



Office of Inspector General U.S. Small Business Administration

February 2006 Update

Disaster Loan Program

Advisory Memorandum on Processing Disaster Loan Application Declines. On February 2, 2006, the OIG issued a report on problems that occurred in processing a number of Gulf coast hurricane disaster loan application declines within SBA's Disaster Credit Management System (DCMS). Based on applicant complaints to both the Federal Emergency Management Agency (FEMA) and SBA that disaster loan rejection notices referenced incorrect addresses, SBA's Office of Disaster Assistance (ODA) identified 646 disaster loan applications with potentially erroneous address information either contained within the applications themselves or input into DCMS incorrectly. The disaster applications had been processed as declines by DCMS and uploaded to FEMA's National Emergency Management Information System (NEMIS). The OIG identified a lack of timely resolution and correction of these disaster loan applications. As a result, there may have been delays in applicants obtaining available benefits from either SBA or FEMA. The OIG recommended that: (1) ODA continue with its analysis of loan application decline issues and implement corrective measures for those disaster loan applications which were processed in error; and (2) prior to applications with address error problems being given declined status in DCMS in the future, SBA representatives contact those applicants to determine if the addresses are correct in the DCMS. ODA generally agreed with the finding and recommendations.

Advisory Memorandum on Disaster Application Referrals with "\$0 income". On February 17, 2006, the OIG issued an Advisory Memorandum, "Disaster Application Referrals with '\$0 Income' from FEMA Online Registration have Increased Costs and Demand for SBA Resources." The purpose of the report was to inform SBA of the impact of disaster applicant

referrals with the income field either citing "\$0 Income" or having been left blank in FEMA's Individual Assistance Center Online Registration. The lack of a screening process or qualifying criteria in this field has needlessly increased the volume of referrals of applicants to the SBA disaster assistance program. Moreover, the disaster applicants are delayed from consideration for FEMA Other Needs Assistance (ONA) grants until a determination is made on the outstanding loan application submitted to SBA. SBA agreed with our recommendations that the Agency improve its loan screening processes relating to "\$0 Income" referrals and work with FEMA to reduce unnecessary online disaster referrals.

Both of the above-mentioned reviews were conducted in conjunction with the President's Council on Integrity and Efficiency (PCIE) as part of its examination of relief efforts provided by the Federal government in the aftermath of Hurricanes Katrina and Rita. As such, copies of the reports have been forwarded to the PCIE Homeland Security Working Group which is coordinating Inspectors General reviews of this important subject.

Virgin Islands Homeowners Sentenced. On February 10, 2006, two co-owners of a house in St. Thomas, Virgin Islands, were sentenced in the U.S. District Court of the U.S. Virgin Islands. One of the owners was sentenced to 10 months imprisonment, \$150,000 in restitution, a \$200 special assessment fee, and 3 years of supervised release. He had previously pled guilty to two counts of making material false statements and one count of participating in fraud upon creditors. The second owner was sentenced to 1 year probation and a \$100 fine. He had previously pled guilty to one count of compounding a crime. The investigation revealed that the co-owners of the house in St. Thomas falsely represented to the SBA, FEMA, the Home Protection Roofing Program (funded by FEMA), and insurance companies that their house had sustained

hurricane damage. In fact, the house had been damaged previously by a hurricane and they had knowingly purchased it with such damage in an “as is” condition. This investigation was based on a referral from the Department of Justice. The SBA OIG conducted this investigation jointly with the Department of Homeland Security (DHS).

Former Co-owner of Firm Pleads Guilty. On February 3, 2006, a former co-owner of a financial management firm in New York City pled guilty to one count of conspiracy, two counts of making false statements, and one count of mail fraud. He and the other former co-owner had been indicted previously for falsely claiming physical damage and economic injury as a result of the 2001 terrorist attacks. They applied for a \$1,000,000 SBA disaster loan for their company. The loan was denied because one of the co-owners had never filed U.S. Federal income tax returns. The investigation determined that their firm was not located in the immediate vicinity of the World Trade Center on September 11, 2001, and no evidence could be found to substantiate that it was actually in business during the terrorist attacks. This investigation was based on a referral from SBA’s Niagara Disaster Office. The SBA OIG conducted this joint investigation with the Social Security Administration OIG.

Business Loan Programs

SBA Borrower Sentenced. On February 6, 2006, a borrower intending to buy a convenience store was sentenced to 18 months probation. He had previously pled guilty in the Southern District of Texas to one count of false claim to U.S. citizenship. This investigation revealed that the borrower had obtained a \$286,200 SBA-guaranteed loan by providing false information during the loan process. He failed to disclose a pending lawsuit, falsified the origin of the cash injection, and provided false invoices in order to receive funds for work that was not accomplished. The SBA OIG conducted this joint investigation with DHS Immigration and Customs Enforcement, and the Texas Alcoholic Beverage Commission.

Agency Management

Agency Completes Final Action on Recommendation Made in Audit of Consolidation of SBA Systems. The Agency reported that it completed the following final action. The Office of the Chief Information Officer (OCIO) has altered the boundaries of the Sybase general system to include all application support capabilities for client-server systems performed at the Washington Headquarters Data Center, and has renamed the general support system as the Headquarters Data Services system. One recommendation contained in the audit report remains open.

Agency Completes Final Actions on Recommendations Made in the Audit of SBA’s Implementation of the Joint Accounting & Administrative Management System. The Agency reported that it completed the following final actions. (1) OCIO has ensured that, for future system development efforts, SBA will comply with the Federal Acquisition Regulations regarding separation of contractor duties, and (2) OCIO has revised its Information Technology Investment Manual to ensure that the same contractor is not used for both system selection activities and system design and implementation activities. Two recommendations contained in the audit report remain open.

Agency Completes Final Action on Recommendation Made in Survey of Electronic Records Management. The Agency reported that it completed the following final action. SBA has implemented training sessions, electronic inventory protocols, electronic management schedules, and a SBA procedural notice for annual records management for employees and contractors. All recommendations contained in the report have been completed.

Statutory/Regulatory/Policy Reviews

In effort to proactively identify and correct potential Agency inefficiency and management problems at the onset of policy and regulatory development, the OIG reviewed, cleared, and/or provided comments, as appropriate, on five Agency initiatives, including proposed legislation, Agency Standard Operating Procedures, and Agency notices containing directives to its employees.

This monthly update is produced by the SBA OIG,
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