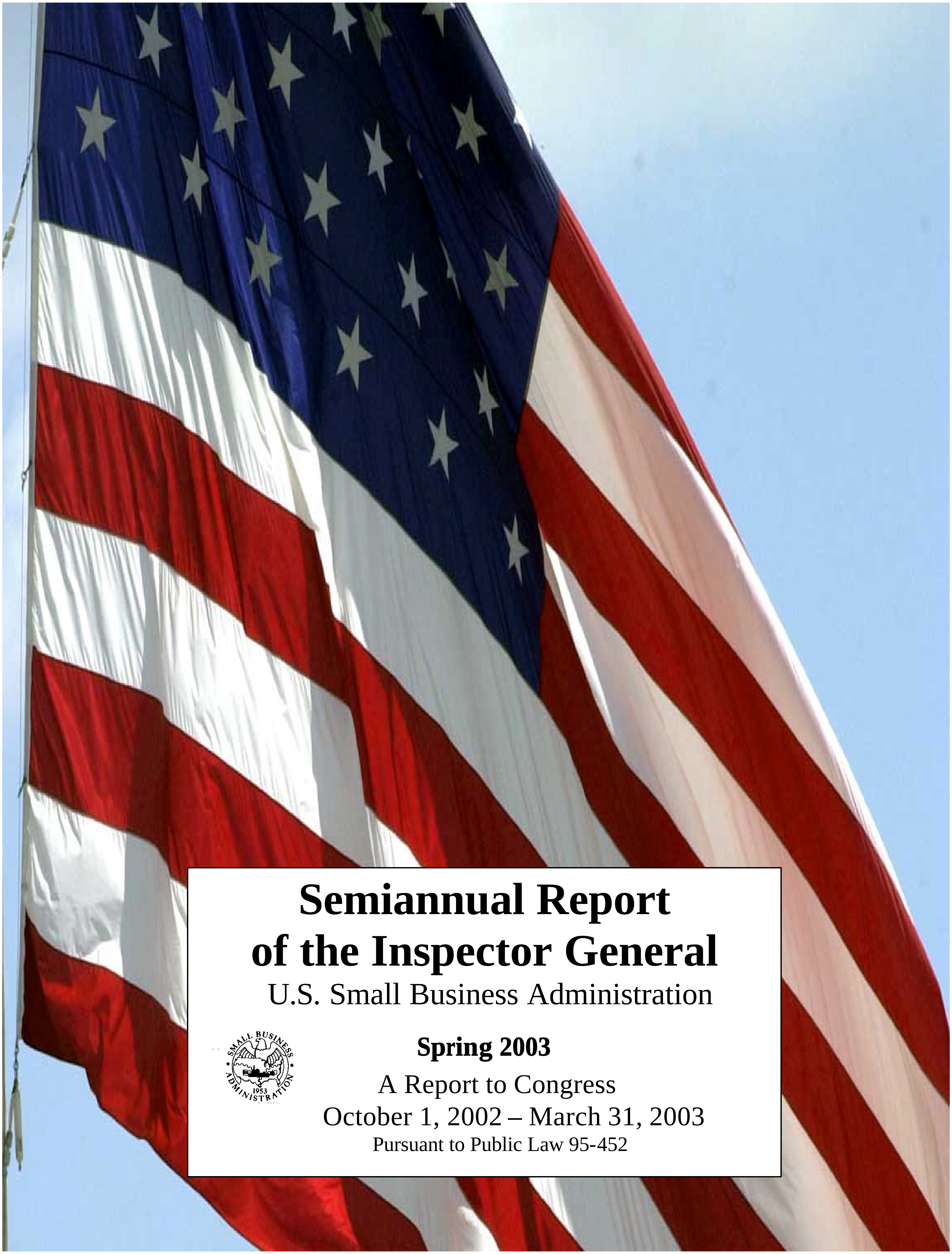

Semiannual Report of the Inspector General

U.S. Small Business Administration

Spring 2003

A Report to Congress

October 1, 2002 – March 31, 2003

Pursuant to Public Law 95-452

Foreword

I am pleased to present the Semiannual Report for the Office of Inspector General (OIG), Small Business Administration (SBA), covering our activities from October 1, 2002, through March 31, 2003.

Since I am new to the SBA OIG, having just been sworn in on April 21, 2003, the work presented in this report is the result of the outstanding efforts and dedication of the previous Inspector General, Phyllis Fong, the Acting Inspector General, Peter McClintock, and the entire OIG staff. Ms. Fong led the office until December 2, 2003, when she was sworn in as Inspector General at the U.S. Department of Agriculture. Mr. McClintock served as Acting Inspector General from that time until my arrival. I am excited about the new challenges I face as the Inspector General, and favorably impressed by what I have seen thus far in OIG.

