U.S. Small Business Administration

FALL 2000

Semiannual Report of the Inspector General

A Report to Congress
April 1, 2000 – September 30, 2000
Pursuant to Public Law 95-452

Foreword

I am pleased to submit our Semiannual Report on the Office of Inspector General's (OIG) activities from April 1, 2000, to September 30, 2000.

Fiscal Year 2000 has proven to be another period of solid accomplishment by this Office. Looking at the standard productivity measures for OIG activities, we see that the Office issued reports on 31 audits and 2 inspections. OIG investigations resulted in 73 indictments and 38 convictions for criminal violations. The Office brought its collective experience to bear in reviewing 323 legislative, regulatory, policy, and procedural proposals concerning SBA and Government-wide programs. Overall, OIG dollar accomplishments from all activities totaled over $39 million. All of this was accomplished with an appropriation of $11.4 million (after rescission) and an average staff level of about 110.

While the numbers are impressive, they do not tell the whole story. SBA's increased emphasis on outsourcing and information systems modernization has provided us with increased challenges in our oversight efforts. Over the past year, the Office has addressed many of the critical issues facing the Agency. With respect to financial management within SBA, we contracted with a CPA firm to conduct the audit of SBA's FY 1999 financial statements. The Agency obtained an unqualified opinion on its financial statements for the fourth year in a row, and is taking significant actions to address financial reporting and systems control problems. OIG also issued reports on SBA's financial reporting process and eligible costs for the Small Disadvantaged Business Certification and Eligibility Program, which should lead to significant changes in those programs. In the area of information technology (IT), we reviewed the Agency's IT security, systems development, critical infrastructure, and Y2K efforts. Our investigative staff responded to situations involving misuse of the Internet and worked proactively with Agency managers to address these issues. As to lender oversight, we embarked on a joint audit/inspection effort to review SBA's oversight of its preferred lenders, continued our oversight of the Small Business Lending Company review program, and issued audits on early defaulted loans and the Y2K loan program. We also examined the level of coordination of SBA's many entrepreneurial development programs and recommended significant improvements in the way their performance is measured and reported. Finally, we completed the first in a series of reviews on SBA's implementation of the Government Performance and Results Act. These reports contain significant findings and recommendations for continued improvements in SBA's operations.

I would like to express my deep appreciation for the ongoing support and interest of the Administrator, Deputy Administrator, and SBA's senior staff. Without their willingness to assist us and take action on our recommendations, we would not be effective. Over the past year we have worked together to address many of the challenges facing SBA, and I believe that this has made a positive difference in the way Agency programs are being delivered to our customers, the small business men and women in America.

Phyllis K. Fong

Phyllis K. Fong
Inspector General

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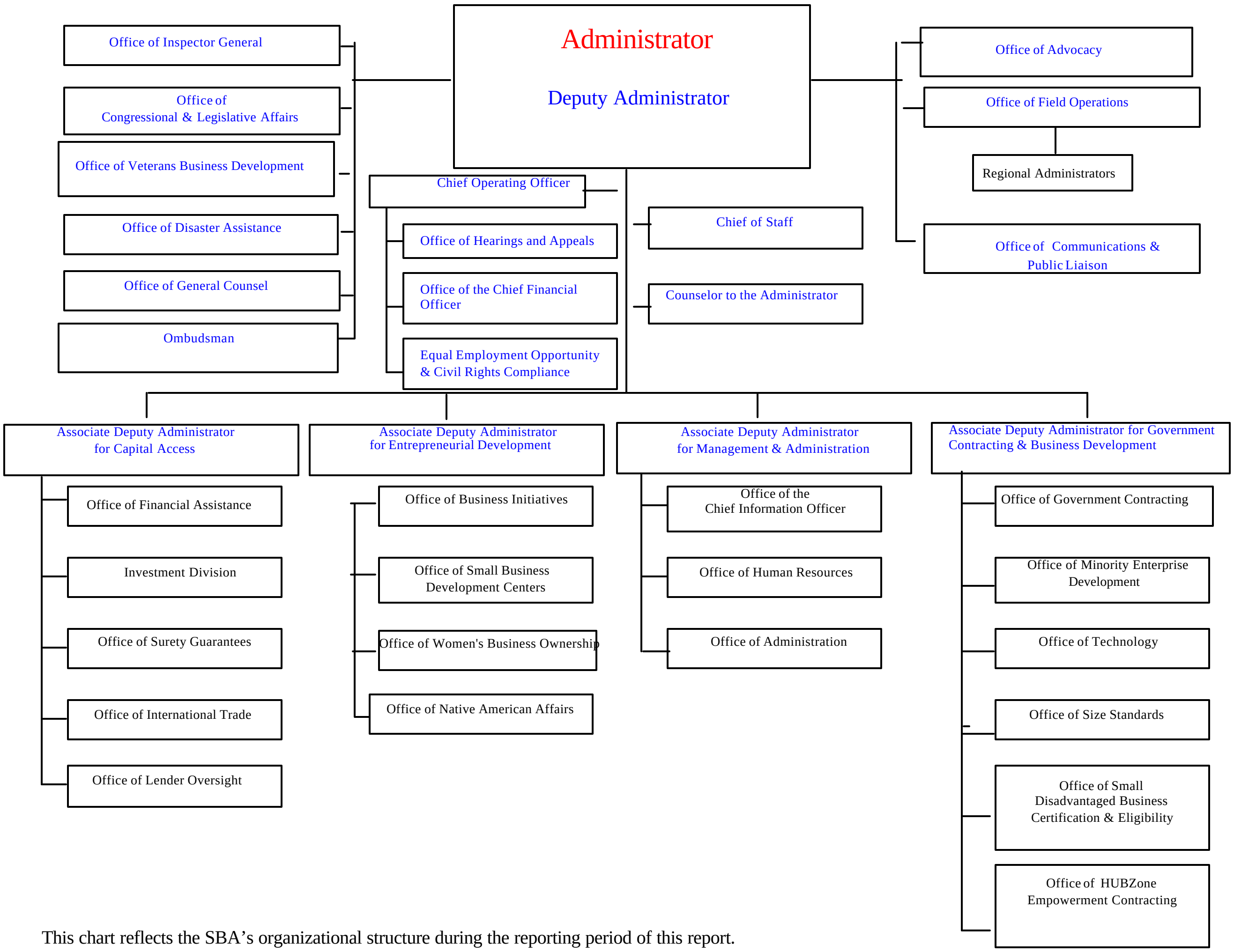
SBA Overview

United States Small Business Administration



This chart reflects the SBA's organizational structure during the reporting period of this report.

Agency Overview. The Small Business Administration (SBA) was established in 1953 to assist small businesses from startup through the many stages of growth. SBA's two major goals are to help small businesses succeed and help Americans recover from disasters. SBA offers many services to new entrepreneurs, including developing a business plan, obtaining financing, marketing products and services, and addressing management issues.

SBA programs are delivered in every State, the District of Columbia, the Virgin Islands, Guam, and Puerto Rico. SBA has a FY 2000 appropriation of $873.7 million and has 4,217 employees including Disaster Assistance and Office of Inspector General (OIG).

The Office of Capital Access has several loan and other programs that assist small businesses. The largest business loan program is the Section 7(a) program. Currently, the Agency is authorized to guarantee up to $750,000 of small business loans. The maximum guarantees are 75 percent for loans over $100,000, and 80 percent for loans of $100,000 or less. Under the Section 7(a) authority, SBA offers a variety of specialized products and processes including the Certified and Preferred Lender programs (CLP and PLP), Low Documentation (LowDoc), SBA*Express*, Community Express, Pre-Qualification, CAPLines, Defense

Loan and Technical Assistance (DELTA), Community Adjustment and Investment Loan, Export Working Capital, International Trade Loan, Energy and Conservation Loan, Pollution Control Loan loan programs. In addition, under the authority of Section 7(a) of the Small Business Act, SBA provides loans and grants to not-for-profit organizations that use these funds to provide small loans (currently up to $25,000) and technical assistance to small businesses. The Small Business Investment Act also authorizes SBA to guaranty debentures used to fund long term fixed asset purchases for developing small businesses. All of the specialized business loan programs are intended to provide entrepreneurs financing vehicles needed to help them start or grow their small businesses. In FY 2000, the Office of Lender Oversight was established to effectively coordinate oversight of the Section 7(a) and 504 programs. In addition to the loan programs, the Office of Capital Access also has the Surety Bond Guarantee Program.

The Office of Entrepreneurial Development administers programs which offer counseling and assistance through SBA's many resource partners, such as Service Corps of Retired Executives (SCORE), Small Business Development Centers (SBDCs), Business Information Centers (BICs), U.S. Export Assistance Centers (USEACs), and One Stop Capital Shops (OSCS). These resource partners provide guidance and expertise to new entrepreneurs.

The Office of Government Contracting and Minority Enterprise Development administers programs that assist small businesses with Federal procurement opportunities. The Office of Minority Enterprise Development (MED) provides technical and procurement assistance to eligible businesses through two principal programs: (1) Business Development, which encompasses the Section 8(a) program and the Mentor-Protégé program; and (2) Management and Technical Assistance. The Office of Technology expands the competitiveness of small high technology research and development businesses in the Federal marketplace through two programs: Small Business Innovation Research and Small Business Technology Transfer. The Office of Size Standards reviews and establishes industry size standards. The HUBZone Empowerment Contracting (HUBZone) program is designed to stimulate economic development and create jobs in urban and rural communities by providing contracting preferences to small businesses located in historically underutilized business zones. The Office of Small Disadvantaged Business Certification and Eligibility (SDBC&E) certifies companies applying as small disadvantaged businesses (SDB); oversees a nationwide network of selected private certifiers who help process applications; and maintains a public on-line registry of certified SDBs for access by contracting officers and the general public.

The Office of Disaster Assistance offers assistance to victims of hurricanes, floods, earthquakes, wildfires, tornadoes, and other physical disasters. SBA's disaster loans are the primary form of Federal assistance for non-farm, private sector disaster losses. SBA is authorized by the Small Business Act to make two types of disaster loans: (1) physical disaster loans, which provide a primary source of funding for permanent rebuilding and replacement of uninsured disaster damages to homeowners, renters, non-farm businesses of all sizes, and nonprofit organizations; and (2) economic injury disaster loans, which provide businesses with necessary working capital until normal operations resume after a physical disaster. The disaster program is SBA's largest direct loan program, and the only SBA program for entities other than small businesses. SBA delivers disaster loans through four specialized Disaster Area Offices located in Niagara Falls, NY; Atlanta, GA; Ft. Worth, TX; and Sacramento, CA.

Significant Activities and Management Challenges

OIG Strategic Plan

OIG's strategic plan articulates the office's vision to improve SBA's programs by identifying key issues facing the Agency, ensuring that corrective actions are taken, and promoting a high level of integrity. OIG continues to focus on serving the needs of our customers and stakeholders and on safeguarding SBA resources from waste, fraud, and abuse. We strive to provide a work environment in OIG that is conducive to excellent performance by our employees. Our vision was translated into a new Strategic Plan for FYs 2001-2006 and a companion FY 2001 Annual Performance Plan that expands on the goals and objectives in the Strategic Plan. The three goals in the Strategic Plan are to: (1) improve the economy, efficiency, and effectiveness of SBA programs; (2) prevent and detect fraud and abuse, and foster integrity in SBA programs and operations; and (3) ensure the economical, efficient, and effective operation of OIG. These goals provide the broad framework of our mission from which we further focus our work in the following five cross-cutting areas: (1) financial management systems; (2) information systems and computer security; (3) lender oversight; (4) other selected high-risk issues; and (5) Agency initiatives. A summary of our strategic plan is provided on the inside cover of this report.

Top Ten Major Management Challenges

In response to a request from Chairmen of the House and Senate Government Affairs and Budget Committees, and the House Majority Leader in December 1999, OIG developed a list of ten serious management challenges facing SBA. Below is a summary of the Agency's recently reported efforts to implement the recommended actions that would resolve these challenges. A full discussion of these issues can be found on OIG's web site: www.sba.gov/ig.

Focus #1
Financial Management

OIG recommended that the Agency develop and implement a program-based cost accounting system. The Agency's action plan is to implement a state-of-the-art allocation model using an activity-based costing system with semiannual surveys of employee time usage, and to provide a seamless interface between the Joint Accounting and Administrative Management System with cost accounting data in the future. In addition, the Agency is scheduled to implement a core accounting system at the beginning of FY 2002. This system will provide a foundation for development of a cost accounting system to provide more detailed unit cost data and meet Federal Accounting Standards Advisory Board requirements. In the interim, SBA has conducted four surveys for FYs 1997, 1998, 1999, and 2000 that measure employees' time spent administering various SBA programs and activities. This translates to cost data attributed to various SBA programs and activities in SBA's accounting system.

Focus #2
Information Systems

OIG recommended that SBA improve its information system controls. The Agency is monitoring the status of the security enhancement program through the Information Systems Control Committee, documenting the security program, implementing access controls, creating an application development and change control system, building a service continuity plan, and segregating duties. In FY 2000, the Agency issued a standard operating procedure (SOP)

Focus #3
Lender Oversight

on Information Systems Security, significantly increased the staffing and resources directed to this area, and conducted several risk assessments on key Agency systems which are critical steps in addressing this challenge.

OIG reported that SBA district offices do not consistently apply guaranty purchase requirements. The Agency has centralized the guaranty purchase review process for SBA*Express* loans and created a system to review 10 percent of all loans purchased on a quarterly basis. The Agency conducted two of these reviews during FY 2000. SBA recently began tracking the loan purchase process to identify offices with shortcomings in their processing of guaranty purchase requests and repair actions taken by field offices. The system changes now being developed will include detailed information on purchase actions, including information on full and partial denials of liability.

