



Office of Inspector General U.S. Small Business Administration

July 2005 Update

Agency Management

Agency Completes Final Action on Recommendation Made in Audit of SBA's Planning and Assessment for Implementing Presidential Decision Directive 63. The Agency reported that it completed the following final action: SBA's Critical Infrastructure Protection Plan was revised to include all the elements required by the Presidential Decision Directive. One other recommendation contained in the report remains open.

Agency Completes Final Action on Recommendation Made in Audit of SBA's FY 2003 Financial Statements. The Agency reported that it completed the following final action: policies and procedures were issued for the subsidy re-estimate process. No other recommendations contained in the report remain open.

Agency Completes Final Action on Two Recommendations Made in Audit of SBA's FY 2003 Financial Statements – Management Letter. The Agency reported that it completed the following final actions: (1) the disaster subsidy model was revised to run faster and provide more reliable estimates and re-estimates; and (2) the assumptions made in the disaster model were refined. Five other recommendations contained in the report remain open.

Agency Completes Final Action on Six Recommendations Made in Audit of SBA's FY 2004 Financial Statements. The Agency reported that it completed the following final actions: (1) a process to cancel undisbursed disaster loans was implemented; (2) the quality of cash flow models was improved; (3) an audit trail for interest rate estimates and re-estimates was implemented; (4) quality review procedures over interest rates were refined; (5) analytical tools for cash flow forecasting were refined; and (6) an approach was developed for quantifying the impact caused by differences between

actual and projected cash flows when using interim data for projecting re-estimates. Six other recommendations contained in the report remain open.

Agency Completes Final Action on Recommendation Made in Audit of SBA's Administration of the Procurement Activities of Asset Sales Due Diligence Contracts and Task Orders. The Agency reported that it completed the following final action: overcharges were referred to the GSA Contracting Officer for appropriate action. Twenty-one other recommendations contained in the report remain open.

Agency Completes Final Action on Eight Recommendations Made in Management Advisory Report on the Consolidation of SBA's Systems. The Agency reported that it completed the following final actions: (1) several smaller systems were consolidated into major systems; (2) previously identified risks to the smaller systems were carried forward into the consolidated systems; and (3) several non-major systems were declassified. Five other recommendations contained in the report remain open.

Business Loan Programs

OIG Issues Report on Audit of SBA-Guaranteed Loan. On July 15, 2005, the OIG issued a report on an audit of an SBA-guaranteed loan to an auto sales company. The audit found that the lender did not: verify the full amount of the equity injection, secure collateral, and properly accrue interest. OIG recommended that SBA seek recovery of \$308,960 from the lender on the guaranty paid. The lender agreed that there were some deficiencies, but did not agree that they warranted full denial of the guaranty. The Office of Financial Assistance generally agreed with our recommendation and stated that it would request the return of the funds from the lender.

Ohio Businessman Pleads Guilty. On June 20, 2005, the former General Manager of a food manufacturing business formerly located in Portsmouth, Ohio, pled guilty to one count of submitting a false statement to the SBA. He was sentenced to six months home-confinement, five years probation, and ordered to pay \$115,500 restitution. In May 2005, his wife pled guilty to one count of accessory after the fact and was sentenced to pay a \$100 fine and a \$25 special assessment fee. The businessman and his wife were charged for their involvement in a scheme to falsify application documents and misuse loan proceeds in connection with a \$700,000 loan made to the business. The OIG opened this investigation based on a referral from the SBA's Columbus District Office.

New Jersey Business Owner Sentenced. On July 6, 2005, an Egg Harbor, New Jersey, business owner was sentenced to 5 years probation, 6 months home confinement, and 100 hours community service, and ordered to pay restitution in the amount of \$106,827.78. Of that amount, \$82,643.63 is payable to the SBA, with the remainder payable to an SBA lender. The restitution is to be paid jointly and severally with three other individuals who were sentenced in June 2005. The business owner previously pled guilty in January 2005 to one count of conspiracy to commit false statements in relation to a SBA-guaranteed loan that was obtained by a New Jersey window manufacturing business. One of the other three individuals obtained a \$1,750,000 SBA-guaranteed loan in order to purchase the company and the real estate where it is located. The amount of the SBA guaranty was approximately 43%. The terms of the loan required that individual, who was the only applicant and personal guarantor, to make a \$700,000 capital injection into the business. The New Jersey man's ownership interest in the company was concealed. The ensuing investigation revealed that all four individuals conspired to falsely represent to the lender that the injection was made, instead entering into mortgage agreements with the sellers in the amount of \$700,000, thus allowing them to secure business loans with 100% financing. SBA OIG conducted this investigation based on a referral from the SBA New Jersey District Office.