Since I arrived, I have become aware of the very significant accomplishments this Office made during the reporting period. The Office issued 21 reports on efficiency and effectiveness activities with significant recommendations for improvement in Agency operations to reduce fraud and unnecessary losses and recover of funds. As a result of investigations, there were 31 indictments and 15 convictions of subjects who in some way defrauded the Federal Government. The Office collectively reviewed 186 legislative, regulatory, policy, and procedural proposals concerning SBA and Government-wide programs. Overall, OIG dollar accomplishments from all activities totaled almost $10 million. All of this was accomplished with an appropriation of $12.3 million and an average staff level of 100.

During this reporting period the Office refocused its efforts on accomplishing the goals set forth in its new strategic plan to: (1) prevent fraud and unnecessary losses in SBA programs; (2) improve the security over and accuracy of SBA accounting and management information, including performance data; (3) assist SBA in improving its small business development programs; (4) assist SBA management in identifying and resolving persistent and emerging management issues; and (5) strengthen our ability to identify and have maximum impact on the most significant SBA issues. All of our key work and findings are listed by goal in the body of the report.

I would like to take this opportunity to thank Administrator Barreto and his senior staff for their outreach to me during this transition and their continued support of OIG and the work we do. In order for OIG to make a real difference in promoting the efficient and effective operations of Agency programs and preventing fraud, waste, and abuse, we must have the support of Agency senior management. I look forward to continuing the relationship the current Administration has forged with OIG and to leading OIG to accomplish it mandated mission.

Harold Damelin
Inspector General

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Overview of SBA and OIG

The Small Business Administration

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 to recover from disasters. SBA offers many services to entrepreneurs through its Office of Capital Access, Office of Entrepreneurial Development, Office of Government Contracting and Business Development, and Office of Disaster Assistance. Such services include assistance with developing a business plan using counseling services and resource partners, obtaining financing through the Agency's various business and disaster lending programs, marketing products and services, accessing Federal procurement opportunities, and addressing management issues. SBA programs are delivered by a network of field offices in every State, the District of Columbia, the U.S. Virgin Islands, Guam, American Samoa, and Puerto Rico. SBA has an FY 2003 appropriation of $768.5 million and has 3,760 employees (number of employees includes Disaster Assistance and Office of Inspector General (OIG) personnel).

The Office of Inspector General

SBA OIG was established by the Inspector General (IG) Act of 1978. Through its five divisions, the Office performs the following functions nationwide, as mandated by Congress.

- **The Auditing Division** conducts audits to accomplish program performance reviews, internal control assessments, and financial and mandated audits to promote the economical, efficient, and effective operation of SBA programs.

- **The Investigations Division** manages a 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. 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.

- **The 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.

- **The Counsel Division** provides legal advice to all OIG components, represents OIG in litigation arising out of or affecting OIG operations, and processes Freedom of Information and Privacy Act requests.

- **The Management and Policy Division** is responsible for developing and executing the OIG budget; developing and supporting information systems and hardware; developing OIG HR policy and providing a full-service HR program to OIG; providing support services to headquarters (HQ) OIG employees; managing a nationwide facilities management function; providing communications services; authoring and publishing semi-annual, strategic, performance, and operating plans and reports; and reviewing and commenting on proposed Agency policy.