OIG recommended that SBA improve loan monitoring. The Agency is developing a comprehensive lender oversight program to include a risk management system that benchmarks lender performance, a loan monitoring system that tracks loan status and lender performance, and a review process for lender compliance.

The Agency recently established an Office of Lender Oversight to further ensure that lenders originate and service SBA-guaranteed loans in a manner that protects the borrowers and SBA from unnecessary loan defaults. SBA also began developing a more detailed automated monitoring system for Section 504 and 7(a) loan programs. The system is intended to monitor such factors as the size of a lender's portfolio of SBA-guaranteed loans, the size of recent additions to the portfolio, default and purchase rates, and industry concentrations. The system will also detect problems with the portfolio that merit scrutiny.

OIG reported that SBA needs an effective oversight process for Small Business Lending Companies (SBLC). OIG delegated its authority to the Agency to implement a safety and soundness oversight program for SBLCs. As of July 2000, two rounds of SBLC examinations were completed. The Agency has directed all SBLCs to implement the recommendations made in the FY 2000 reviews. The first round of examinations also resulted in a consolidated report with 15 recommendations to SBA. SBA is considering the actions it needs to take on these recommendations.

Focus #4
High Risk

OIG concluded that more participating companies need to obtain contracting opportunities in the Section 8(a) program. The Agency plans to improve the fair and equitable distribution of contracting opportunities for Section 8(a) firms and provide enhanced business development and procurement assistance to Section 8(a) firms.

OIG concluded that participants who become wealthy are allowed to remain in the Section 8(a) program and be considered economically disadvantaged. SBA plans to address this issue through a reinvention process hosted by the

Department of Defense's (DOD) Change Management Center (CMC). According to MED officials, SBA, DOD, and the Office of Management and Budget (OMB) have entered into an agreement whereby a team of Federal agency representatives will identify key issues and recommend areas for improvement in the following areas: (1) Section 8(a) firms' competitiveness in today's business environment; (2) Section 8(a) program eligibility; (3) Section 8(a) contracting processes; and (4) Metrics to determine program success. SBA's Jumpstart Rapid Improvement Team (RIT) was held November 1 – 3, 2000. The RIT, comprised of 31 stakeholders from across government, was tasked to identify breakthrough opportunities and recommend a prioritized action path for Governmentwide SBA 8(a) program improvement.

OIG reported that SBA does not enforce its rules to limit pass-through procurement activity to non-Section 8(a) program participants. The Agency intends to accurately define and classify, under the appropriate North American Industry Classification System (NAICS) code, goods and services being procured by the Government through Section 8(a) firms and identify and define those industry areas where goods and services are being procured by the Government, but are not addressed in the NAICS coding structure.

OIG recommended that SBA put more emphasis on preventing loan agent fraud. The Agency submitted a legislative proposal and plans to register loan agents and monitor loan agent association with individual loans.

OIG recommended that all borrowers in SBA's business loan program be subject to criminal background checks. The Agency submitted a legislative proposal to change legislation to require background checks of all loan applicants and agents. The Agency also assisted in the collection of documents from 3,000 loan files in support of Operation Cleansweep III, which is a proactive OIG investigative initiative to determine the accuracy of criminal history information reported by loan applicants.

OIG continues to monitor management challenges.

OIG continues to monitor SBA's progress in addressing the management challenges identified by OIG in previous years. To assist us in developing the management challenges for FY 2001, we are conducting focus groups across the country with SBA employees to obtain greater Agency input.

The next section of this chapter details significant OIG accomplishments in the five areas of strategic focus.

Financial Management Systems

Financial Reporting Process Audit

OIG conducts audit of SBA's financial reporting process and finds that the Agency has begun significant effort to overcome weaknesses.

In July 2000, based on direction from the Senate Appropriations Committee, OIG issued an audit report on the integrity of SBA's internal financial management systems, including an examination of Agency difficulties in completing its FY 1998 annual financial statements and account balances. OIG had previously reported SBA's financial reporting process as a material weakness. The July 2000 report described how SBA's financial reporting system did not ensure that its financial statements would be prepared timely and free of material misstatements. Specifically, SBA: (1) lacked a single integrated general ledger as required by OMB; (2) relied on complex, error prone, manual processing; and (3) lacked comprehensive plans and procedures for preparing financial statements. The report also noted that SBA had begun a significant project that, if fully implemented, could overcome those weaknesses. The Agency generally agreed with the report's recommendations.

Small Disadvantaged Business Certification and Eligibility (SDB) Program Audits

SDB Audit identifies weakness in financial management controls.

OIG issued an audit of SDB obligations and expenditures. The SDB program provides Federal procurement benefits to SDBs bidding on Federal contracts by giving them a price preference of up to 10 percent on their bids. SBA was approved to certify all SDBs bidding for Federal contracts beginning in FY 1998 and receives reimbursements for the cost of certification from the top 20 agencies utilizing SDBs. OIG identified weaknesses in the financial management controls over the allocation of costs to the SDB program. Specifically, OIG identified about $3 million in expenditures and obligations that were for non-SDB certification purposes. These activities included costs related to construction, furnishings, equipment, personnel, consultants, training, and marketing. The OIG was initially unable to satisfy its documentation requirements for an additional $3.2 million ($2.8 million in overhead and $.4 million for a Section 8(a)/SDB application system) in SDB expenditures to conclude whether the costs were correctly allocated. OIG recommended that the Agency develop and implement an allocation methodology that meets Economy Act requirements. SBA has since accomplished this. Additionally, OIG made recommendations concerning other areas where management action was required; one of which concerned the overstaffing of SDB program and supporting offices. As a result, SDB funding for FY 2001 has been reduced by $8.3 million. OIG also completed and issued three additional audits relating to the SDB program. The results of all four audits are discussed further in the OIG Activities chapter.

SBA has made progress and agrees to OIG's recommendations to improve information systems controls.

Information Systems and Computer Security

Systems Security Program Audit

OIG issued an audit report of its review of the general controls over SBA's financial management systems to determine if those controls complied with various Federal requirements. The report included several recommendations for further implementing the agencywide systems security program. SBA agreed to address OIG's recommendations and to implement solutions to improve information systems controls. This audit is further discussed in the OIG Activities chapter.

Presidential Decision Directive (PDD) 63 Audit

OIG issued an audit report on SBA's planning and assessment for implementing PDD 63. PDD 63 calls for a national effort to ensure the security of the United States' critical infrastructures. OIG evaluated SBA's planning and assessment activities for protecting its critical cyber-based infrastructure. OIG concluded that SBA has made significant progress toward implementing key aspects of PDD 63, but additional actions are still needed. The Chief Information Officer (CIO) agreed with the recommendations. This audit is further discussed in the OIG Activities chapter.

Lender Oversight

PLP Loan Oversight Review

I&E and Auditing Divisions collaborate on review of PLP loan oversight process.

As part of an effort to improve efficiency in its loan programs while addressing staff reductions, SBA has moved toward increased privatizing of its loan functions. Currently, over 75 percent of the Agency's loan approvals are originated and serviced by Agency lending partners through the Preferred Lender Program (PLP), LowDoc, and SBA*Express* programs. SBA developed a field review process, conducted by a mix of SBA employees and contractor staff to assess the performance of all PLP lenders. The PLP review process has been used as the model for oversight of regular and certified lenders. Because the PLP review process is a key tool for adequate monitoring of PLP lenders, in FY 2000 the Inspection and Evaluation (I&E) and Auditing Divisions began a joint effort to assess the effectiveness of the PLP review process.

I&E staff conducted extensive interviews with SBA program and review officials, and officials of the National Association of Government Guaranteed Lenders, a trade association representing Section 7(a) lenders. They also examined written reviews and lender action plans developed to address inadequate review ratings and observed the PLP review process. Based on this

OIG oversight of SBLC program continues.

Y2K audit finds SBA program generally sound.

work, they conducted a PLP review process survey of all SBA district offices to solicit the opinions of field managers on the current PLP review process and the future direction of the PLP reviews, including the possible use of field staff to conduct the review process. Building on the I&E Division's research and survey results, the Auditing Division completed an audit survey of the PLP oversight process and is conducting an audit of SBA's oversight of PLP lenders. The objectives of the audit are to determine whether SBA has appropriate mechanisms in place to: (1) ensure lenders are properly selected for PLP status; and (2) identify lenders that are not processing, servicing, and liquidating loans in accordance with SBA requirements. The audit will include a review of a selected sample of lenders participating in the program and PLP loans. The report will be completed in FY 2001.

SBLC Oversight Continues to Receive OIG Attention

OIG executed a Memorandum of Understanding (MOU) with the SBA Office of Capital Access (OCA) to delegate the authority to examine SBLCs to ensure that SBLCs operate in a safe and sound manner. OIG retained its oversight and quality control functions. To carry out this effort, OCA and OIG signed an agreement with the Farm Credit Administration (FCA) whereby FCA will examine up to 14 SBLCs annually to evaluate their safety and soundness and compliance with applicable laws and regulations. During the initial round of SBLC examinations conducted in FY 1999, the OIG completed a quality assurance review of the examination process and issued a report in April 1999. The Office of Capital Access agreed to implement the three recommendations contained in the report.

The second round of SBLC examinations included procedures to assess the corrective actions taken by each SBLC in response to prior findings and recommendations. OIG reviewed this process and expects to issue a report in early FY 2001. In addition, the General Accounting Office (GAO) conducted a review of the SBLC examination process and, as part of that review, looked at SBA's responses to the recommendations contained in the FCA FY 1999 Comprehensive Summary Report on SBLCs. GAO plans to issue its report in November 2000.

Audit of Y2K Loan Program

OIG conducted an audit of the Y2K Loan program to comply with the requirement of the Small Business Year 2000 Readiness Act (the Y2K Act). The objective of the audit was to determine if the Y2K loans were properly processed and disbursed by the lenders, and proceeds used in accordance with the Y2K Act. OIG found that, with one exception, the loans were generally processed, disbursed, and the proceeds used in accordance with the Act. A more detailed discussion can be found in the OIG Activities chapter.

Early Default Audits

OIG has an ongoing program to audit early defaulted SBA-guaranteed loans. An early default is a loan that is charged off or transferred to liquidation within 36 months of origination. Three early default audit reports were issued from April 2000 through September 2000. OIG found that in two of the three audits, the lender did not execute the loans in accordance with SBA rules and regulations. The third audit revealed that the loan in question was processed, closed, and disbursed in compliance with SBA's requirements. OIG concluded that the loan defaulted due to lack of adequate sales volume that led to bankruptcy, therefore, no recommendation was made.

Other Selected High-Risk Issues

OIG identifies three trends in fraud in the Agency's loan programs.

Over the years, OIG investigations of fraud in SBA's loan programs have identified trends or types of fraud. Three major trends in recent years are: (1) fraud involving loan agents; (2) fraud involving false tax returns; and (3) fraud involving borrowers who do not disclose criminal histories.

Fraud Involving Loan Agents

Loan agents provide referral and loan application services to prospective borrowers or lenders for a fee. Some agents, particularly loan packagers, have been involved in a variety of fraudulent schemes, such as submitting false tax returns or other financial data, charging the borrower excessive fees, using fictitious names on SBA forms, exaggerating the borrower's ability to gain loan approval, acting in illegal collusion with officials of lending institutions, conspiring with borrowers to submit false loan packages, and performing other illegal acts. These schemes, which have been copied from one fraudulent agent to another, have resulted in loan purchases and losses by SBA and, ultimately, the taxpayers.

During this reporting period, OIG investigations of this type of fraud resulted in two indictments and two convictions. Details of the cases are described in the OIG Activities chapter.

Fraud Involving False Tax Returns

Over the last 10 years, OIG has received nearly 500 allegations that false tax returns were submitted in support of SBA applications (over 98 percent for business or disaster loans). These fraud referrals involved loan applications totaling approximately $130 million that were submitted to 57 SBA offices. To date, 159 individuals have been indicted on criminal charges, 140 have been adjudicated guilty, 3 indictments were dismissed, 1 defendant was acquitted, and 15 others have not yet gone to trial. Because of the implicit credibility of Federal tax returns, SBA has traditionally relied heavily on information they contain in making its credit-related decisions, so falsification of "copies" of returns can have a significant negative impact on SBA's consideration of those applications.

Significant results of investigations of this type of fraud include 10 indictments, 5 convictions, and more than $535,000 in restitution during the last 6 months. Summaries of OIG investigations related to the use of altered or fictitious tax returns can be found in the OIG Activities chapter.

Fraud Involving Borrowers Who Do Not Disclose Criminal Histories

OIG investigations for criminal-history fraud yield one indictment, one conviction, and two arrests for the second half of FY 2000.

A series of investigative projects known as Operations Cleansweep I, II, and III have disclosed that borrowers who fail to disclose criminal histories have higher rates of default on SBA loans than those that either disclose their records or have no criminal histories. To address this problem and reduce the loss to the Government, SBA has requested legislative language strengthening the Agency's authority to require the information needed to run background checks on all loan applicants. During this period OIG investigations for criminal-record fraud in connection with SBA's programs yielded the following significant results: one indictment, one conviction, and two arrests. Details of these accomplishments can be found in the OIG Activities chapter.

Operation Cleansweep III was initiated by OIG to detect fraudulent applications so they may be referred for appropriate criminal and/or civil action, provide a heightened level of deterrence through increased enforcement actions, and determine if additional changes in SBA policy are necessary to deter and prevent false statements in applicants' submissions of criminal history information. The current Section 7(a) business loan procedures rely on the truthfulness of the applicant in declaring the existence of a prior criminal record and allows for criminal and civil penalties for misstatements. Cleansweep III examined 3,000 loans randomly selected from the population of 9,038 non-SBA*Express* and non-disaster business loans approved during period from October 1, 1998, to December 31, 1998. The Cleansweep III report is being finalized and will be included in the next semiannual report.