OIG Recommends Debarment. The OIG recommended that SBA debar a husband and wife for making false material misrepresentations to obtain an SBA-guaranteed loan. The OIG investigation

determined that the wife falsely claimed to have injected at least \$241,100 into the business prior to the closing of a \$727,000 loan. The wife's false misrepresentations included a \$100,000 gift letter from her father, when this money was actually a loan. The business filed for bankruptcy after making only five interest-only payments on the loan. The wife pled guilty to violating 15 U.S.C. § 645(a) and was sentenced to 5 years probation and ordered to make restitution in the amount of \$171,572.15. The husband entered into an Agreement for Pretrial Diversion, accepting responsibility for the crime of violating 15 U.S.C. § 645(a) by making a false statement in connection with an application for the loan. The OIG sent its recommendation to the debarment official for the loan programs, the Associate Administrator for Lender Oversight.

Agency Completes Final Action on Recommendation Made in Management Advisory Report on the Transfer of Operations to the National Guaranty Purchase Center. The Agency reported that it completed the following final action: steps were taken to identify and manage risks at the National Guaranty Purchase Center. Three other recommendations contained in the report remain open.

Agency Completes Final Action on Three Recommendations Made Audit of Equity Injection in the SBA 7(a) Loan Guaranty Program. The Agency reported that it completed the following final actions: (1) current guidance on equity injections was changed to rely on the policies of its private sector lending partners; and (2) loan authorization boilerplate was revised to include more specific information on equity injection. SBA did not agree to further changes to its forms for equity injection information. Two other recommendations contained in the report remain open.

Disaster Loan Program

New York Woman Pleads Guilty. On May 3, 2005, a Bronx, New York, woman pled guilty to one count of mail fraud and one count of theft of government funds. The woman was indicted on the same charges on March 17, 2005. The guilty plea and indictment related to applications filed with the SBA and the Federal Emergency Management Agency (FEMA) for aid in the aftermath of the September 11 terrorist attacks. The woman filed an application with FEMA in which she falsely stated that she had been residing in the vicinity of

the World Trade Center and that her furniture and car had been destroyed by debris when the towers collapsed. She received \$1,668 from FEMA. The woman also submitted an application and other supporting documents to the SBA for a Disaster Home Loan in which she made the same statements regarding her apartment and car as she had made to FEMA. She was denied a loan by the SBA because of her poor credit history and lack of repayment ability. SBA OIG conducted this investigation jointly with the Department of Homeland Security OIG based on a referral from the SBA Niagara Disaster Office.

Former Attorney Pleads Guilty. On June 8, 2005, a former Mamaroneck, New York, attorney pled guilty to criminal charges of wire fraud and money laundering. On July 12, 2005, he reached a civil settlement with the U.S. Attorney's Office, Southern District of New York, in the amount of \$300,000. The U.S. Attorney's office filed a civil complaint filed against the man on July 6, 2005, charging him with making false claims on his application for a SBA disaster business loan after the terrorist attacks on September 11, 2001. He applied for and received an SBA Disaster Loan for his law firm in the amount of \$247,000, claiming that the firm was not able to utilize the downtown office for six weeks because of its proximity to the World Trade Center, and that the partners at that location were forced to double up in the firm's Westchester office. The investigation revealed that the firm was never located at the address provided. SBA OIG is conducting this continuing investigation with the Internal Revenue Service based on a referral from the New York State Bar Association.

Small Business Investment Companies

OIG Issues Report on Liquidation of Small Business Investment Companies (SBIC). On July 28, 2005, the OIG issued an audit report on the process used by the SBA Investment Division to liquidate SBICs. The OIG found that the liquidation process could be improved through the establishment and implementation of better goals and performance indicators, controls, and oversight. The Associate Administrator for the Investment Division agreed with nine of the recommendations, partially agreed with

one, and neither agreed nor disagreed with seven for which he required more time to study.

Other

Washington State Woman Charged with False Personation of a Federal Employee. A Washington State woman was arrested on July 5, 2005, based on a criminal complaint filed on July 1, 2005, in U.S. District Court, Tacoma, Washington, for two counts of false personation of a Federal employee or officer. The Federal Bureau of Investigation, Tacoma Police Department, and Pierce County Sheriff's Office assisted the SBA OIG with the arrest. The SBA OIG investigation found that in April and May 2005, the woman submitted two Federal grant applications to the Washington State Office of Juvenile Justice, in the name of "Small Business Administration (SBA) (RMR)" stating she was "Director." One grant requested \$92,000, while the other did not define an amount. The grants were denied after the State contacted the SBA and verified that the woman was not an SBA employee. The woman had previously claimed to be affiliated with the SBA, Washington, D.C., for various personal reasons, including gaining online access to State of Washington computer databases, deleting prior arrests in Pierce County, Washington, and regaining custody of her daughter. SBA OIG conducted this investigation based on a referral from the SBA's Seattle District Office and the Washington State Department of Social and Health Services, Office of Juvenile Justice.

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 9 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,
Peter L. McClintock, Acting Inspector General.

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:

Theresa McCane, SBA/OIG
409 Third Street SW., 7th Floor
Washington, DC 20416
e-mail: OIG@SBA.GOV
Telephone number (202) 205-6580
FAX number (202) 205-7382

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If you are aware of suspected waste, fraud, or
abuse in any SBA program, please call the:

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