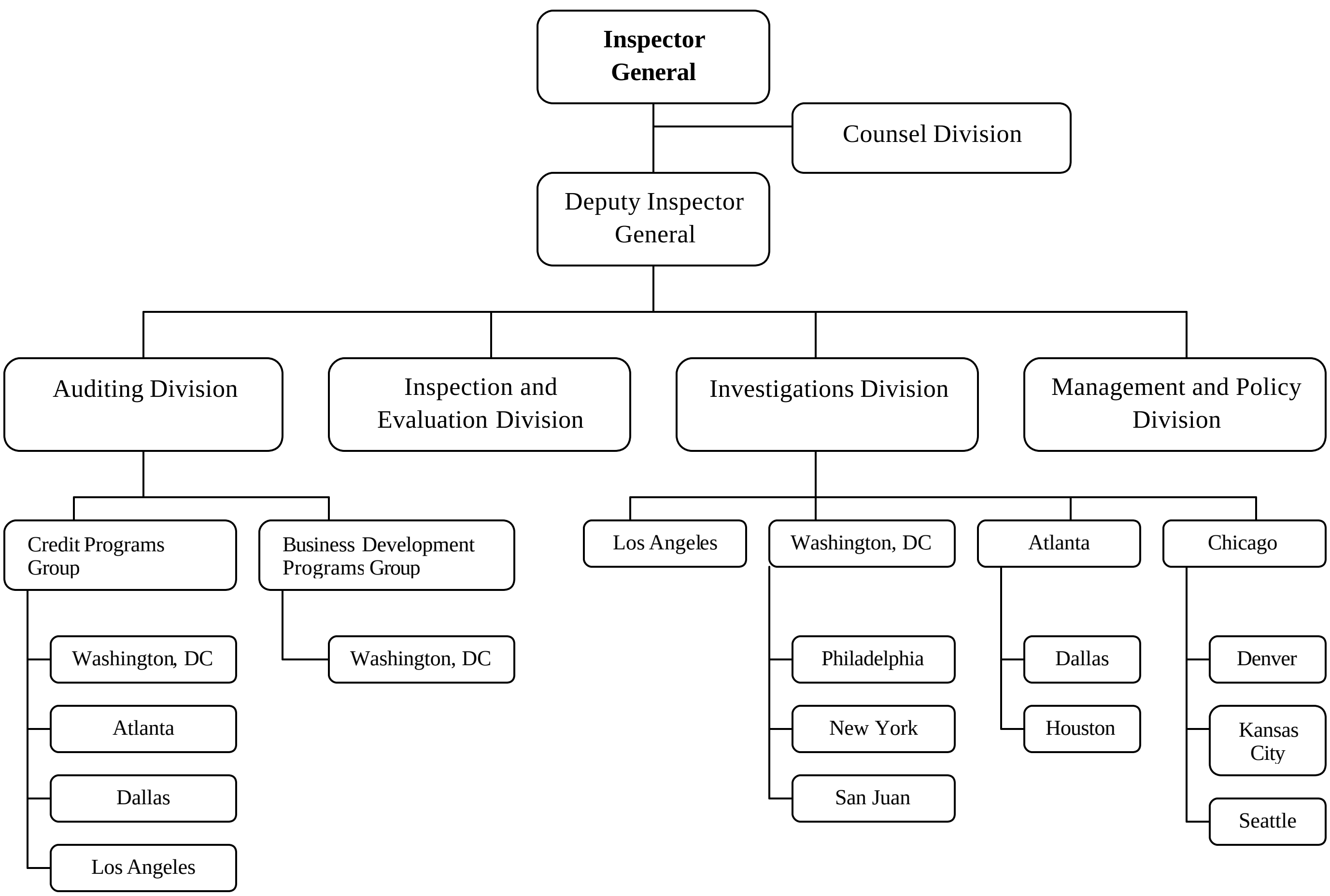
Overview of SBA and OIG

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

As of March 31, 2003, OIG's on-board strength was 99. The OIG FY 2003 appropriation is $12.4 million, with a $500,000 transfer for disaster assistance oversight activities less a $3,250 rescission, and an additional $80,743 rescission from OIG's appropriation.

OIG's vision is to improve SBA 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. OIG issued its new Strategic Plan for FY 2003-2007 during this reporting period. The five strategic goals we seek to achieve under our new plan are to: (1) prevent fraud and unnecessary losses in SBA programs; (2) improve the security over and accuracy of SBA accounting and management information, including performance data; (3) assist SBA in improving its small business development programs; (4) assist SBA management in identifying and resolving persistent and emerging management issues; and (5) strengthen our ability to identify and have maximum impact on the most significant SBA issues.

Office of Inspector General



Prevent Fraud and Unnecessary Losses in SBA Programs

SBA has a wide range of programs designed to help small businesses gain access to capital, participate in the Federal procurement market, and better plan and manage their operations. Seventy-five percent of SBA's resources are devoted to financial assistance programs. Chief among these is the Section 7(a) program -- SBA's largest lending program and its primary vehicle for providing small businesses access to credit. This program is vulnerable to fraud and unnecessary losses because it relies on numerous parties (borrowers, loan agents, lenders, and SBA) to complete loan transactions. The processes for loan approval are inherently risky and no party necessarily has complete knowledge of the activities of the other parties.

The disaster loan program is another key SBA lending program. It is the primary form of Federal assistance for non-farm individuals and businesses that suffer disaster losses. This program is vulnerable to fraud and unnecessary losses due to the need to expedite processing of disaster loans.

All SBA programs have some vulnerability either because of insufficient internal controls or dishonest program participants who take advantage of the program. Below are highlights of OIG's accomplishments in preventing fraud and unnecessary losses in SBA programs during this reporting period.

Fraud Detection and Prevention

During this semiannual reporting period the Investigations Division had 387 open investigations that involved 779 individual people or businesses. Our investigative efforts this period resulted in approximately $5 million in potential fines and recoveries, $4.6 million in loans/contracts not being approved, 31 indictments, and 15 convictions. These investigations were initiated as a result of complaints and allegations received from both the Agency and the public. The basic underlying theme in almost all of the allegations comes down to one concept – a person or a company made misrepresentations to obtain money from SBA or to qualify for participation in an SBA program. Generally the misrepresentation occurs before the approval, but some occur after the fact. Nearly all of our investigations are based upon this simple allegation.

These misrepresentations take several forms. They may be related to the applicant's financial situation, the individual's criminal history, the actual use of funding provided through an SBA program, or even the person's true identity or status of citizenship. The misrepresentations may involve elaborate plots with forged documents and corrupt employees of the lending institution or of the Government, or failure to admit to previous bankruptcy or to include the SBA loan on a new bankruptcy. The examples below demonstrate the simple thread of misrepresentations that lead to a vulnerability for the Agency. Because SBA relies so heavily upon the truthfulness of the applicants, this will remain an extremely vulnerable area that OIG will continue to focus it work on.