Agency Initiatives

GPRA Audits

OIG is focusing attention on the Agency's implementation of the Government Performance and Results Act (GPRA). During the last 6 months, OIG issued two GPRA-related audits. The objectives of the audits are to determine whether the GPRA goals for the programs reflect the statutory missions, are consistent with the strategic plan, include efficiency and effectiveness measures, have measurable performance measures, and are supported by reliable data. SBA's Office of Policy has overall responsibility for directing and coordinating the implementation of the Results Act for all SBA program offices. Performance measures were developed by the program offices based on direction provided by the Office of Policy.

One audit evaluated implementation of GPRA performance measures for the Small Business Investment Company (SBIC) program. OIG found that the SBA Office of Policy and the Investment Division had not fully implemented the performance measurements requirements of the Results Act for the SBIC program. The performance indicators were not outcome-oriented and did not address GPRA priorities, such as customer satisfaction or program cost. Also, some of the underlying data supporting performance measurement were not reliable. The reporting of the number and dollar amount of financings made each year was inaccurate due to late reporting by the SBICs. About 26 percent of the financings reported for FY 1999 were from FYs 1994 to 1998. However, according to the Investment Division, the reported results, when adjusted for FY 1999 financings that were reported in FY 2000, understated the actual number and dollar amount of financings by at least 6 percent that should have been reported in FY 1999. Also, data relating to business ownership by women and minorities, as reported by the SBICs, was not supported by documentation. (The 30-day comment period for the final audit report ended 7 days after the reporting period for this report. Investment Division officials accepted all recommendations within the 30-day comment period.)

OIG completes SBG Program and SBIC Program audits to determine whether GPRA goals are met.

The other audit evaluated GPRA performance measurement for the Surety Bond Guarantee (SBG) program. The audit found that the program does not have performance measures to show it is fully achieving the intended purposes of the authorizing legislation. Further, the performance measures in SBA's FYs 2000 and 2001 performance plans do not address GPRA priorities such as program outcomes, service quality, or cost. The audit found that although the SBG program performance data are reliable, a few improvements in data collection and presentation could be made. OIG recommended that the Office of Policy, in conjunction with the Office of Surety Guarantees, ensure that SBG program goals include program outcomes, service quality, and program costs, as appropriate; SBG program indicators reflect these goals; and SBG performance data are complete and accurately presented. SBA management concurred with the findings and recommendations.

OIG has two additional GPRA implementation-related audits in progress for the Section 7(a) and Disaster Loan programs. An additional audit covering the Section 8(a) program is scheduled to begin in early FY 2001.

Entrepreneurial Development Inspection

I&E Division completes two inspections of SBA programs.

OIG performed an inspection of coordination and performance measurement in SBA's Office of Entrepreneurial Development (OED) programs. OIG found evidence of effective coordination among service providers in the three markets studied, and recommended a central intake function for districts lacking an efficient referral process. OIG also found significant differences in the performance measures used by providers, and recommended ways to standardize the measures for GPRA reporting. The Agency agreed with the recommendations. The findings are discussed in the OIG Activities chapter.

Loan Processing Center Advisory Memorandum

OIG issued an inspection advisory memorandum on data accuracy and verification issues regarding SBA Loan Processing Centers. OIG noted that addressing these data issues will improve accountability and risk management, and ensure data reliability for GPRA reporting. The Agency generally agreed with the recommendations and indicated that steps will be taken to implement them. The memorandum is discussed further in the OIG Activities chapter.

OIG Profile

There are five divisions of SBA/OIG.

SBA/OIG was established by the Inspector General (IG) Act of 1978. OIG provides nationwide coverage of SBA's programs and activities. In addition to the Immediate Office, OIG's five divisions work together to perform the missions mandated by the Congress.

- **Auditing Division** provides comprehensive audit coverage of SBA's operations through program performance reviews, internal controls assessments, and financial and mandated audits to promote the economical, efficient, and effective operation of SBA programs. Audits give SBA managers an objective and systematic assessment of how well their offices are carrying out their programs and operations. Financial audits examine the presentation of financial information, internal controls, and adherence to financial requirements. Performance audits assess operations in terms of economical and effective use of resources.

- **Investigations Division** is an investigative unit that manages a nationwide program to prevent and detect illegal and/or improper activities involving SBA programs, operations, and personnel. The criminal-investigative staff carries out a full range of traditional law enforcement functions, including (in the last 2 years) executing 24 arrest warrants, 9 search warrants, and 5 electronic monitorings. The security operations staff ensures that all Agency employees have the appropriate background investigations and security clearances for their duties. The name check program provides SBA officials with character-eligibility information on loan applicants and other potential program participants.

- **Inspection and Evaluation Division** conducts assessments of the effectiveness of SBA programs and activities, analyses of critical program issues, best practices studies, and research on matters concerning SBA performance.

- **Counsel Division** is an in-house legal staff that provides legal advice and assistance to all OIG components, represents OIG in litigation arising out of or affecting OIG operations, processes Freedom of Information and Privacy Act requests, and manages OIG legislative/regulatory review functions.

- **Management and Policy Division** provides planning, information systems, budgetary, administrative, personnel, and communications services.

OIG Profile

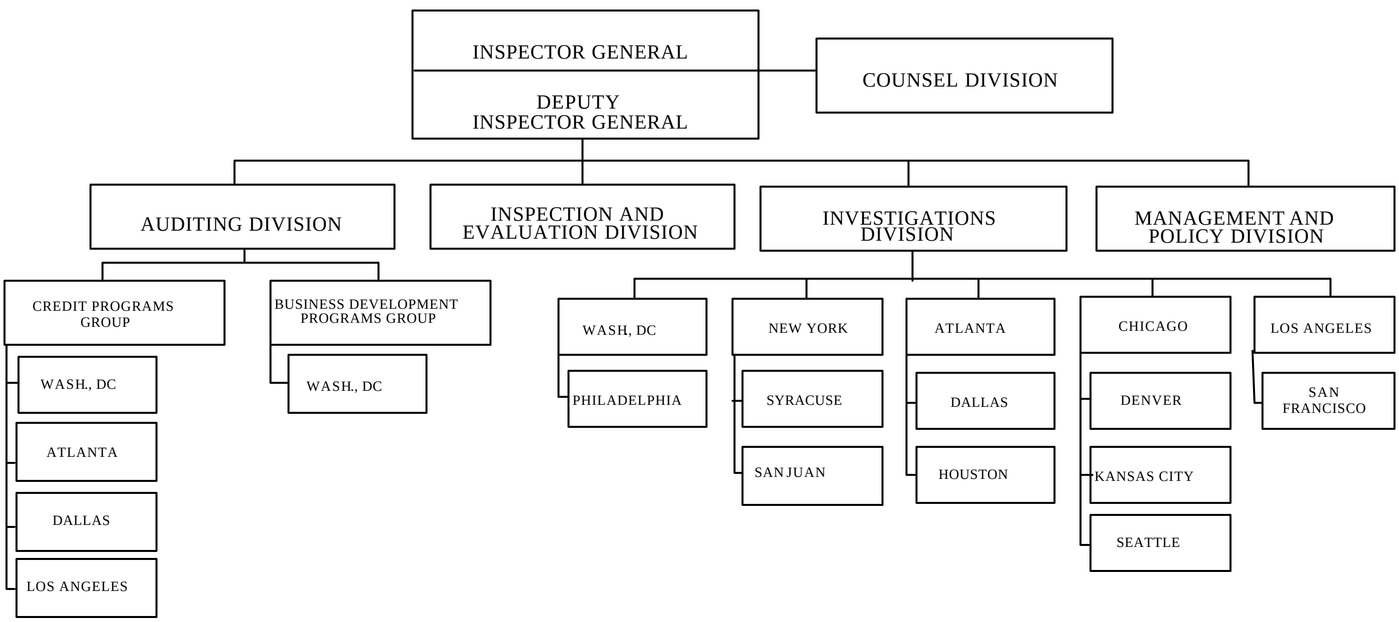
SBA/OIG has offices nationwide.

OIG is headquartered in Washington, D.C. and has field audit and investigation offices in Atlanta, Chicago, Dallas, Denver, Houston, Kansas City, Los Angeles, Philadelphia, New York, San Francisco, San Juan, Seattle, and Syracuse.

SBA/OIG resources.

As of September 30, 2000, our on-board strength was 111. The OIG FY 2000 appropriation was $11.0 million (less a .8274% rescission of $95,000), and $500,000 transfer for disaster assistance oversight activities.

OFFICE OF INSPECTOR GENERAL
SMALL BUSINESS ADMINISTRATION



OIG Activities

This chapter includes details of audits, investigations, and inspections summarized in the Significant Activities and Management Challenges chapter, as well as other significant OIG activities that do not fall under the strategic plan's five focus points. The material in this chapter is organized by major SBA program area.

Business Loan Programs

Y2K Loan Audit

OIG audit recommendations on the Y2K audit will reduce a loan guaranty to $346,000.

OIG issued an audit report on SBA's Y2K Loan program. The audit was done to comply with the requirement of the Y2K Act that OIG perform periodic reviews of a representative sample of loans to mitigate the risk of fraud and to ensure the safety and soundness of the program. The objective of the audit was to determine if the Y2K loans were properly processed and disbursed, and proceeds used in accordance with the Y2K Act. From a universe of loans, the auditors selected and reviewed five loans, valued at $992,000. OIG found that, with one exception, the loans were generally processed, disbursed, and the proceeds used in accordance with the Y2K Act. The exception was a $727,000 loan for which undisbursed loan proceeds of $346,000 became ineligible for the Y2K program after loan closing. The audit disclosed that the borrower had corrected its Y2K problems after receiving only $381,000 of the loan proceeds. SBA agreed with our recommendation to require the lender to limit disbursement to the amount needed for Y2K readiness purposes and to cancel the undisbursed loan proceeds and thereby saved SBA's guaranty authority for the remaining $346,000. Additionally, the audit disclosed minor noncompliances with SBA's policies and procedures in the areas of equity injections, monitoring of disbursements, and use of proceeds for three loans.

Review of LowDoc and Preferred Lender Program (PLP)

OIG inspection revealed several problems with the FY 1999 LowDoc and Preferred Lender Program loan database.

An Inspection Advisory Memorandum on *Data Issues Regarding the Processing Centers* reported several problems in the FY 1999 LowDoc and PLP loan database. First, OIG found that while identification of the approving office is important for defining accountability in risk management systems and for developing activity based costing, the approving/processing office for many FY 1999 LowDoc loans is not readily apparent in SBA's database. Second, OIG found that although SBA certified in its FY 2001 Annual Performance Plan that there are no limitations on the data for the number of loans provided to women, minorities, and veterans, SBA is dependent on the lenders' accuracy in recording the original data. Moreover, there appears to be some uncertainty in the Office of Financial Assistance (OFA) concerning what constitutes adequate data verification. Third, for approximately 40 percent of FY 1999 LowDoc and PLP loans, the name of the individual business owner is not recorded in SBA's database. As SBA increasingly outsources loan making and loan servicing operations and redefines its core business activities to include outreach, product development, and marketing, it is important for district office staff to have the names of the individual borrowers to effectively implement these efforts.

To address these problems, we recommended that OFA:

(1) Clarify responsibility within OFA for providing instructions to the field regarding making changes in data fields;
(2) Ensure that SBA field offices understand the requirement to fill in the approving office data field;
(3) Work with the Office of the Chief Information Officer (OCIO) to ensure that processing/approving office data are accurate;
(4) Align policy and practice for reconsidered LowDoc loans;
(5) Correct the Annual Plan certification statement regarding limitations on minority, women and veterans' data;
(6) Work with SBA's GPRA coordinators to ensure that adequate data verification methods are in place; and
(7) Require that the name(s) of the individual business owner(s) be entered into SBA's database.

OFA generally agreed with the recommendations. Addressing these data problems will improve accountability and risk management, and ensure data reliability for GPRA reporting.

OIG recommends that the Agency recover guarantees on two early defaulted SBA loans.

OIG has an ongoing program to audit early defaulted SBA-guaranteed loans. An early default is a loan that is transferred to liquidation or charged off within 36 months of origination. Three early default audit reports were issued from April 2000 through September 2000. The first report was on an $855,000 defaulted loan that OIG found was not made in accordance with SBA rules and regulations. The lender did not perform the proper evaluation of the new business' projected income and consequently approved the loan to a borrower that lacked repayment ability. OIG recommended that SBA's liability for the $635,981portion of the loan be denied. The second report was on a $296,000 SBA loan that defaulted 14 months after approval. OIG found that the lender inappropriately used funds designated for accrued taxes to assist in the purchase of real estate and imprudently disbursed the balance of these same funds to the borrower's principals. The borrower in turn failed to pay the taxes and defaulted on the loan. SBA's recovery was reduced by the amount of the unpaid taxes plus interest and penalties, and OIG recommended the district director recover $26,723 from the lender to repair SBA's guaranty of the loan. The third audit revealed that the loan in question was processed, closed, and disbursed in compliance with SBA's requirements. However, based on interviews and documentation in the loan file, OIG concluded that the loan defaulted due to lack of adequate sales volume that led to bankruptcy, therefore, no recommendation was made.

Fraud involving loan agents.

The following cases illustrate OIG investigations of fraud involving loan agents.

