



## Office of Inspector General U.S. Small Business Administration

March 2004 Update

### *Agency Management*

The OIG Issues Audit Report on Information Technology Enterprise Architecture. On March 2, 2004, the OIG issued an audit report on the Enforcement of SBA's Information Technology Enterprise Architecture during the development of the Disaster Credit Management System (DCMS). The objective of the audit was to determine if SBA's implementation of the DCMS provided adequate safeguards, controls, and testing before being placed into a production status, and if the DCMS complied with overall objectives of the SBA Information Technology Enterprise Architecture. The audit disclosed that SBA had not adequately enforced its Enterprise Architecture during the development of DCMS and made two recommendations to correct the deficiencies. The Chief Information Officer (CIO) agreed with the recommendations.

The OIG Issues Audit Report on Procurement Activities. On March 17, 2004, the OIG issued an audit report on SBA's Administration of the Procurement Activities of Asset Sale Due Diligence Contracts and Task Orders. The audit found that procurement practices for SBA's asset sale due diligence contracts and task orders that were "set-aside" for small businesses did not benefit small businesses, as provided for in SBA's regulations. The SBA did not: 1) ensure that small business regulations on subcontracting were complied with and, in at least two of the seven awards, the "50 percent" rule was violated; 2) question an improper teaming arrangement; and 3) support its intent to make due diligence awards to small, 8(a) businesses for one due diligence task order. In addition, SBA solicited only one company for a due diligence task order in violation of regulations.

The audit also found that SBA did not: 1) ensure contractors received impartial, fair and equitable treatment; 2) conduct discussions with offerors when necessary; 3) perform and document acquisition planning and monitoring in accordance with requirements; 4) always comply with other procurement policies and procedures; 5) properly report contracts and task orders to the Federal Procurement Data System; 6) follow the required procedures in handling Freedom of Information Act requests; and 7) ensure revised procedures were issued when its existing Standard Operating Procedure became outdated.

Additionally, our audit found that the General Services Administration's evaluations and determinations for responsibility of the due diligence contractors were unreliable and that SBA was overcharged by three of its contractors. As a result, we made 30 recommendations to correct the identified procurement and other contract administration deficiencies, and questioned \$1,690,838 in overcharges to SBA.

The Assistant Administrator for Administration generally disagreed with the findings and recommendations addressed to him. The Acting Associate Administrator for Government Contracting and the Acting Assistant Administrator for Policy, Planning and Liaison generally agreed with the findings and recommendations addressed to them. The Acting Assistant Administrator for Portfolio Management and the Assistant Administrator for Hearings and Appeals generally agreed with the recommendations addressed to them. The Chief Financial Officer (CFO) agreed with one of the recommendations addressed to him and requested that the wording of the other recommendation be revised.

The OIG Issues Management Letter. On March 23, 2004, OIG issued a management letter communicating "non-reportable conditions" to SBA

management that came to the attention of Cotton & Company during their audit of SBA's FY 2003 financial statements. The following areas, which were reported last year, were repeated because the conditions, as well as the need for implementing enhanced controls, continue to exist: 1) foreclosed property records and valuation; 2) lack of allotment details in the general ledger; 3) other areas for improvement, administrative costs and accountable property; 4) non-fiduciary intra-governmental reconciliations; and 5) funds control over administrative costs.

The management letter also noted new items or weaknesses in the areas of: 1) disaster area office travel authorizations; 2) the disaster area office centrally billed accounts; 3) loan servicing center shipping costs; 4) valuation of interest receivable balances for financial reporting; 5) surety bond guarantee liability estimate documentation; 6) modification adjustment transfer entries for loan guarantee programs; 7) completeness of performance data reporting; 8) recording of Master Reserve Fund (MRF) cash held outside of Treasury; 9) inappropriate augmentation of appropriations involving methods of payment of contractors; 10) documentation of the disaster loan subsidy re-estimate model; and 11) documentation of the secondary market guarantee model.

The CFO generally agreed with the findings and recommendations. The SBA's General Counsel is reviewing the finding relating to augmentation of appropriations for Fiscal and Transfer Agent interest and PLP contractor reviews before action is taken on related recommendations.