- With the cooperation of the New Jersey Department of Criminal Justice and the Environmental Protection Agency OIG, OIG performed an investigation of a company in East Rutherford, New Jersey, based on allegations that two company officials diverted $1 million in SBA-guaranteed loan funds to pay off other bills and debts, rather than purchasing the equipment needed to support the company, and illegally discharged chemical and industrial wastes. The company went out of business. The two individuals pled guilty to State charges and were sentenced to 5 ½ years in prison and 7 years in prison, respectively.

- A Poplar Bluff, Missouri, company settled a civil lawsuit, without admitting liability, by repaying the Government $303,010 and forgoing $196,989 in payments due the company. This was the result of an allegation that the company falsely claimed being socially and economically disadvantaged to qualify for

SBA's Section 8(a) program, leading to the company winning Government contracts. The president himself was sentenced, as a result of a plea, to 3 years probation and $140,000 in fines and restitution. The president and the company were also suspended from doing further business with the Government. The Department of Labor OIG and FBI both participated in this investigation with OIG.

- An Elkins, West Virginia, company was investigated by OIG and FBI regarding allegations of bank fraud and making false statements. The defendant obtained two lines of credit and a demand note valued at up to $780,000 based upon an SBA guarantee. The president of the company pled guilty to charges that he used falsified invoices in the application to the bank. This inflated the apparent cash flow and the company's viability in the bank's decision making process. The plea led to the president being sentenced to 12 months in prison with a 5-year supervised release and ordered restitution of $127,981.

- Following one recent investigation, the co-owner of a Dallas, Texas, dry cleaner was convicted of bank fraud and making false statements to SBA to obtain a $77,500 SBA-guaranteed loan. He did not disclose credit card and other personal debts in the application to the bank, nor did he tell the bank that his finances had become worse before he received the loan disbursement. As a result of OIG's investigation with the Postal Inspection Service and the Federal Bureau of Investigation (FBI), he was sentenced to 21 months in prison, 5 years of supervised release, and was ordered to pay $76,767 in restitution.

- Another investigation involving a Section 8(a) program participant led to the sentencing of a Raleigh, North Carolina, company president to 24 months in prison, an additional 36 months supervised release, and $1.5 million in restitution on charges of mail fraud. The company falsely claimed it had paid its subcontractors on Government projects. Because the subcontractors were not actually paid, the Government had to contract out for the performance of tasks not completed by unpaid companies.

- Recently OIG concluded an investigation involving a woman who obtained a $40,000 SBA disaster loan by using the social security number and name of another woman. During the investigation she also falsely tried to obtain information by claiming to be a representative of the U.S. Attorney's Office. This woman was convicted at trial and was sentenced to 78 months in prison, 36 months supervised release as well as $40,000 restitution to SBA, with an additional $1,700 to Federal Emergency Management Agency for a similar disaster related loan. Such a scheme not only impacts the SBA but the individual whose identity has been stolen.

In the two following investigations the Government had the added vulnerability of Federal employees who accepted bribes.

- The first involved an SBA employee who was convicted of bribery and sentenced to 60 months of probation in addition to a $10,000 fine. The borrower, who received a $462,000 SBA-guaranteed loan, was sentenced to 33 months in prison with another 10 months for parole violation and ordered to pay restitution up to $462,000 to SBA. The borrower had provided false documents and lied about receiving money from other sources to put into the business, making the company's viability look much better to the bank. This is called a false equity injection. Further discussion regarding equity injections can be found on page 12.

- In addition to corrupt Government employees, this investigation involves an area of increasing concern to OIG. The subject of this investigation was a certified public accountant (CPA) who is a loan packager. She helped prepare and submit 39 loan applications that included 164 falsified Federal income tax returns, 49 fraudulent tax return verifications, plus fraudulent capital injections valued at $1.75 million. Other documents that were submitted included false oil and commercial leases, inventory purchases, and financial records. The investigation indicated that employees of the Internal Revenue Service provided some of the falsified documents. Their referrals are being handled by the Treasury IG for Tax Administration. The CPA loan agent pled guilty to charges and was sentenced to 33 months in prison, 36 months of supervised release, and $1,676,569 in restitution. We are increasingly becoming aware of abuses by loan agents who target not only Government lending programs, but also non-citizen borrowers who may be more vulnerable to such misdirection and are also forced to pay exorbitant amounts of money to these individuals for their services.

Appendix VIII contains a description of all OIG investigations cases that have involved legal action, such as arrests, indictments, convictions, and sentencings.

Character Eligibility

SBA requires applicants for assistance to meet certain character standards before participating in Agency programs. OIG's Office of Security Operations (OSO) is responsible for ensuring that program participants meet these standards by processing name checks and, where appropriate, fingerprint checks on applicants. OSO also assists the Agency in making character eligibility determinations through its on-line connection with FBI's Machine Readable Data system by referring applicants who appear to be ineligible to program officials for adjudication. During this reporting period, OSO made referrals that resulted in SBA's business loan program managers declining 31 applications and disaster loan program officials declining 11 applications, totaling more than $7.8 million and nearly $872,000 respectively, making credit available to other applicants without character eligibility issues. In addition, officials of SBA's Section 8(a) program declined five applications for certification. Almost $238 million in loans have been declined during the last 10 years due to character eligibility.