- In July 2000, a former SBA district director (DD) who later headed the SBA division of a now-defunct Paramount, California, bank was charged with and pled guilty to one count each of accepting a gift for procuring a loan and fraudulently receiving money from a loan transaction. The allegations date back to 1990 and 1992 actions at the bank, which the former DD joined after leaving SBA in 1984. He improperly accepted a $24,000 automobile from an Inglewood, California, loan brokerage as a reward for its business with the bank. Also, in his official capacity at the bank, he received money both directly and indirectly from the proceeds of a $1 million SBA-guaranteed loan made to the head of the loan brokerage to purchase a gas station and mini-mart business. The former DD failed to disclose either that he owned 50 percent of the business or that he would receive at least $65,000 of the loan proceeds for his personal use. According to a plea agreement he signed, he received approximately $2 million in incentive bonuses and commissions from the bank's secondary-market sale of SBA-guaranteed loans plus a base salary that eventually reached $250,000. During the former DD's years at the bank, at least 17 borrowers submitted fraudulent documents, including falsified "copies" of tax returns, seeking SBA-guaranteed loans.

  Eighteen other individuals have been charged to date in this loan brokerage case and an additional 6 in the case of a loan broker in Upland, California (see below), with whom the former DD did business. Twenty-one of the 24 have pled guilty, 1 was acquitted, and trial of the other 2 is pending.

  In addition, one borrower was indicted in the Inglewood, California, loan brokerage case during the past 6 months. A former owner of a fish market in Castaic, California, was indicted in June 2000 on five counts of making false statements to federally-insured financial institutions. The investigation disclosed that he submitted altered Federal income tax returns as part of his loan broker packaged application to the Paramount, California, bank for a $1 million SBA-guaranteed loan. He subsequently defaulted on the loan. After all liquidation efforts were completed, SBA charged off the balance of approximately $505,663. Subsequent investigation disclosed that the borrower had also submitted different altered Federal income tax returns to another bank to obtain a $580,000 home loan. He defaulted on the loans leaving the lender to charge off $215,570. OIG initiated the investigation based on allegations from an anonymous complainant.

Former SBA district director charged with and pled guilty to one count of accepting a gift for procuring a loan and fraudulently receiving money from a loan transaction.

Former accountant pled guilty to making false statements to a federally-insured financial institution.

- A former accountant from Alta Loma, California, and a California City, California, businessman were previously indicted on nine counts of making false statements to a federally-insured financial institution in connection with SBA-guaranteed loans. In April 2000, the accountant pled guilty to two counts; as part of his negotiated plea, the Government agreed to dismiss the other counts on which he had been indicted. The indictment charged him with preparing altered copies of tax returns submitted with four SBA-guaranteed loan applications. In May 2000, the businessman was acquitted on all counts. He had been charged with submitting altered tax returns in support of his $550,000 loan application and with aiding and abetting the accountant's crimes. This was one of six loan applications presented in 1991 by an Upland, California, SBA-loan broker to the Paramount, California, bank for SBA guaranty consideration. These applications totaled over $2.7 million but were actually part of a $4 million scheme.

The following cases illustrate OIG's work on fraud involving false tax returns.

OIG focuses on fraud involving false tax returns.

- The owner of a pork processing plant in Herscher, Illinois, was sentenced in April 2000 to 1 year plus 1 day incarceration, 3 years supervised release, and $460,833 in restitution to a participating lender and SBA. He previously pled guilty to one count of making false statements to a federally-insured financial institution, in connection with a $490,000 SBA-guaranteed business loan. The investigation revealed that he submitted altered tax returns to the bank and SBA to obtain the loan, failed to make the promised $150,000 capital injection, and sold a majority of the farmland pledged as collateral. The investigation was initiated based on a referral from the bank to SBA's Illinois District Office.

- The president and the corporate secretary of a residential real estate company in Santa Fe Springs, California, pled guilty to conspiracy, wire fraud, making material false statements, and money laundering. The corporate secretary pled guilty in August 2000 to 19 counts; the president pled guilty in July 2000 to 30 counts plus 1 count of bankruptcy fraud. In addition, a southern California tax preparer was charged in April 2000 in a criminal information with one count of conspiracy, two counts of mail fraud, and one count of aiding and abetting. The investigation found that the real estate company had obtained a $550,000 SBA-guaranteed loan to purchase a billiards club in Whittier, California, by using a false Social Security number (SSN) and fraudulent checks, submitting false financial statements, and by omitting the corporate secretary's criminal record from the SBA application. The tax preparer allegedly prepared altered income tax returns so that the president could obtain loans from the Department of Housing and Urban Development and SBA. The corporate secretary and the president also devised a double escrow scheme involving $4.5 million in fraudulent Federal Housing Authority-insured loans, made in connection with the sale of eight properties, on which the defendants would then collect rent payments. OIG joined the investigation at the request of the U.S. Attorney's Office.

- Four persons associated with an automotive repair business in Irving, Texas, were indicted in June 2000 on one count of conspiracy and nine counts of making material false statements to induce a non-bank participating lender and SBA to fund a $350,000 SBA-guaranteed loan. The firm's proprietor, his brother, and his sister-in-law allegedly submitted a falsified "copy" of a tax return along with fraudulent documentation of capital injections and equipment purchases. An employee of the business allegedly provided his co-conspirators with bogus sales invoices and other fraudulent documentation of their required capital injections and equipment purchases. In a related action, the proprietor's brother's $115,963 disaster loan application was declined in June 2000 after OIG notified SBA's Area 3 Disaster Office of his indictment. OIG initiated this investigation based upon an anonymous referral.

  In a related action, four persons associated with a gasoline station and convenience store in Grand Prairie, Texas, were indicted in August 2000 on 1 count of conspiracy and 11 counts of making material false statements to induce a non-bank participating lender and SBA to fund a $256,000 SBA-guaranteed loan. The firm's proprietor, a convicted felon, posed as his brother, using his brother's credit identifiers. The proprietor, along with the sellers, allegedly submitted six falsified copies of tax returns, three fraudulent Internal Revenue Service (IRS) tax return verifications, and numerous other fraudulent documents in support of a $75,500 capital injection into the business.

OIG investigative results of three cases of criminal history fraud involving SBA loan programs.

Summaries of some criminal history fraud investigations involving SBA loan programs are listed below.

- The president of a company in St. Louis, Missouri, pled guilty in April 2000 to one count each of mail fraud, wire fraud, making material false statements, using a false SSN, and impersonation of a U.S. Government officer. He was sentenced in September 2000 to 51 months incarceration and 3 years of supervised release. He had applied for a $295,000 SBA-guaranteed loan in March 1999, to purchase and operate a day care center. The investigation confirmed that mailings were used in his scheme to submit false statements regarding his educational background, work experience, criminal history, and financial status to a non-bank lender and SBA to obtain the loan. The non-bank lender canceled the loan before disbursement. This investigation was initiated based on a referral from the Department of Health and Human Services OIG.

- The owner of a now defunct photo studio in Bronx, New York, was indicted in August 2000 on one count of submitting false statements. The indictment charges that he falsely stated in an application for a $260,000 SBA-guaranteed loan that he was a U.S. citizen and that he did not have any prior criminal convictions. In fact, he had been convicted of alien smuggling and was a Federal fugitive wanted by the U.S. Marshals Service on a parole warrant. Further, Immigration and Naturalization Service (INS) records showed that he was not a U.S. citizen, but rather a legal resident alien facing deportation proceedings. SBA eventually charged off the $249,166 outstanding loan balance. OIG initiated this investigation based on information provided by the U.S. Marshals Service.

North Hollywood telemarketing agency owner arrested for violating the terms of his supervised release by making false statements on his Personal History form when applying for an SBA loan.

- The owner of a North Hollywood, California, telemarketing agency was arrested by OIG in May 2000. It was alleged that he had violated the terms of his supervised release from prison by making false statements to a federally-insured bank in applying for a $135,000 SBA-guaranteed loan. In the Statement of Personal History included with his 1999 application, he allegedly indicated that he had no criminal history. In fact, he had previously been convicted of transporting cocaine into the U.S. and was sentenced to more than 10 years in prison. When he applied for the SBA-guaranteed loan (his application was subsequently declined), he was on parole for this crime. Further investigation revealed that he had also made false statements, including concealing his criminal history, in applying for an earlier $430,000 SBA-guaranteed loan. The U.S. Probation Office asked OIG to join its investigation.

The following cases illustrate OIG investigations involving fraud to obtain loans.

- The owner of a clothing manufacturer in Dallas, Texas, was convicted in August 2000 on one count each of SSN fraud and making material false statements to obtain a $675,000 SBA-guaranteed loan. The Government subsequently dismissed the count of misappropriation of SBA collateral on which she had also been indicted. Using a false name, the businesswoman applied for the loan to open a second business in Prattville, Alabama. In the loan application, she gave a false SSN and a false name to conceal that her previous business had defaulted on an SBA loan and that she had previously filed for bankruptcy. The businesswoman also submitted fictitious tax returns and supporting IRS documentation, falsified financial statements, and other documents to obtain the loan. She then failed to purchase the equipment pledged as collateral and allegedly spent most of the loan proceeds for unauthorized personal purchases including two homes, cars, furniture, and other items. The businesswoman immediately defaulted on this loan, with a $689,983 loss to the non-bank lender and SBA. OIG initiated this investigation based on a referral from the participating lender.

SBA charge off of $175,051 on loan results from borrower submitting false documentation to obtain loan disbursements.

- Three persons associated with an equipment manufacturer in San Diego, California, were indicted in April 2000 on four counts of bank fraud, three counts of making false statements to a bank, four counts of wire fraud, four counts of mail fraud, five counts of fraudulent transfer of property in contemplation of bankruptcy, and one count of bankruptcy fraud. The company had obtained an $833,000 SBA-guaranteed Export Working Capital loan. The line of credit disbursements were to be used to finance production of mining conveyors. The defendants allegedly submitted false documentation to obtain the loan disbursements, including false invoices and false facsimile transmissions. To carry out the alleged fraud, they made false representations by wire communication and by Federal Express. The defendants also allegedly transferred property of the company to conceal it from the U.S. Bankruptcy Court. The indictment also charges that the company president made material omissions on the company's Statement of Financial Affairs to the U.S. Bankruptcy Court. SBA's net charge-off on the loan was $175,051. OIG joined the investigation at the request of the U.S. Attorney's Office.

The following cases illustrate OIG investigations involving fraud after loan default.

OIG investigation based on referral from SBA's Philadelphia District Office.

- A manufacturer in Lancaster, Pennsylvania, was indicted in May 2000 on three counts of mail fraud and three counts of making false statements to SBA. His company had obtained a $315,000 SBA-guaranteed loan that defaulted in 1991. The manufacturer made various offers of compromise to SBA during the period 1992-1995, including stating that his only asset was $60,000 of equity in his home. The indictment charges that during this time period he obtained $551,000 through an unrelated stock sale, opened various bank accounts in the names of his children, prepared bogus stock certificates showing that his children and other entities actually owned the stock, and purchased a warehouse for $475,000 in 1994. The indictment further alleges that the manufacturer at all times had complete control of the shares of stock and monies from the stock sale. He allegedly concealed financial information from SBA by submitting various false financial statements and false stock certificates via the U.S. Postal Service and Federal Express. The purpose was to induce SBA to accept his $60,000 compromise offer thus releasing him from personal liability for the remaining balance of the loan, estimated to be $437,000. OIG conducted this investigation based on a referral from SBA's Philadelphia District Office.

- The owner of a die cutting company in Fairfield, New Jersey, voluntarily surrendered to arrest in June 2000 after a criminal complaint was sworn against him by an OIG special agent. He was subsequently indicted on two counts of bankruptcy fraud. His company had received a now-defaulted $940,000 SBA-guaranteed loan from a non-bank participating lender. The indictment charged that, in connection with his personal bankruptcy petition, he concealed estate property from creditors and the U.S. Trustee. During the investigation, OIG obtained the court file pertaining to his bankruptcy proceedings, which contained a schedule in which he was required to list all real property he owned at the time of the bankruptcy filing. In the petition he allegedly signed, he claimed to own no real property. The investigation however, uncovered a deed and mortgage for a condominium that he took ownership of a year prior to signing the petition and that tax records show he still owns. SBA's New Jersey District Office brought the case to the attention of OIG.

OIG investigates cases involving SBA's lending partners.

The following narratives illustrate investigations of cases involving SBA's lending partners.

- A former executive director of a nonprofit microlender in Manchester, New Hampshire, was indicted in July 2000 on 10 counts of submitting false statements and 3 counts of conversion of funds. The Microloan program provides short-term loans ranging from under $100 to $25,000 through SBA-approved, nonprofit intermediaries. The executive director was required to report to SBA on a quarterly basis the balances of the bank accounts established to manage the microloan funds. According to the indictment, between November 1996 and March 1997, he knowingly submitted material false statements to SBA by vastly overstating the actual balances of the microloan accounts. Based on reports he submitted for the quarters ending June and December 1996, he claimed account balances of $325,678 and $409,486; however, the actual balances totaled only $15,900 and $67,071, respectively. From December 1995 to December 1996, he allegedly converted to his personal use $13,042 in microloan funds when he withdrew these funds from the microlender's accounts and deposited them into his private accounts. In June 1997, the microlender became insolvent and SBA took over administration of its loan portfolio. This investigation was initiated based on information provided by SBA's Office of Financial Assistance and New Hampshire District Office.

- A May 2000 Federal civil fraud complaint charged a Neodesha, Kansas, bank and the bank's president with making false statements to SBA and breach of contract. SBA had guaranteed 85 percent of the bank's $630,000 loan to a company that failed the following year. According to the lawsuit, the bank and its president submitted to SBA a falsely redacted appraisal that included buildings that were not part of the loan collateral. Although the lender did not obtain or review the credit report, they stated that the applicants had an excellent credit history. Further, the pair certified that there had been no substantial adverse change in the applicants' financial condition. In fact, upon learning that the company would not be receiving a $500,000 Community Development Block Grant (the grant application was never disclosed to SBA), they demanded additional security for the loan. Finally, the bank and its president certified that they had not received any Certificates of Deposit (CD) in connection with making his loan, when in fact they had obtained CDs totaling $55,000. The lawsuit claims SBA incurred damages of $474,587 due to the defendants' actions, and seeks triple damages, other civil penalties, and interest and costs. The investigation previously resulted in the prosecution of officials of the borrower company for making false statements regarding their true ownership and officer positions. This investigation was initiated based on a referral from SBA's Kansas City District Office.

