C&A review and system accreditation before the system is allowed to go into production, and all new systems will be accredited in this manner.

Government Contracting and Business Development Programs

Pennsylvania Man Found Guilty on all Counts. The president of a defunct Huntingdon Valley, Pennsylvania, construction company was found guilty by a jury trial on December 19, 2003, on all 13 counts that he had previously been charged within a superseding indictment. The president was found guilty of **making a material false statement to SBA, mail fraud, wire fraud, making a false statement to a Federally-insured financial institution, and money laundering.**

The investigation disclosed that the president improperly transferred \$495,000 from his construction business account ultimately to his personal offshore account in the Bahamas to hide the money from creditors. He did this while he was closing the construction business and abandoning its contracts and subcontractors. The president also falsely represented in his SBA Section 8(a) annual update form and attachments that he had relocated to Pennsylvania along with his SBA Section 8(a) certified business, and that he controlled the day-to-day operations of the company. The investigation disclosed that he did not relocate to Pennsylvania from Michigan and that he had another individual, who previously pled guilty to **an Information**, run the daily affairs of the business. The investigation further disclosed that they created false financial statements for the construction company and submitted them to a bonding company to obtain the necessary bonding for the company's bids and contracts. As a result of defaults on contracts, the bonding company incurred losses of almost \$6 million. In furtherance of the fraud scheme, the president falsely certified to the Veterans Administration (VA) that he was paying and intended to pay his subcontractors on a timely basis from proceeds he received on a window replacement contract at the VA Medical Center in Coatsville, PA. The president was also found guilty for submitting several sets of false financial statements to a bank to support a \$300,000 line of credit that the construction company had obtained. This investigation was based upon a request from the Naval Criminal Investigative Service (NCIS). The SBA OIG conducted this investigation jointly with NCIS, VA/OIG, and the Defense Criminal Investigative Service.

This monthly update is produced by the SBA OIG,
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The OIG has established an e-mail address (oig@sba.gov) that we encourage the public to use to communicate with our office. We welcome your comments concerning this update or other OIG publications. To obtain copies of such documents please contact:

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