OSO also coordinates background investigations for Agency employees required to have security clearances. During this reporting period, OSO initiated 94 background investigations and issued 27 security clearances. OSO also reviewed and adjudicated 115 background investigative reports in accordance with Executive Order 10450 and OMB Circular A-130, and coordinated with SBA's Office of Disaster Assistance to adjudicate 59 derogatory background investigative reports forwarded for review and appropriate action.

OIG Fraud Awareness Briefings

During the reporting period, OIG conducted 4 briefings to more than 165 SBA 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 nearly 55 percent of the investigations initiated by OIG originated 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. The shift in SBA's role from primarily reviewing and processing loans to increasingly providing oversight of lending practices, has caused OIG to change its briefing strategy. Because continued success will depend increasingly on lender referrals, OIG has expanded its integrity-awareness briefing program to include participating lenders and other interested parties.

Improper Payment Detection and Prevention

The Auditing Division concluded several audits during this reporting period that assisted the Agency in preventing unnecessary losses.

Improper Contract Modifications

An audit of SBA's due diligence contract for the sale of SBA loans in Asset Sales 3 and 4, found that SBA improperly modified the contract through an oral modification that resulted in $2.2 million of increased costs. Also, SBA's oversight of the contractor was not sufficient to preclude acceptance and payment of unauthorized invoices.

SBA paid the contractor $2.2 million in excess of what should have been paid according to the terms of the contract for "drive-by" appraisals provided for Asset Sale 3 and over $23,000 for duplicate or upgraded third party reports for Asset Sale 4. The payments occurred because: (1) the contracting officer significantly modified the terms of the contract through an oral agreement; and (2) SBA did not closely review invoices and supporting documentation. OIG recommended that the Agency seek recovery of the $2,181,125 overpayment from the contractor or ratify, if justified, the verbal modification of the contract in accordance with SBA and applicable Federal requirements and ensure that all future contract changes are made using a properly signed written contract modification.

OIG also recommended that the Agency: (1) ensure SBA's oversight responsibilities of due diligence contracts awarded to the contractor for Asset Sales 1, 4, and 6 are accomplished by obtaining reconciliation data detailing all third party reports billed against each loan; (2) recover amounts paid for unwarranted duplicate and upgraded third party report costs identified as a result of the above reconciliation from the contractor; (3) require the due diligence contractor to conduct an analysis to verify the accuracy of invoicing for third party reports against its reports database to identify and adjust payments for any unwarranted duplicate or upgraded third party reports; and (4) contract with a recovery audit firm to identify and recover any erroneous payments, i.e., unwarranted, duplicate, or upgraded third party report costs if SBA is not satisfied with the contractor analysis.
http://www.sba.gov/IG/03-19.pdf

OIG Identifies Unnecessary Payments for Loan Guarantees

As part of an on-going review of loans that default early and shortly after disbursement, OIG issued two audit reports that resulted in the return of $987,057 in guaranty payments from lenders. For one loan OIG found that:

- The borrower's principals were delinquent on 7 loans from the U.S. Department of Agriculture, totaling $279,379, at the time of the SBA loan disbursement. SBA regulations provide that applicants are ineligible for an SBA business loan if the applicant or an affiliated business previously defaulted on a Federal loan which resulted in a loss. Although the borrower did not identify the affiliated business in the application, the principals' 1995 tax returns included with the loan application disclosed the name of the affiliated business.
- The lender knew the borrower was in weak financial condition and did not properly analyze the borrower's repayment ability.
- The borrower did not meet the required equity injection.

As a result, the lender repaid SBA the guaranty amount of $609,203. http://www.sba.gov/IG/3-01.pdf

For the second loan, OIG found that:

- The lender did not adhere to Standard Operating Procedure (SOP) 50 10 4, that states that the ability to repay a loan from the cash flow of the business is the most important consideration in SBA's loan making process. The lender did not follow prudent lending practices and did not adequately determine repayment ability and misrepresented the borrower's equity injection.
- The borrower misrepresented material facts in applying for the loan.
- The borrower defaulted on the loan because sufficient cash flow was not available to service business debts.

As a result, the lender repaid the guaranty purchase amount of $377,854. http://www.sba.gov/IG/03-07.pdf

Economic Injury Disaster Loans

The Small Business Administration Disaster Loan Program is the Federal Government's primary method for funding the recovery of small business disaster victims. When such victims need to borrow funds to repair or replace uninsured damages, SBA's low interest rates and long terms make recovery more affordable. Under the authority of the Small Business Act, SBA provides physical and economic injury assistance to business owners, individuals, and non-profit organizations to rebuild, replace personal property, and overcome economic injury.