Disaster Loan Program

The following case involves alleged SBA-related identity theft.

California man sentenced to 32 months and $153,560 in restitution to SBA after pleading guilty to 8 felony counts.

- A resident of Inglewood, California, pled guilty in June 2000 to eight felony counts (three counts of perjury, three counts of filing false information with the California Department of Motor Vehicles, one count of identity theft, and one count of grand theft against SBA). He was sentenced to 32 months in State prison and $153,560 in restitution to SBA. The investigation documented that the man obtained a $137,300 disaster home loan following the Northridge earthquake using the name and SSN of his brother. The man also quitclaimed his disaster-damaged Los Angeles property to his brother so the ownership and title of the property would match his forged identity. The man also forged pay stubs and W2 forms with his brother's name, SSN, and income to match the IRS verifications used by SBA to confirm the applicant's income. In addition, the investigation showed that the man had California driver's licenses (bearing his photograph) concurrently in his own name/date of birth and in his brother's name/date of birth. OIG initiated the investigation based on a referral from SBA's Santa Ana Loan Servicing and Liquidation Office.

The following case involves alleged fraud to both obtain and avoid liability for a disaster home loan.

- Two Phoenix, Arizona, residents were indicted in July 2000 on four counts each of mail fraud. The couple obtained a $231,300 disaster home loan after the Northridge earthquake. OIG's investigation revealed that they had submitted a series of false invoices to SBA indicating that various contractors had done work when in fact they had not. The couple also received two loan payment deferments from SBA. Both times they claimed they had no money or assets. The investigation later revealed the defendants owned five properties in the Phoenix area that were not disclosed to SBA. OIG initiated the case based on a referral from SBA's Santa Ana Loan Servicing and Liquidation Office.

This case resulted from a criminal-history fraud investigation.

- In September 2000, a seafood company in Grand Isle, Louisiana, was charged with and (through its president) pled guilty to one count of making false statements to influence SBA to disburse a $325,600 disaster loan for the business. The company admitted submitting documents that were false because they failed to disclose that the corporation and its president had been indicted for, and subsequently pled guilty to, violations of the Lacey Act. In their Lacey Act guilty pleas, they had admitted participating in the illegal transportation and sale of approximately 6,200 pounds of closed-season red snapper. In April 2000, SBA recovered $161,798 toward the outstanding balance of the seafood company's disaster loan based on findings of OIG's investigation. OIG initiated its investigation based on an anonymous Fraud Line complaint.

Small Business Investment Companies

The following case involves bank fraud and embezzling from an SBIC.

A consultant to an SBIC was sentenced to 12 months incarceration, 3 years probation and $244,847 in restitution for bank fraud.

- A consultant to the officers of a now-failed SBIC in New York, New York, was sentenced in May 2000 to 12 months incarceration, 3 years probation, and $244,847 restitution. He previously pled guilty to one count of bank fraud. He acquired control over the day-to-day operations of the company, a financial institution licensed by SBA, during The 15 months before it failed. He executed a scheme to defraud the SBIC by misappropriating and embezzling funds and other assets intended for, or belonging to, the SBIC. In furtherance of the scheme, he opened accounts at three banks in a name deceptively similar to that of the company he consulted for. He also deposited checks made payable to the investment company into the bogus accounts and converted the proceeds. Over $1 million was misappropriated in this fashion. After the SBIC failed and was placed in receivership, SBA, honoring its guaranty, was obligated to pay $4.7 million to the bank that issued the federally-guaranteed debentures to the SBIC. The investigation was based on a referral from SBA's Office of General Counsel.

Surety Bond Guarantees

Small and emerging contractors who cannot get surety bonds through regular commercial channels can apply for SBA bonding assistance under the Surety Bond Guarantee Program.

At the request of the Office of Surety Guarantees, OIG conducted an audit of a surety company participating in SBA's Surety Bond Guarantee program, and found that the surety in question did not maintain complete underwriting documentation for seven of the eight bonds reviewed and failed to obtain SBA's consent prior to a material alteration of one bond. The alteration resulted in a significant amount of additional work that was not part of the original bonded contract. The audit also found that the surety did not limit SBA's guarantee percentage on one bond when the contract exceeded the $1.25 million statutory limit, and it did not pursue its rights to liquidate collateral on another bond. In addition, the surety misallocated the loss on one SBA-guaranteed bond to another SBA guaranteed bond, did not have a valid power of attorney when executing a bond, and did not maintain a cancelled check to support one claim payment. As a result of the findings, the report recommended that SBA recover $880,677 from the surety. The Agency agreed with the recommendation to request return of the funds.

Minority Enterprise Development Program

OIG issued two audit reports concerning a cosponsorship between SBA and a nonprofit organization (nonprofit) to provide training regarding new Section 8(a), HUBZone, and SDB rules and contracting procedures in 12 major cities from October 1998, through April 1999. The nonprofit was responsible for general administration as well as executing and overseeing various contracts for the training events.

Audit of Nonprofit's Compliance with Cosponsorship Agreement

The objectives of the first audit were to determine whether the payments made to the nonprofit for services related to the cosponsorship were justified, to determine the nonprofit's compliance with the terms of the cosponsorship agreement, and to determine whether the nonprofit properly accounted for the fee income it collected. OIG found that the nonprofit was paid $121,394 for unjustified expenses under the cosponsorship, did not provide the amount of in-kind contribution agreed upon in the agreement, and did not provide the auditors with documentation supporting the accuracy of the $81,545 that it reported as fees collected.

The audit report contained four recommendations that SBA should recover any funds due the Agency from the nonprofit and determine appropriate actions to rectify the nonprofit's noncompliance with the cosponsorship agreement terms regarding the shortfall of in-kind contribution. SBA management officials agreed to seek reimbursement from the nonprofit for, or obtain invoices to substantiate the unjustified expenses with the condition that SBA first obtain a final accounting from the nonprofit.

In response to the audit, the nonprofit stated that it had appropriate documentation for all expenses incurred and fees collected, but was not able to provide it by the requested date. Any additional documentation provided by the nonprofit will be evaluated as part of the audit resolution process.

Agency's Administration of Cosponsorship Agreement Audit

OIG recommends six corrective actions regarding the execution and administration of future cosponsorships.

In concert with the first audit, OIG conducted a second audit of SBA's administration of the nonprofit cosponsorship. OIG found that SBA did not take appropriate actions before or after signing the cosponsorship agreement, which committed SBA to disburse up to $900,000 of Government funds to the nonprofit. The audit found that SBA:

(1) Entered into the cosponsorship without determining SBA's authority to disburse Government funds through such agreements;
(2) Entered into the cosponsorship without ensuring adequate safeguards over the Government's interests;
(3) Lacked controls to ensure appropriated funds were properly spent;
(4) Failed to raise known significant problems with the nonprofit's handling of the cosponsorship to the appropriate levels; and
(5) Failed to enforce the terms of the cosponsorship in reviewing the nonprofit's claimed expenses.

In the report, OIG recommended six corrective actions regarding the execution and administration of future cosponsorships where SBA is disbursing funds, and one action specific to the nonprofit cosponsorship. Although SBA did not agree with several of the findings, SBA officials generally agreed with all seven recommendations.

Section 8(a) Audit

OIG issued an audit report on a Section 8(a) firm (firm) which contracted with SBA to construct SDB space. The objective of the audit was to determine whether SBA properly evaluated the firm's initial eligibility for

OIG determines that SBA did not comply with its standards of conduct and Federal Acquisition Regulations.

the Section 8(a) program in 1997, ensured the firm's continuing compliance with Section 8(a) program requirements, and awarded and administered $658,000 in contracts to the firm according to applicable policies and procedures.

The results of the audit revealed SBA's process for evaluating the firm's initial Section 8(a) program eligibility was flawed because it relied on inaccurate and unverified financial information. Subsequently, the Agency did not ensure the firm's compliance with Section 8(a) program requirements by accepting a contract on the firm's behalf for which it was not eligible. In addition, SBA did not comply with its Standards of Conduct (SOC) regulations by awarding contracts without required approvals, and Federal Acquisition Regulations (FAR) by not documenting significant contract actions.

As a result, the Agency had reduced assurance that its programs and operations are achieving their intended purposes, in accordance with prescribed policies, procedures, and ethical requirements.

The auditors recommended that SBA: (1) suspend the firm from the Section 8(a) program based on the owner's non-disclosure of significant personal liabilities; (2) ensure that Section 8(a) program participants are in compliance with program requirements before accepting awards on their behalf; (3) review and revise the Agency's policies and procedures for ensuring compliance with the Agency's SOC regulations as necessary; (4) revise 13 CFR §105.201 to clarify that a Section 8(a) contractor's spouse should be considered a "household member," regardless of place of abode; and (5) document the contract files for two firm contracts to comply with the requirements of the FAR. SBA officials generally agreed with all five recommendations.

SDB Obligations and Expenditures Audit

OIG issued an audit of SDB obligations and expenditures. In the audit of funds received from other agencies in FYs 1998 and 1999 to certify SDBs, the auditors identified about $3 million in expenditures and obligations that were for non-SDB certification purposes. These Activities included costs related to construction, furnishings, equipment, personnel, consultants, training, and marketing. The OIG initially was unable to sufficiently satisfy documentation requirements for an Additional $3.2 million ($2.8 million in overhead and $.4 million for a Section 8(a)/SDB application system) in SDB to conclude whether the costs were correctly allocated. In addition to these results, SBA cancelled its plans to obligate approximately $410,000 for a construction project after the auditors questioned the appropriateness of using SDB funds for the project.

The audit also noted that there was no legal authority to enforce collection of reimbursements from participating agencies that ensured continual funding for this program, and the SDB program and supporting offices were overstaffed with SDB-funded employees based on actual workload. Subsequent to initiation of this audit in FY 1999, SBA reduced staffing and related expenses and, as a result, the requested SDB funding for FY 2001 is $8.3 million less than the amount received from other agencies for FY 1999. In addition, SDB furniture and equipment was not tracked in SBA's electronic inventory management system, and the SDB office ordered excess equipment that remained in storage for over 1 year.

After OIG fieldwork ended, SBA completed a cost study for FY 1999 that justifies charging $2.8 million in overhead for FYs 1998 and 1999. At the time the report was issued, SBA was in the process of determining a reasonable allocation of the $.4 million spent on the Section 8(a)/SDB application system. The Agency agreed with 10 of the 11 recommendations contained in the report. The Agency did not believe it needed additional authority to require reimbursement from other agencies as we recommended.

The following case involves alleged fraud in connection with bonds on Section 8(a) contracts.

- A project manager of a Long Island City, New York, construction company was indicted in May 2000 on one count each of conspiracy and altering, forging, or counterfeiting a bond to defraud the Government. In August 2000, he pled guilty to one count of conspiracy, and the Government agreed to dismiss the other count of the indictment. As a condition of a $379,079 Section 8(a) contract with the Federal Bureau of Prisons (BOP), the construction company had been required to obtain payment and performance bonds to cover any cost resulting from its failure to perform adequately and/or pay its subcontractor. In the spring of 1997, the project manager submitted to a BOP contracting officer payment and performance bonds purportedly issued to the construction company by an insurance company. The investigation found that the insurance company never issued the bonds and that the signatures on them were forged. According to the indictment, the man knowingly submitted forged bonds and conspired with others to defraud the Government through the counterfeit bonds and the alteration of other records. The president of the construction company previously pled guilty to one count of conspiracy in connection with his role in the construction company's submission of fraudulent payment and performance bonds. OIG initiated the case based on a referral From BOP.

The following articles describe the results of other investigations involving the Section 8(a) program.

Twelve-count indictment of a former Section 8(a) contractor and five associates delivered by a Federal grand jury in the Eastern District of Kentucky.

- In May 2000, a Federal grand jury in Kentucky returned a 12-count indictment of a former Section 8(a) contractor and five associates on charges of racketeering, racketeering conspiracy, money laundering, bank fraud, mail fraud, and obstruction of a Federal audit. This prosecution under the Racketeer Influenced and Corrupt Organizations Act involves allegations that the group of persons formed an "enterprise" that then engaged in a series of corrupt or illegal activities. In this case, the contractor initially entered SBA's Section 8(a) program in Ohio as primary owner of a hazardous-waste cleanup contractor. The indictment alleges that the year after the company was "graduated" from the Section 8(a) program, he obtained (in the name of his son and codefendant, to conceal his role) Section 8(a) status in Kentucky (and later in California) for another company he controlled.

  The indictment further alleges that a third environmental company purportedly headed by another son/codefendant of the former Section 8(a) contractor later also fraudulently obtained Section 8(a) status in Kentucky. During the period these companies participated in the Section 8(a) program, they were awarded Federal contracts totaling more than $150 million. The OIGs of the Environmental Protection Agency and DOD investigated this matter, with the assistance of SBA/OIG.

- The president of a defunct Philadelphia, Pennsylvania, Section 8(a) construction company pled guilty in July 2000 to 15 felony counts. The charges, in connection with alleged schemes to defraud SBA, the Department of the Navy, and the Department of Agriculture, Were 1 count of conspiracy to defraud the Government, 12 counts of false claims, 1 count of major fraud against the United States, And 1 count of making a material false statement. The false statement count related to his representing his assets at $40,000 to SBA on the same day that he represented his assets at over $1.6 million to a bonding company. The other counts related to falsely reported payments to subcontractors and false progress payment certifications. Civil judgments totaling $2,778,921 were filed in U.S. District Court against the man and his wife in February and March 2000. These judgments were entered in favor of the bonding company due to the losses it incurred after the construction company defaulted on Section 8(a) and other Government contracts. OIG joined the investigation based on a referral from the Naval Criminal Investigative Service.