Final Action Completed on Audit of SBA's Oversight of the Fiscal Transfer Agent for the 7(a) Loan Program. In the audit, the OIG recommended that the CFO develop a process for estimating SBA's ownership in earnings from the MRF, that provides accurate, complete, and timely data for financial statements. As a result, during FY 2003, the CFO developed a model for this purpose. Although Cotton & Company was not able to complete its review of the MRF during the FY 2003 financial statement audit period, the Office of the Chief Financial Officer (OCFO) maintains that this MRF model completed the management action on this item.

## *Business Loan Program*

Former Missouri Company President Indicted. A former Raytown, Missouri, company president was indicted on March 9, 2004, on one count of **making a material false statement**. The president falsified the required \$75,000 equity injection on a \$311,000 guaranteed loan. The company secretary also pled guilty to **an Information** that charged her with one count of **making a material false statement**. The investigation revealed that as part of the equity injection, the president paid \$11,500 at closing, but recovered these funds from the corporation. The president and the secretary made or caused other false statements regarding the equity injection, including a landscaping invoice falsely marked paid in full, and a false and inflated listing of personal property supposedly injected into the business. They also supplied copies of invoices that reportedly documented owner equity injection for the purchase of machinery, equipment, furniture, and fixtures, when in fact these invoices were largely for credit purchases that were later paid with corporate funds. This case was initiated based on a referral from the Kansas City District Office.

Two Chicago Business Owners Indicted. On March 9, 2004, two Chicago business owners, a husband and wife, were indicted on one count of **conspiracy to submit false statements to a financial institution**. In addition, the husband was charged with one count of **bribery of a public official**, one count of **submitting false statements and reports to a financial institution**, one count of **possession and use of a counterfeit U.S. Certificate of Naturalization**, and three counts of **aiding and abetting**, in connection with his 504 loan application. The business owner was previously arrested and charged in a Federal Complaint to one count of **bribery of a public official** and one count of **submitting a false statement to a financial institution**, in connection with his 504 loan application. He submitted a loan application to finance a new property and improvements for his interstate trucking firm. He claimed he was a U.S. citizen in his application; however, an OIG investigation revealed that he was not a citizen and was residing in the U.S. illegally. When the SBA requested that the Certified Development Corporation (CDC) obtain evidence of naturalization, he admitted that he was not a U.S. citizen and requested a meeting with an SBA official. During that meeting, he again admitted he was not a U.S. citizen and presented a

counterfeit certificate of naturalization, and offered a \$5,000 cash bribe to the SBA official, who was cooperating with the OIG, to influence an official act. He was arrested outside of the SBA Illinois District Office. The investigation also revealed that his wife had conspired with her husband to prepare and submit several application forms containing false statements, to meet with a CDC representative, a bank officer and a SBA official, and to conceal the acts in furtherance of their conspiracy. This investigation was initiated based on an anonymous complaint. The SBA OIG is conducting this on-going investigation jointly with the Department of Homeland Security.

Former Oregon Loan Broker Indicted. On March 10, 2004, a former loan broker and business owner was indicted on six counts of **bank fraud**. The indictment alleged that he engaged in a scheme to defraud the bank of more than \$500,000. The business owner submitted false loan applications to the bank containing the names and personal identity information, fictitious business information, and forged signatures of the borrowers. In addition, he opened checking accounts in these borrowers' names, to which the loan funds were deposited. He wrote checks on the accounts and forged the borrowers' signatures on the checks. He used the loan proceeds for personal purposes. The Federal Bureau of Investigation (FBI) and OIG conducted a search warrant on his residence and found original applications for some of the above-charged loans, original cancelled checks from some of the fraudulently-opened accounts, and mortgage loan files. During the search, he confessed to falsifying the applications charged in the indictment. This investigation was initiated based on a referral from the Portland District Office. The SBA OIG is conducting this on-going investigation with the FBI.