Economic injury disaster assistance is available only to small business owners who have suffered a substantial economic injury and are unable to obtain credit elsewhere. In addition, economic injury assistance is available to disaster victims who are designated a major source of employment in an area affected by a disaster.

The audit disclosed that borrowers obtained low-interest, taxpayer-subsidized economic injury disaster loans despite having net assets available to use directly to alleviate their economic injury or to provide them credit elsewhere. This conclusion stemmed from a statistical sampling of borrowers where OIG identified cases where loan recipients had at least $10 in available net assets for each $1 borrowed. As a result, for loans of $150,000 or less approved during fiscal years 1997 through 2000, taxpayers subsidized an estimated $114 million in loans at an estimated taxpayer cost of $25 million for individuals and businesses that had the means to alleviate their economic injury. This occurred because SBA procedures provided 2 months of economic injury benefits automatically and deemed borrowers eligible by concluding they were unable to obtain credit elsewhere even though they had available net assets of up to $750,000. In addition, SBA did not consider the relationship of available net assets to the economic injury sustained by the borrower, when the available net assets were below this threshold.

OIG recommended that the Agency:

- Define available net assets.
- Establish a ratio that identifies reasonably available net assets relative to the economic injury loan amount.
- Use empirical data to determine: (1) the appropriateness of using the $750,000 threshold of total net available assets, and (2) the blanket application of the 50 percent equity rule to ascertain available net assets that could be used to alleviate economic injury or obtain credit elsewhere.

The Agency disagreed with the finding presented in the report and non-concurred with each of the recommendations. Management stated that OIG's finding is based upon a narrowly defined formula developed by OIG during the audit. Further, the formula appears to assume all "available net assets" of the small business were available to offset the economic injury and/or damage caused by the disaster, but did not consider the overall financial condition (debt to asset levels, validity/accuracy of asset values, liquidating values of working capital requirements to maintain operations until the business returns to normal) of the small business and/or its ability to alleviate the economic injury from their own resource without undue hardship. The Agency believed SBA-established thresholds filter out those applicants who would have undue hardships in financing their own "economic injury" or obtaining credit elsewhere at reasonable terms and conditions.

OIG believes this standard automatically qualifies more than 80 percent of the applicants for taxpayer subsidized economic injury disaster loans and assumes that an applicant with net worth of up to $1.5 million would suffer undue hardship if they had to use their own assets to cover the disaster related losses. http://www.sba.gov/IG/03-13.pdf

Improve Security Over and the Accuracy of SBA Accounting and Management Information, Including Performance Data

SBA depends on a complex IT environment that includes over 40 mission critical systems running on legacy mainframes and minicomputers. SBA has had difficulty producing reliable day-to-day financial and management information to support its operations, primarily because of reliance on outdated information technology (IT) systems that are not integrated. SBA has also had difficulty developing appropriate and reliable performance data to support its implementation of the Government Performance and Results Act. As OIG has previously noted, SBA has ambitious plans to upgrade its systems, including those used for loan monitoring and financial management. This modernization effort is critical to the success of SBA's operations and to reducing operational, data integrity and security risks. OIG's work in this area has been both through the Management Challenge resolution process as well as audit and inspection and evaluation projects.

Independent Auditors Disclaimed Their Opinion on SBA's FY 2002 Financial Statements

OIG is responsible for monitoring the audit of SBA's financial statements annually. During this reporting period, the independent auditors disclaimed their opinion on the FY 2002 and the restated FY 2001 financial statements. The auditors noted scope limitations on their work in the areas of disaster loan program modeling, pre-1992 loan guarantees, and the Master Reserve Fund (MRF). As a result, the auditors were unable to satisfy themselves as to certain financial statement and footnote amounts as described in the Independent Auditor's Report. The audit identified six reportable conditions, five of which the auditors deemed to be material weaknesses. In addition, the auditors found that SBA was not in substantial compliance with the Federal Financial Management Improvement Act (FFMIA) and that the funds control shortcomings described in their independent auditor's report on Internal Control represent noncompliance with Office of Management and Budget (OMB) Circular A-11.

In response to the report, Agency management stated that they are strongly committed to addressing all of the issues raised by the independent auditor. SBA also stated that it is committed to full compliance with all financial management laws, regulations, and policies. http://www.sba.gov/IG/03-06.pdf

Controls Over Financial Management Systems Need Improvement

As part of the annual financial statement audit, the independent auditors reviewed general and application controls over SBA's financial and information management systems to determine compliance with various Federal requirements and issued a report. The independent auditors concluded again, as they did for FY 2001, that SBA made progress toward implementing an agency-wide systems security program, however, improvements are still needed. In the general control areas the Agency needs to improve: (1) entity-wide security program controls; (2) access controls; (3) application software development and program change controls; (4) system software controls; (5) segregation of duty controls; (6) service continuity controls;

(7) review of mainframe operations; and (8) Joint Accounting and Administrative Management System (JAAMs) application controls. In application control areas the Agency needs to improve: (1) authorization controls; (2) completeness controls; (3) accuracy controls; and (4) controls over the integrity of application processing.