Entrepreneurial Development

Office of Entrepreneurial Development (OED) Program Inspection

> Inspection finds substantial evidence of effective coordination among Office of Entrepreneurial Development service providers in three markets.

An inspection examined coordination among OED programs in the field and the methods used for gathering program performance data. In the three markets studied, there was substantial evidence of effective coordination among OED service providers. To further improve coordination in the field, the inspection recommended that OED: (1) identify districts lacking an efficient referral process or cooperation among providers; and (2) work with the Office of Field Operations to have relevant DDs designate and train at least one intake coordinator to route clients to the appropriate service providers. Regarding program performance measurement, the inspection found significant differences in the way providers count their clients and services. To ensure consistency and accuracy in service provider reporting, the inspection recommended that OED: (1) use the number of clients served and the number of client counseling and training sessions as its principal output measures; and (2) issue specific guidance to providers on how to count clients and client sessions. To obtain outcome information, such as businesses' expanding sales or employment, OED should develop a client survey to be administered periodically by the Office. The Agency agreed with most of the recommendations.

Agency Management and Financial Activities

SBA's Financial Management Systems Audit

> SBA has made progress and agrees with OIG's recommendations to further improve information systems controls.

OIG issued an audit report of its review of the general controls over SBA's financial management systems to determine if those controls complied with various Federal requirements. General controls are the policies and procedures that apply to all or a large segment of an entity's information systems to help ensure their proper operation. They affect the overall effectiveness and security of computer operations, rather than specific computer applications. OIG concluded that SBA has made significant progress toward implementing an agencywide systems security program, but that improvements are still needed. The report describes, for example, how: (1) security policies and plans need to be established and implemented; (2) access controls need strengthening to reduce the risk of unauthorized activities; (3) application development and change control procedures need to be consistently applied; (4) programmers' access to operating systems needs to be controlled and monitored; (5) segregation of duties controls need improvement; and (6) disaster recovery plans need to be completed and tested. The report also includes several recommendations for further implementing the agencywide systems security program. SBA agreed to address OIG's recommendations and to implement solutions to improve information systems controls.

Presidential Decision Directive (PDD) 63 Audit

OIG issued an audit report on SBA's planning and assessment for implementing PDD 63. PDD 63 calls for a national effort to ensure the security of the United States' critical infrastructures. Critical infrastructures are the physical and cyber-based systems essential to the minimum operations of the economy and Government. This audit report evaluated SBA's planning and assessment activities for protecting its critical cyber-based infrastructure.

OIG concluded that SBA has made significant progress toward implementing key aspects of PDD 63, but additional actions are still needed. Although SBA was not identified as a "Tier One" or "Tier Two" agency with specific milestones for completing PDD 63 requirements, the Agency has committed to the completion of those requirements. In November 1998, the Agency completed a Critical Infrastructure Protection Plan (CIPP) that identified a number of tasks to be accomplished. Subsequently, however, based on feedback from the Critical Infrastructure Assurance Office, SBA shifted the focus of its information systems security efforts to related areas such as PDD 67 (Continuity of Operations), Year 2000 Contingency Planning, and recommendations made in previous OIG audits of information systems controls. Although these efforts satisfied a number of PDD 63 requirements, the Agency did not complete all of the tasks identified in its CIPP and needs to refocus its efforts toward meeting PDD 63 requirements.

The Agency agreed with the auditors and recommended that the CIO: (1) complete the study to determine what information systems, data, and associated assets constitute SBA's critical infrastructure; (2) conduct or complete vulnerability assessments on the critical infrastructure; (3) develop remedial plans to address critical infrastructure vulnerabilities; (4) update the CIPP; (5) develop and adopt a multi-year funding plan to remedy the vulnerabilities identified by Vulnerability Assessments; and (6) include infrastructure assurance functions within the Agency's GPRA strategic planning and performance measurement framework.

Advisory Council Audit

OIG conducts an audit of a district advisory council.

OIG conducted an audit of a district advisory council (council). SBA district advisory councils are advisory committees established in accordance with the Small Business Act and an approved charter filed with the General Services Administration, the Library of Congress, and the Small Business Committees of Congress. The council is one such advisory committee, established at the discretion of SBA's Administrator pursuant to the provisions of the Federal Advisory Committee Act (FACA) and the Small Business Act. The purpose of this audit was to determine whether the council operated in accordance with governing laws, regulations, and policies. Though under the current charter SBA's district advisory councils are only allowed to advise, the council engaged in the following SBA or SBA-related activities for non-advisory purposes:

(1) Soliciting funds and charging fees;
(2) Maintaining a private checking account;
(3) Paying expenses for and managing SBA events;
(4) Developing and giving training seminars;
(5) Developing and maintaining a web site; and
(6) Entering into MOUs and cosponsorship agreements with SBA and other organizations.

The OIG audit found that the SOP does cite non-advisory activities, contradicting the charter and possibly FACA in those areas. FACA and the charter, however, take precedence over the SOP.

To improve its management and oversight of its district advisory councils, the auditors recommended that SBA: (1) ensure that district advisory councils do not engage in any non-advisory activities unless the charter is amended; (2) determine whether impermissible augmentation of SBA's appropriation has occurred and, if so, take appropriate corrective actions; (3) properly dispose of all funds which district advisory councils should not possess; (4) ensure that the SOP provides for full compliance with governing laws, district advisory council charters, and regulations; and (5) appoint a Committee Management Officer to control and supervise the establishment, procedures, and accomplishments of district advisory councils.

The Agency is taking appropriate actions to address the recommendations made in the audit.

SBA employee integrity cases.

The following cases involve OIG investigations of alleged criminal conduct by SBA employees.

- The former coordinator of SBA's BIC at a Mississippi One Stop Capital Shop was indicted on four counts of filing false claims relating to her relocation from Texas (where her previous SBA job was) to Mississippi. The woman obtained reimbursement of expenses for her two children and her husband when they allegedly did not relocate with her as she claimed. She began her new position in Mississippi in December 1998. OIG's investigation determined that one child was in a reformatory facility until January 1999, and another child has been in an adult reformatory since October 1998 and, at the time of the employee's removal, was still incarcerated. Her husband did not move to

Mississippi. The total amount of false relocation expenses claimed Was $8,779. Prior to her indictment, she was removed from SBA employment based on the results of this investigation. OIG initiated this case based on a referral from SBA's Mississippi District Office.

- A former economic development specialist in SBA's Sacramento District Office was sentenced to 27 months incarceration and 3 years supervised release. He previously pled guilty to one count of knowingly possessing visual depictions of minors engaged in sexually explicit conduct. The former employee had retired just after being indicted In 1999. OIG initiated the investigation after receiving complaints that he was accessing pornographic sites while on duty, using the computer SBA had assigned him.

- An employee in SBA's New York District Office was arrested pursuant to a warrant charging him with one count of fraud and misuse of visas, permits, and other documents. The underlying criminal complaint charges that between October 1998 and July 2000, he counterfeited and sold Panama Canal Zone birth certificates and Panama Canal Zone voter identification cards to individuals who used them to fraudulently obtain Social Security cards. The U.S. immigration law establishes that any person born in the Panama Canal Zone on or after February 26, 1904, whose father or mother was a citizen of the United States, is declared to be a citizen of the United States. The allegedly fraudulent documents at issue in this case would give an otherwise illegal immigrant the right to enter the United States, claim citizenship, and obtain employment. OIG joined this investigation after INS requested our assistance.

OIG's Counsel Division reviews significant Government initiatives and legislation.

OIG reviewed and commented on draft initiatives from several Government agencies on the use of modern technology, especially the Internet, to facilitate interactions between citizens and their Government.

The following initiatives were reviewed:

(1) Department of Justice's (DOJ) draft "Guidance on Implementing Electronic Processes;"
(2) Department of Treasury's draft "Electronic Authentication Policy;"
(3) OMB's draft "Guidance on Inter-Agency Sharing of Personal Data;" and
(4) OMB's and National Archives and Records Administration's draft guidance for documentation under the Government Paperwork Elimination Act.

Several crosscutting themes emerged from our review. Perhaps most important, agencies should not underestimate the importance of security, reliability, information availability, and legal sufficiency when moving to electronic systems. Failure to adequately address these issues may open the door to massive new opportunities for waste, fraud, and abuse. On the other hand, OIG noted that it is a mistake to insist that electronic alternatives must be superior in every way to the paper-based processes that they replace. In many cases electronic processes will be inferior to current processes in one or more respects, but the deficiencies will be outweighed by other factors, such as cost savings, a higher quality of service to the public, or a countervailing improvement in some aspects of security. The test should not be whether the electronic process is superior in every particular, but whether, on balance, it is better for the Government and the public. Lastly, OIG commented that rapidly changing technological standards may make it unwise for policy makers to lock into a particular standard prematurely. For example, it may be undesirable to specify that digital signatures must be used for authentication, since biometric devices are rapidly improving in quality and reliability.

OIG also commented on several pieces of legislation.

- OIG reviewed and had a number of comments on S. 870, the IG Act Amendments of 1999. OIG strongly supports term appointments for IGs as a way to enhance an IG's independence. While OIG supports the concept of external reviews of OIGs' internal contract, travel and training, and personnel practices, it is suggested that these reviews be conducted by another OIG. Currently, OIG auditing units are required to have peer reviews in order to comply with the GAO Yellow Book standards. Consequently, changing this section to provide for a peer review of these OIG practices would result in a more consistent treatment of the various practices and functions of an OIG. Alternatively, OIG suggested that peer reviews be incorporated as a further option to the bill's current language providing for a review by GAO or by a private entity contractor. This would have possible cost-savings advantages to an OIG over using a contractor, if GAO did not have resources available to perform a review. Also, OIG strongly supports the change from a semiannual to an annual reporting requirement. In order to capture significant OIG work product, OIG suggested that the words "evaluation" and "inspection" be incorporated into the reporting requirement provisions. OIG did not, however, support the section of the bill that would consolidate OIGs at certain designated Federal entities, and suggested that more study be done on this issue of consolidation. There is a need to balance the benefit of having an OIG presence in each entity with the efficiencies that can result from consolidation with larger OIGs. Perhaps another workable solution would be to have a partnering (or other) relationship between two OIGs. A smaller OIG could request and draw upon the resources of a larger OIG in necessary situations without having improper appropriations augmentations.

- OIG reviewed and commented on S. 3030, the Senate Fraud Recovery Bill, a companion bill to H.R. 1827, the Government Waste Corrections Act of 1999. OIG suggested that the terminology "recovery audits" be changed to avoid confusion with the statutory audit function of IGs pursuant to the IG Act. OIG suggested substituting terminology such as "recovery examinations," "recovery reviews," or "payment matching reviews" to distinguish between the differing roles and functions. OIG also advocated that language be added requiring department or agency officials or contractors performing recovery reviews to immediately report to IG any indication of fraud or other apparent criminal activity discovered during the course of reviews.

- Based upon its review, OIG fully supported the extension of full law enforcement authority to all establishment OIGs proposed by S. 3144, a bill to amend the IG Act. This proposal recognizes the growing responsibility that OIG has assumed in confronting crimes against SBA, and similar responsibilities assumed by OIGs across the Government, and would provide establishment OIGs with the statutory law enforcement authority necessary to carry out those responsibilities. At present, OIG has the authority contemplated by this proposal through an MOU with DOJ granting OIG "blanket deputation;" however, deputations under the MOU are of limited duration and, therefore, must be renewed on a regular basis. There is also a risk that the MOU can be terminated or changed at any time, leaving an OIG without the tools needed to perform its mission. This proposal is the most efficient and effective means for OIGs needing full law enforcement authority.

OIG conducts fraud awareness briefings for SBA employees, lenders, and resource partners.

Office of Inspector General

OIG Fraud Awareness Briefings

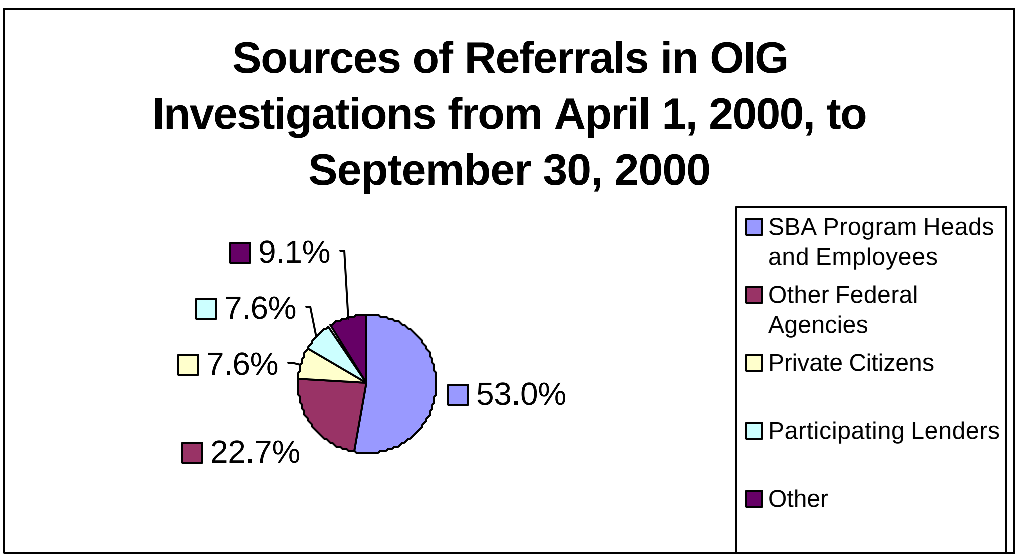
OIG conducted several briefings for SBA's employees, lenders, and other resource partners as part of its mission to educate its customers on identifying waste, fraud, and abuse. During this reporting period, SBA employee contributions to the OIG mission were significant. As the chart below illustrates, over 50 percent of the investigations initiated by OIG originated with referrals from within the Agency in the form of referrals either from program heads or other SBA employees. This cooperation indicates the strong commitment of SBA employees to reducing waste, fraud, and abuse in Agency programs and improving the Agency's management and control of its programs. However, we have recognized the shift in SBA's role from primarily reviewing and processing loans to increasingly providing oversight of lending practices; accordingly, we have changed our briefing strategy. Much of our past success resulted from referrals from conscientious SBA employees; our continued successes will depend more on lender referrals. The Investigations Division has now expanded our integrity-awareness briefing program to include participating lenders and other interested parties, as well as SBA employees. During this reporting period we conducted the following briefings.