Former Illinois Business Owner Sentenced. A former business owner in Bloomington, IL, was sentenced on February 9, 2004, to 16 months incarceration, 4 years supervised release, and ordered to pay \$217,602.10 in restitution and pay a \$200 special assessment fee. The business owner pled guilty to one count of **bank fraud** and one count of **making false statements** to a bank. The business owner was been indicted and charged with six counts of **bank fraud** and six counts of **making false statements** to a bank. The indictment related to a \$375,000 SBA-guaranteed loan. The loan was to be used to take over his father's

heating/cooling/plumbing business. The investigation revealed that he submitted false and fraudulent invoices to the bank in order to receive loan disbursements. The business owner submitted invoices from a fictitious business for items that were never purchased, and that far exceeded the amount of equipment that was actually purchased. The investigation also revealed that after the loan closed he took the \$125,000 capital injection out of his business and paid off a personal loan he previously secured in order to come up with the capital injection. This was a violation of the loan agreement, which detailed that the capital injection was to be used as working capital and to purchase inventory. This investigation was initiated based on a referral from the SBA Springfield Branch Office.

New Jersey Production President Indicted. On March 19, 2004, the president of a production company in Flemington, New Jersey, was indicted on one count of **making material false statements** and one count of **bank fraud**. The charges were filed in connection with a \$350,000 SBA-guaranteed loan. The loan funds were for working capital, non-SBA associated debt repayment, and the acquisition and/or repair of machinery or equipment. In support of the loan application, the president submitted a false invoice for the purchase of computer-related equipment. The computer equipment was never received by the production company. The president also failed to pay outstanding equipment leases as stipulated in the loan authorization. This case was referred to the OIG by the SBA New Jersey District Office. The SBA OIG is conducting this on-going investigation with the United States Postal Inspection Service.

South Carolina President Furnished Fraudulent Information. On March 15, 2004, an Edgemoor, South Carolina, company president furnished **inaccurate and fraudulent** information to a CDC. The CDC withdrew their approval of a \$688,000 SBA 504-guaranteed loan, and \$516,000 cost avoidance (the SBA's guaranteed debenture portion of the approved loan). Specifically, the borrower allegedly inflated inventory and claimed assets that did not exist. The president also allegedly had a criminal record that was not disclosed during the application process. Our investigation determined that the 504 loan was approved to purchase a building for his business. A National Crime Information Center criminal history check revealed that he had three arrests on his record. The president marked "NO" to all questions regarding arrests and convictions on the SBA Form 912,

Personal History. The CDC withdrew their approval of his ban based on his false statements. This investigation was initiated as a result of an SBA Hotline call.

## ***Government Contracting and Business Development Programs***

The OIG Issues Inspection Report on SACS/MEDCOR. On March 9, 2004, the Inspection & Evaluation Division published its report, SACS/MEDCOR: *Ineffective and Inefficient*. The report focused on the Section 8(a) Business Development (BD) Program's primary database, SACS/MEDCOR, and its history of documented problems: 1) data are often missing, not up to date and inaccurate; 2) SACS/MEDCOR does not contain much of the information needed for the annual report to Congress; 3) SACS/MEDCOR's reporting capability is poor; and 4) SACS/MEDCOR cannot be used to manage the 8(a) BD Program. Taken as a whole, SACS/MEDCOR is an ineffective and inefficient program management tool. To effectively manage and assess the effectiveness of the 8(a) BD Program, the SBA needs quality data and a system that will: 1) make data easily available to all staff; 2) track, monitor and evaluate firms' progress, thereby supporting management reporting and analysis; and 3) facilitate the dissemination of SBA products to stakeholders.

The report recommended that the Office of Government Contracting and Business Development (GC&BD) analyze its business processes to determine specific data needs to support and manage the program. The report also recommended that GC&BD, in conjunction with the OCIO: 1) design, develop, and implement a management information system that will support the program mission and objectives; 2) provide useful information for the Agency and its stakeholders; and 3) enable the Agency to measure program results. GC&BD agreed with OIG's findings and recommendations and is already taking steps to implement the recommendations.

This monthly update is produced by the SBA OIG, Harold Damelin, Inspector General.

The OIG has established an e-mail address ([oig@sba.gov](mailto: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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If you are aware of suspected waste, fraud, or abuse in any SBA program, please call the:

**OIG FRAUD LINE at (202) 205-7151**  
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