Agency management agreed with 19 of the 25 recommendations and partially agreed with the remaining 6 recommendations.

OIG Evaluates SBA's Critical Infrastructure Protection Plan (CIPP)

OIG conducted an audit of SBA's CIPP to assess the adequacy of SBA's implementation activities in the areas of: (1) risk mitigation; (2) emergency management; (3) interagency coordination; (4) resource and organization requirements; and (5) recruitment, education, and awareness. The review found that SBA: (1) completed vulnerability assessments and security plans for 22 of the 37 critical information systems; (2) established an emergency management program to respond to computer incidents; (3) performed information system security reviews at private sector contractor locations where important services are provided through a cyber-based infrastructure; (4) included resource and organization requirements necessary to protect the cyber-based infrastructure in annual budget plans; and (5) implemented a training and education program for information technology security personnel and a security awareness training program.

SBA had not, however, updated and utilized its CIPP to manage SBA's critical infrastructure protection efforts. In addition, SBA had not implemented CIPP requirements for risk mitigation and the reporting of computer security incidents as part of its emergency management efforts. OIG made four recommendations to correct the deficiencies identified in the report. The Agency agreed with the recommendations. http://www.sba.gov/IG/03-03.pdf

OIG Examines the Extent to Which FAST Program Recipients Measure Performance of their Program Activities

An inspection examined SBA's Federal and State Technology (FAST) partnership program to assess the extent to which recipients under the FAST program were measuring performance of their program activities, as required by The Consolidated Appropriations Act of 2001. The report provides baseline information for the final report to Congress and information for SBA on needed program improvements. The inspection found that the FAST program announcement and the notice of award could provide better information and guidance for applicants and grantees on development of performance measures and how SBA will monitor performance. Further, the program guidance focused heavily on output measures rather than outcomes.

OIG recommended that the FAST program office refine the program guidance to better assist applicants in narrowing the number of performance measures and refining those performance measures they intend to report. In addition, OIG found that all grantees did not submit required semiannual reports to SBA and recommended that the program office contact each recipient that did not submit a report to encourage them to prepare and submit a report. Finally, if reports are not forthcoming during the second funding cycle, steps should be taken to withhold funding. http://www.sba.gov/IG/03-02.pdf

Assist SBA in Improving its Small Business Development Programs

SBA offers a range of counseling and training services designed to help small businesses expand through a variety of partner organizations. In addition, SBA operates the Section 8(a) business development program, established to help small businesses access the $200 billion Federal procurement market.

SBA is in the process of reviewing its business development programs to improve their integration and address changes in the Federal procurement arena. OIG has noted that SBA needs to address specific issues relating to the effectiveness and management of the Section 8(a) program, including the equitable distribution of contracting opportunities among Section 8(a) participants, criteria for determining economic disadvantage, and rules for ensuring that Section 8(a) firms do not pass contracts to non-Section 8(a) firms, as well as improve its ability to measure the success of its Government contracting and business development programs and services.

OIG Identifies Several Vulnerabilities in the Pro-*Net* Website

The Investigations Division issued a Program Vulnerability Memorandum (PVM) related to the SBA Pro-*Net* website. Pro-*Net* is described by SBA as a gateway of procurement information for and about small businesses. It is open to all small firms seeking Federal, State, and private contracts and serves as a search engine for Government contracting officers and a marketing tool for small firms. According to the SBA website, Pro-*Net* contains information on approximately 150,000 small, disadvantaged, Section 8(a), HUBZone, and women-owned businesses. The companies themselves enter all data into Pro-*Net*, there is no independent verification without an allegation. It has been alleged that certain firms listed in Pro-*Net* are not small and are improperly reaping the marketing benefits of being listed in the SBA database.

The review of the Pro-*Net* database website revealed that: (1) the firms do not receive sufficient information regarding the requirement that the firm be small in accordance with SBA size standards; (2) the firms receive no advisement of the criminal statutes, penalties and/or regulations that apply to the submission of false information to the U.S. Government; (3) the firms are not required to recertify their qualifications for participation in the cited programs; and (4) the contracting officers are provided no information regarding requirements to obtain independent certification relative to size eligibility.

Further, with the implementation of the Central Contracting Registration (CCR) database/Pro-*Net* consolidation, Pro-*Net* registrants are immediately transferred to the CCR database to input registration information. The CCR does not elaborate on the statutes, regulations, and penalties for false statements. Once a registrant in CCR indicates that they are small, the information is then forwarded to Pro-*Net*, thus eliminating the opportunity for SBA to alert the registrants to these considerations.