- OIG staff gave presentations to 76 attendees at a Florida lenders' conference.

- OIG staff gave presentations to 64 attendees at disaster-fraud awareness meetings in California conducted jointly with special agents from the Federal Emergency Management Agency. The meetings were held for State and local law enforcement officers.

- OIG staff gave a presentation to 14 attendees at a Section 8(a) marketing seminar sponsored by SBA's Houston District Office.

- OIG staff presented integrity awareness briefings to a total of 42 Agency employees in Denver and Honolulu.



Office of Security Operations

Pursuant to provisions of the Small Business Act and the Small Business Investment Act, SBA requires applicants for assistance to meet certain character standards before participating in Agency programs. OIG's Office of Security Operations (OSO) provides a vital service to help SBA ensure that Agency program participants meet the standards by processing name checks and, where appropriate, fingerprint checks on applicants. To make character eligibility determinations, OSO makes use of its on-line connection with the Federal Bureau of Investigation's (FBI) Machine Readable Data system. When program applicants appear to be ineligible for Assistance based on character, OSO makes referrals to program officials for adjudication. During this reporting period, OSO made referrals that resulted in SBA's business loan program managers declining 39 applications and disaster loan program officials declining 12 applications, totaling $9,653,082 and $251,060, respectively, for character reasons. Those declinations made available that amount of credit for applicants in whom SBA can have confidence of repayment. In addition, officials of SBA's Section 8(a) program declined 18 applications for certification.
Almost $185 million in loans have been declined during the last 10 years due to character ineligibility.

OSO also performs background checks to comply with Federal regulations that require Agency employees to have security clearances appropriate for their positions. During this reporting period, OSO initiated 49 background investigations and issued 17 security clearances. OSO also reviewed and adjudicated 84 background investigative reports in accordance with Executive Order 10450 and OMB Circular A-130, and coordinated with SBA's Office of Disaster Assistance to ensure the timely adjudication of the 23 derogatory background investigative reports forwarded for review and appropriate action.

OIG Annual Performance Plan

OIG issued its FY 1999 Annual Performance Report.

OIG issued its FY 1999 Annual Performance Report in compliance with GPRA requirements. OIG is reviewing its Strategic Plan for FYs 2001-2006 while developing its FY 2002 GPRA Annual Plan.

Direct Audit Time by Program Area
April 1, 2000, to September 30, 2000

Program Area	Direct Time %	Number of Audits	
		Issued	In Progress
Business Loans	45%	5	3
Disaster Loans	6%	0	1
SBIC	2%	1	0
Surety Bond Guarantees	5%	2	2
Government Contracting	2%	0	0
Small Disadvantaged Business	20%	4	1
Minority Enterprise Development	6%	0	1
Entrepreneurial Development	0%	0	0
Agency Management and Financial	14%	4	3
Total	100%	16	11

Direct Investigation Time by Program Area
April 1, 2000, to September 30, 2000

Program Area	Direct Time %	Number of Investigations**	
		Closed***	In Progress
Business Loans	58%	28	208
Disaster Loans	20%	15	107
SBIC	2%	1	10
Surety Bond Guarantees	2%	1	2
Government Contracting	****	0	1
Small Disadvantaged Business	6%	1	5
HUBZone	****	0	1
Minority Enterprise Development	8%	0	31
Entrepreneurial Development	****	0	1
Employee Conduct	4%	3	21
Total	100%	49	387

** Includes civil cases   *** Includes cases canceled   **** Less than ½ percent

Statistical Highlights

FY 2000 Productivity Statistics
April 1, 2000, through September 30, 2000

Officewide Dollar Accomplishments	**Totals**
A. Potential Investigative Recoveries and Fines	$1,455,968
B. Loans Not Made as Result of Investigations and Name Checks	$11,308,671
C. Disallowed Costs Agreed to by Management	$880,677
D. Recommendations that Funds Be Put to Better Use Agreed to by Management	$9,056,000
Total	$22,701,316

Auditing Division Activities

A. Audit Reports Issued	16
B. Audit Recommendations Issued	66
C. Dollar Value of Costs Questioned	$7,828,717
D. Dollar Value of Recommendations that Funds Be Put to Better Use	$9,056,000

Audit Followup Activities

A. Audit Recommendations Closed	53
B. Disallowed Costs Agreed to by Management	$880,677
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management	$9,181,177
D. Unresolved Audit Recommendations	58

Inspection and Evaluation Division Activities

A. Reports Issued	2

Legislation/Regulations/SOP/Other Review

A. Legislation Reviewed	17
B. Regulations Reviewed	22
C. Standard Operating Procedures Reviewed	4
D. Other Issuances Reviewed**	102

**This includes policy notices, procedural notices, Administrator's action memoranda, and other communications, which frequently involve the implementation of new programs and policies.

Statistical Highlights

Investigations Division Activities

A. Total Cases	436
B. Closed Cases	49
C. Pending Cases	16
D. Open Cases	371
E. Subjects Under Investigation	1,098
F. Cases Referred to FBI or Other Agencies for Investigation.	9

Summary of Indictments and Convictions

A. Indictments from OIG Cases	43
B. Convictions from OIG Cases	16

Summary of Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations	$1,455,968
B. Loans Not Approved as a Result of OIG Investigations	$1,404,529
C. Loans Not Approved as a Result of the Name Check Program	$9,904,142
Total:	$12,764,639

SBA Personnel Actions Taken as a Result of Investigations

A. Dismissals	1
B. Resignations/Retirements	2
C. Suspensions	0
D. Reprimands	0

Program Actions Taken as a Result of Investigations

A. Suspensions	0
B. Debarments	0
C. Removals from Program	0
D. Other Program Actions	0

Summary of OIG Fraud Line Operation

A. Total Fraud Line Calls/Letters	757
B. Total Calls/Letters Referred to Investigations Division for Evaluation	19
C. Total Calls/Letters Referred to Program Offices or Other Federal Investigative Agencies	64
D. Total Other Calls/Letters	674

FY 2000 Productivity Statistics
Full Year

Officewide Dollar Accomplishments	**Totals**
A. Potential Investigative Recoveries and Fines*	$7,555,827
B. Loans Not Made as Result of Investigations and Name Checks	$28,741,121
C. Disallowed Costs Agreed to by Management	$1,153,535
D. Recommendations that Funds Be Put to Better Use Agreed to by Management	$9,637,523
Total*	$47,088,006

Auditing Division Activities

A. Audit Reports Issued	31
B. Audit Recommendations Issued	115
C. Dollar Value of Costs Questioned	$8,313,768
D. Dollar Value of Recommendations that Funds Be Put to Better Use	$10,982,622

Audit Followup Activities

A. Audit Recommendations Closed	104
B. Disallowed Costs Agreed to by Management	$1,153,535
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management	$9,762,700
D. Unresolved Audit Recommendations	58

Inspection and Evaluation Division Activities

A. Reports Issued	2

Legislation/Regulations/SOP/Other Review

A. Legislation Reviewed	36
B. Regulations Reviewed	37
C. Standard Operating Procedures Reviewed	9
D. Other Issuances Reviewed**	241

* This dollar figure includes $3,079,046 attributable to first 6-monh, but not reported during that period.
**This includes policy notices, procedural notices, Administrator's action memoranda, and other communications, which frequently involve the implementation of new programs and policies.

Statistical Highlights

Investigations Division Activities

A. Total Cases.. 519
B. Closed Cases.. 132
C. Pending Cases..16
D. Open Cases.. 371
E. Subjects Under Investigation 1,274
F. Cases Referred to FBI or Other Agencies for Investigation. 24

Summary of Indictments and Convictions

A. Indictments from OIG Cases..73
B. Convictions from OIG Cases..38

Summary of Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of
OIG Investigations* $7,555,827
B. Loans Not Approved as a Result of OIG Investigations $1,404,529
C. Loans Not Approved as a Result of the Name
Check Program.. $27,336,592

Total:* $36,296,948

SBA Personnel Actions Taken as a Result of Investigations

A. Dismissals..1
B. Resignations/Retirements...2
C. Suspensions..1
D. Reprimands 0

Program Actions Taken as a Result of Investigations

A. Suspensions 0
B. Debarments..0
C. Removals from Program 0
D. Other Program Actions 0

Summary of OIG Fraud Line Operation

A. Total Fraud Line Calls/Letters.. 2,015
B. Total Calls/Letters Referred to Investigations Division for Evaluation.................................40
C. Total Calls/Letters Referred to Program Offices or Other Federal
Investigative Agencies 117
D. Total Other Calls/Letters.. 1,858

* This dollar figure reflects first 6-month results reported after publication of the October 1, 1999 – March 31, 2000, semiannual report.

Inspector General Act Statutory Reporting Requirements

The specific reporting requirements prescribed in the Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988, are listed below.

Source		Pages
Section 4(a)(2)	Review of Legislation and Regulations	31-33
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	1-35
Section 5(a)(2)	Recommendations with Respect to Significant Problems, Abuses, And Deficiencies	1-35
Section 5(a)(3)	Prior Significant Recommendations Not Yet Implemented	47
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	48-52
Section 5(a)(5) And 6(b)(2)	Summary of Instances Where Information Was Refused	None
Section 5(a)(6)	Listing of Audit Reports	43
Section 5(a)(7)	Summary of Significant Audits	3-30
Section 5(a)(8)	Audit Reports Containing Questioned Costs	44
Section 5(a)(9)	Audit Reports Recommending that Funds Be Put to Better Use	45
Section 5(a)(10)	Summary of Reports Where No Management Decision Was Made	47
Section 5(a)(11)	Significant Revised Management Decisions	None
Section 5(a)(12)	Significant Management Decisions with Which OIG Disagreed	None

TABLE OF APPENDICES

APPENDIX I
Audit Reports Issued
April 1, 2000, to September 30, 2000

TITLE	NUMBER	ISSUE DATE	QUESTIONED COSTS	FUNDS FOR BETTER USE
Business Loans				
Stop One Convenience Store #2	0-17	4/28/00	$635,981	
Volumetrics, Inc.	0-18	6/27/00		
Y2K Loan to Municipal Management	0-21	7/20/00		$346,000
Accurate Research, Inc.	0-22	7/26/00	$26,723	
Y2K Loan Program	0-24	8/22/00		
Program sub-total	5 Reports		$662,704	$346,000
Small Business Investment Companies				
Results Act Performance Measurement-SBIC	0-25	9/7/00		
Program sub-total	1 Report			
Surety Bond Guarantees				
American Reliable Insurance Companies	0-23	8/21/00	$880,677	
Results Act Performance Measurement-SBG	0-26	9/25/00		
Program sub-total	2 Reports		$880,677	
Minority Enterprise Development				
SDB Business Certification Program	0-19	6/30/00	$6,163,942	$8,710,000
MBELDEF Cosponsorship	0-29	9/29/00	$121,394	
SBA's Administration of MBELDEF	0-30	9/30/00		
Boscart Construction, Inc.	0-31	9/30/00		
Program sub-total	4 Reports		$6,285,336	$8,710,000
Agency Management & Financial Activities				
Information Systems Control	0-16	4/25/00		
SBA's Financial Reporting Process	0-20	7/11/00		
Critical Infrastructure-PDD 63	0-27	9/26/00		
Rhode Island District Advisory Council	0-28	9/29/00		
Program sub-total	4 Reports			
TOTALS (all programs)	16 Reports		$7,828,717	$9,056,000

APPENDIX II - Part A
Audit Reports with Questioned Costs
April 1, 2000, to September 30, 2000

		REPORTS	RECs*	COSTS**	
				QUESTIONED	UNSUPPORTED
A.	For which no management decision had been made by March 31, 2000	2	3	$1,600,242	$781,461
B.	Which were issued during the period	5	11	$7,828,717	$3,309,690
	Subtotals (A + B)	7	14	$9,428,959	$4,091,151
C.	For which a management decision was made during the reporting period	3	7	$4,746,199	$3,532,201
	(i) Disallowed costs	1	4	$880,677	$409
	(ii) Costs not disallowed	2	3	$3,865,522	$3,531,792
D.	For which no management decision had been made by September 30, 2000 ***	5	7	$4,682,760	$558,950

* Recommendations.

** Questioned costs are those which are found to be improper, whereas unsupported costs may be proper but lack documentation.

*** In one or more reports, one or more recommendations were closed and at least one remains open.

APPENDIX II - Part B
Audit Reports with Recommendations that Funds Be Put to Better Use
April 1, 2000, to September 30, 2000

		REPORTS	RECs*	RECOMMENDED FUNDS FOR BETTER USE
A.	For which no management decision had been made by March 31, 2000	4	4	$1,926,622
B.	Which were issued during the period	2	3	$9,056,000
	Subtotals (A + B)	6	7	$10,982,622
C.	For which a management decision was made during the reporting period	4	5	$10,015,258
	(i) Recommendations agreed to by SBA management	3	4	$9,181,177
	(ii) Recommendations not agreed to by SBA management	1	1	$834,081
D.	For which no management decision had been made by September 30, 2000	2	2	$967,364

* Recommendations.

APPENDIX II - Part C
Audits Reports with Non-Monetary Recommendations
April 1, 2000, to September 30, 2000

		REPORTS	RECOMMENDATIONS
A.	For which no management decision had been made by March 31, 2000	10	38*
B.	Which were issued during the period	13	52
	Subtotals (A + B)	23	90
C.	For which a management decision was made (for at least one recommendation in the report) during the reporting period	13	41
D.	For which no management decision (for at least one recommendation in the report) had been made by September 30, 2000	12**	49

* Beginning balance corrected to reflect prior period adjustment.
** In one or more reports, one or more recommendations were closed and at least one remains open.

APPENDIX II – Part D
Issued Audit Reports with Overdue Management Decisions
September 30, 2000

TITLE	NUMBER	ISSUED	STATUS
Dixieland Events/Tamingo Farms	0-05	2/16/00	Referred to Office of Litigation for review
Vincent R. Forshan Medical Corp.	0-12	3/28/00	Awaiting final resolution with Lender.
FY 1999 SBA Financial Statements	0-13	3/29/00	Negotiating with Office of Chief Financial Officer.

APPENDIX II - Part E
Significant Audit Reports Described in Prior Semiannual Reports
Without Final Action as of September 30, 2000

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target
5-3-4-006	SBA Loan Servicing and Debt Collection Activities	3/31/95	4/30/95	12/31/01
7-5-H-001-026	Business Loan Guarantee Purchases	9/30/97	8/15/00	12/31/01
8-8-H-002-017	NOAA Computer Contracts	6/18/98	3/1/99	12/31/99
9-11	Non-Tax Delinquent Debt	7/28/99	8/13/99	3/31/01
9-23	Survey of Electronic Records Management	9/15/99	11/30/99	11/30/00
0-03	7(a) Loan Processing Summary	1/11/00	8/21/00	1/3/01
0-05	Dixieland Events/Tamingo Farms	2/14/00	*	**
0-06	SBA's FY 1999 Financial Statements	2/29/00	3/29/00	9/30/00
0-10	Roshni Foods	3/23/00	8/15/00	10/20/00
0-11	NADI Manufacturing	3/28/00	3/15/00	3/15/00 ***
0-12	Vincent R. Forshan Medical Corp.	3/28/00	*	**
0-13	FY 1999 SBA Financial Statements-Management Letter	3/29/00	*	2/28/01
0-14	7(a) Service Fee Collections	3/30/00	8/22/00	10/31/01
0-15	Systems Development Method	3/30/00	9/29/00	9/30/02

* At least one recommendation remains open.
** There are two recommendations. One is final and the other does not have an OIG approved Management Decision.
*** Final action completed based on issued draft audit report.

APPENDIX III
Six Month Arrested/Indicted/Convicted Summary

State	Program	Alleged Violation(s) Prosecuted	Arrested/ Indicted/ Convicted/	Investigated Jointly With. . .
CA	BL	Former banker accepted $24,000 automobile from SBA-loan broker; received share of proceeds from $1 million SBA-guaranteed loan. *	Charged and pled guilty	FBI
CA	BL	Fish market owner submitted altered tax returns in application for $580,000 loan. *	Indicted	FBI
CA	DL	Couple obtained $231,300 disaster home loan following Northridge earthquake by submitting false invoices; received repayment deferments by concealing ownership of real estate properties. *	Two indicted	None
CA	BL	Equipment manufacturer obtained $833,000 SBA-guaranteed Export Working Capital loan by president, associate, and employee participating in scheme utilizing false invoices and faxes; concealed property from bankruptcy court; president omitted significant information from financial statements. *	Three indicted	FBI
CA	BL	Telemarketing agency owner concealed criminal history in applying for $430,000 and $135,000 SBA-guaranteed loans. *	Arrested	USPO
CA	BL	Accountant prepared altered tax returns submitted in applications for $2,020,000 in loans. *	Pled guilty	FBI
CA	BL	Businessman submitted altered tax returns in application for $550,000 loan and abetted accountant. *	Acquitted	FBI
CA	BL	Real-estate company president and corporate secretary obtained $550,000 SBA-guaranteed loan by using false SSN and fraudulent checks, submitting false financial statements, and omitting corporate secretary's criminal record from SBA application. *	Two pled guilty	HUD/OIG, FBI, IRS
CA	BL	Tax preparer helped real-estate company obtain $550,000 SBA-guaranteed loan by preparing altered tax returns.*	Charged in information	HUD/OIG, FBI, IRS
DC	EC	Former SBA timekeeper submitted time sheets to be paid $5,441 in overtime that she did not work.	Charged	None
FL	BL	Seller of franchised store signed and submitted bill of sale falsely indicating total price of $225,000 and verifying his receipt of $75,000 cash injection from buyers.	Indicted	FBI
FL	BL	President of franchiser submitted letter to bank falsely corroborating that $75,000 cash injection from buyers had been paid.	Indicted	FBI
GA	BL	Couple signed loan documents falsely verifying payment to seller of $105,000 in earnest money toward purchase of daycare franchise business.	Two indicted	None

State	Program	Alleged Violation(s) Prosecuted	Arrested/ Indicted/ Convicted/	Investigated Jointly With. . .
KS	BL	Participating lender bank and its president submitted to SBA fraudulently redacted appraisal including buildings not part of loan collateral; falsely stated that applicants had excellent credit history and certified there had been no substantial adverse change in applicants' financial condition. *	Federal civil fraud complaint filed	None
KY	8(a)BD	Former Ohio Section 8(a) contractor participated in fraudulent conspiracy to circumvent program graduation rules, using his sons to establish Section 8(a) companies in other states to surreptitiously maintain his participation in program. Other conspirators were his wife, nephew, and former vice president. *	Six indicted	EPA/OIG, DCIS
MS	EC	SBA employee, having transferred to SBA office in different region, obtained extra $8,779 in reimbursement of expenses for her two children and her husband when they did not relocate with her as she claimed. *	Removed from Federal employment, indicted	None
MT	BL	Owners of hot tub company obtained $170,000 SBA-guaranteed Women's Pre-Qualification loan using inflated invoice; used most of extra $13,000 generated by this scheme to pay off undisclosed $8,000 business debt and pocketed $5,000 remainder.	Two indicted	None
NH	BL	Former executive director of nonprofit microlender greatly overstated, in reports to SBA, actual balances of microloan accounts; converted to his personal use $13,042 in microloan funds. *	Indicted	None
NJ	BL	Owner of die cutting company with defaulted $940,000 SBA-guaranteed loan concealed property (condominium) from creditors and bankruptcy trustee. *	Surrendered, indicted	FBI
NY	BL	Photo studio owner, in applying for $260,000 SBA-guaranteed loan, lied to conceal that 1) he had been convicted of alien smuggling and was Federal fugitive and 2) he was resident alien facing deportation proceedings. *	Indicted	SSA/OIG
NY	8(a)BD	Project manager of construction company forged bond to defraud Government in connection with $379,079 Section 8(a) contract. *	Indicted and pled guilty	FBI
NY	EC	SBA employee counterfeited and sold Panama Canal Zone birth certificates and voter identification cards to individuals who used them to fraudulently obtain Social Security cards. *	Arrested	INS
PA	BL	In offers of compromise of liability for his manufacturing business's defaulted $315,000 SBA-guaranteed loan, owner made false representations and otherwise concealed assets .*	Indicted	None
PA	8(a)BD	Construction executive conspired to improperly obtain Section 8(a) contracts; represented his assets at $40,000 to SBA while representing his assets at over $1.6 million to bonding company.*	Pled guilty	USDA/OIG, DOL/OIG, Navy, Army, DCIS
TX	BL	Attorney induced disbursement of $95,000 SBA-guaranteed loan by false invoices and certifications of expenditures; falsely negotiated joint-payee disbursement checks; and used some loan proceeds to purchase another business.	Indicted	None

State	Program	Alleged Violation(s) Prosecuted	Arrested/ Indicted/ Convicted/	Investigated Jointly With. . .
TX	BL	To obtain $350,000 SBA-guaranteed loan, proprietor of auto repair business and two relatives submitted false tax return and falsified capital injections and equipment purchases. Employee provided bogus sales invoices and other fraudulent documents. *	Four indicted	TIGTA
TX	BL	Three sellers of gas station and buyer (a convicted felon) used the buyer's brother's identifiers, false tax returns, and false documentation of capital injection to obtain $256,000 SBA-guaranteed loan. *	Four indicted	TIGTA
TX	BL	To obtain $675,000 SBA-guaranteed loan, owner of clothing manufacturer used false SSN and false name to conceal that her previous business had defaulted on SBA loan and that she had previously filed for bankruptcy; also submitted fictitious tax returns, falsified financial statements, and other documents; then failed to purchase equipment pledged as collateral and spent most of loan proceeds for personal purchases.*	Convicted	TIGTA, SSA/OIG
TX	BL	Convenience-store leasehold owner cashed $54,211 SBA loan disbursement check payable jointly to him and financial institution by forging endorsement of financial institution.	Indicted	FBI
WI	BL	Pre-Qualification applicant for $105,000 loan concealed his criminal history of weapons violations; after being declined, he made threatening telephone call to SBA loan officer.	Arrested for violating probation	Local police department

* This case is further discussed in the narrative section of this report.

Program codes: BL=business loans, DL=disaster loans, EC=SBA employee conduct, 8(a)BD=Section 8(a) business development, SBIC=small business investment companies

Joint-investigation Federal agency acronyms: ATF=Bureau of Alcohol, Tobacco and Firearms; DCIS=Defense Criminal Investigative Service; DOL/OIG=Labor Department OIG; ED/OIG=Education Department OIG; EPA/OIG=Environmental Protection Agency OIG; FBI=Federal Bureau of Investigation; HHS/OIG=Health & Human Services Department OIG; HUD/OIG=Housing & Urban Development Department OIG; INS=Immigration & Naturalization Service; IRS=Internal Revenue Service; PIS=Postal Inspection Service; SSA/OIG=Social Security Administration OIG; TIGTA=Treasury DepartmentTax Administration OIG; USDA/OIG=Agriculture Department OIG; USPO= U.S. Probation Office

APPENDIX IV
Six Month Sentencing Summary

State	Program	Alleged Violation(s) Prosecuted	Confinement Time and Dollar Results (Criminal Restitution/Fines/Etc.)	Investigated Jointly With. . .
CA	DL	In applying for $67,700 in SBA disaster loans, businessman failed to disclose he had filed for bankruptcy under different name and SSN; also failed to inform SBA he was on criminal probation.	15 months incarceration, $72,200	ATF, SSA/OIG
CA	BL	In application for $161,500 loan, liquor store owner listed real estate properties he had transferred to brother.	1 day incarceration, $115,000	None
CA	EC	Using computer SBA had assigned him, SBA employee repeatedly accessed Internet pornography sites, including images of children involved in various sexual acts. *	27 months incarceration, $100	FBI
CA	DL	Man obtained $137,300 disaster home loan following Northridge earthquake using name and SSN of brother. *	Pled guilty, 32 months incarceration, $153,560	State law enforcement agency
IL	BL	Meatpacking executive submitted altered tax returns to obtain $490,000 loan, failed to make promised $150,000 capital injection, sold majority of farmland pledged as collateral. *	12 months plus 1 day incarceration, $460,833	FBI
LA	DL	Application for $325,600 disaster loan failed to disclose applicants' (seafood company and its president) criminal records. *	Corporation charged and pled guilty, $161,798 administrative recovery (not sentenced yet)	None
MO	BL	To obtain $70,000 loan, accountant generated documents, including client's SBA loan application and fictitious tax returns that contained false SSN.	Pled guilty, $36,748	HUD/OIG, SSA/OIG, IRS, FBI
MO	BL	To obtain $70,000 loan, real estate executive submitted documents, including SBA loan application and fictitious tax returns that contained false SSN.	Pled guilty, $36,748	HUD/OIG, SSA/OIG, IRS, FBI
MO	BL	To obtain $387,000 loan, child care executive failed to disclose that she owed delinquent taxes and had prior arrest; also falsely documented her required $111,000 cash injection; also submitted false documents as to use of $12,690 loan funds.	4 months at home, $12,790	TIGTA

State	Program	Alleged Violation(s) Prosecuted	Confinement Time and Dollar Results (Criminal Restitution/Fines/Etc.)	Investigated Jointly With. . .
MO	BL	In applying for $295,000 loan to buy day care center, businessman made false statements re: educational background, work experience, criminal history, and financial status. *	Pled guilty, 51 months incarceration, $500	HHS/OIG, SSA/OIG, PIS
MT	BL	To obtain $54,000 loan, restaurateur represented on his SBA application that he had no criminal history; in fact, he had been arrested more than 20 times.	21 months incarceration, $1,000	FBI
NY	SBIC	Consultant to SBIC officers, embezzled over $1 million in funds and other assets intended for or belonging to the SBIC. *	12 months incarceration, $244,847	FBI
NY	BL	Coffeehouse owner filed tax returns with IRS that significantly differed from "copies" he gave bank with application for $38,000 LowDoc loan.	Charged and pled guilty, 6 months at home, $40,000	FBI
NY	BL	Bridal shop owner used name and SSN of another person to obtain $100,000 SBA-guaranteed loan.	Charged and pled guilty, 4 months at home, $150,000	SSA/OIG
TX	BL	Having been indicted on 10 felony counts of fraud in connection with $350,000 business loan, businessman's application for $115,963 SBA disaster loan was declined. *	Savings of $115,963	TIGTA
VA	BL	Having been sentenced to 6 months of home detention for obtaining SBA loan by fraud, taxi owner is arrested for conspiring to distribute marijuana in violation of probation.	12 months incarceration	SSA/OIG

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To promote integrity, economy, and efficiency, we encourage you to report instances of fraud, waste, or mismanagement to the SBA OIG FRAUD LINE.*

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