The Agency has reported the removal of 6530 data entries from the Pro-*Net* database since the initiation of our review. OIG is still awaiting final response from the Agency on our formal recommendations. http://www.sba.gov/IG/03-09.pdf

HUBZone Program Eligibility and Internal Controls Reviewed

OIG audited the eligibility of 15 HUBZone companies and reviewed the HUBZone Empowerment Contracting program's internal controls in an effort to determine: (1) if 15 certified HUBZone companies met the four criteria for participation in the HUBZone program; and (2) whether the program office's internal controls over the selection and monitoring of participating companies were adequate to ensure that only eligible firms are certified and remain certified. OIG found that 11 of the 15 subject companies were either not in compliance with HUBZone eligibility requirements or could not be contacted by phone or mail and had presumably gone out of business; and the program's internal controls were inadequate to ensure that only eligible firms are certified and remain certified. Therefore, there is little assurance that the program will provide increased employment, investment and economic development for depressed areas. Since ineligible companies could receive HUBZone contracts, the program is also vulnerable to Federal contracting fraud. OIG made three recommendations to correct the deficiencies identified in the report and the Agency agreed. http://www.sba.gov/IG/03-05.pdf

Assist SBA Management in Identifying and Resolving Persistent and Emerging Management Issues

In response to congressional requests and the Reports Consolidation Act of 2000, OIG developed a list of the most serious management challenges facing SBA and issued the annual report (see Top Management Challenges section). The list represents areas identified as vulnerable to fraud, waste, abuse, and mismanagement, or that otherwise pose significant risk. The challenges generally have been the subject of one or more OIG or GAO reports and are often confirmed by fraud or abuse found by our investigators. OIG is committed to assist SBA management in identifying these issues and making recommendations for quick and efficient corrective actions. OIG has developed the list and conducted several audits and inspections focusing on the five goals of the President's Management Agenda: 1) Human Capital Management; 2) Competitive Sourcing; 3) Financial Management; 4) E-Government; and 5) Budget and Performance Integration.

Section 7(a) Business Loan Guaranty Purchase Process

The OIG audit concluded that SBA has taken several actions in recent years to improve the guaranty purchase process, including making periodic quality assurance reviews and issuing Policy Notice 5000-831, "7(a) Loan Guaranty Purchase Policy," on October 2, 2002. While these actions should improve the purchase process, additional measures are needed to strengthen purchase decisions and protect SBA from making erroneous guaranty payments to lenders that do not originate, service, and/or liquidate loans in accordance with SBA rules and regulations. Prior to SBA issuing Policy Notice 5000-831, the Section 7(a) guaranty loan purchase process did not always identify material lender non-compliance with SBA rules and regulations and protect SBA from making erroneous guaranty purchase payments. The purchase procedures in effect at the time the audit work was performed had not been updated since 1983. Consequently, the purchase process did not incorporate the necessary controls to offset the increased risk of delegated lending authority under the Preferred Lenders Program with reduced oversight by SBA.

Material lender non-compliance involved loan origination and closing, servicing, and liquidation actions in seven areas. The most significant deficiencies, by dollar amount, occurred in repayment ability, equity injection, and use of loan proceeds. By not identifying the material deficiencies, SBA paid $7.6 million in erroneous payments on 30 of 153 loans reviewed.

The Guarantee Purchase Review (GPR) process was established primarily to assess the accuracy of prior purchase decisions and identify areas for improvement. The GPR process did not identify all inappropriate purchase decisions because the GPR teams did not get the lender's loan files and the sampling methodology did not include loans that represented the population because statistical sampling techniques were not used. As of September 30, 2002, approximately 4,000 loans with guarantees totaling $675 million were excluded from the GPR process because the loans were not purchased and charged off within the specified time frame. Consequently, SBA could not use the results of the GPR to estimate within an acceptable level of confidence the erroneous payments made.

OIG recommended that SBA: (1) establish criteria for obtaining the entire lender's loan files to ensure all deficiencies are detected and the GPR teams request lender loan files on a sampling basis; (2) establish timeframes for completing the training for all individuals involved with the guaranty purchase process; (3) use valid statistical sampling techniques to select loans for GPR reviews; and (4) revise the loan selection criteria for GPR reviews by deleting the requirement that loans must be purchased and charged off within a specific time frame. SBA management indicated it would evaluate the benefits of obtaining the lenders loan files and that a timeline for training staff responsible for making purchase determinations has been established. Management did

not agree to implement the recommendations for improving the GPR process, i.e., obtain the lenders loan files on a sample basis or change the method used to select loans for review by using valid statistical sampling techniques and eliminating the requirement that a loan be purchased and written off within a specific time frame. OIG believes that implementation of the recommendations to improve the GPR process would improve the evaluation of prior purchase decisions and allow SBA to reliably estimate and report erroneous payments.
http://www.sba.gov/IG/03-15.pdf

As a companion to the audit report, the Inspection and Evaluation Division conducted two surveys, one completed by district directors and branch managers and one by SBA loan officers and other employees who are the primary processors of guaranty purchase requests, to determine field office personnel's experience with the guaranty purchase process. The resultant report presents an analysis of the results.

The directors' survey focused on: (1) workload; (2) management; and (3) the purchase process. Directors' responses indicated that most offices receive three or fewer purchase requests per week; about half of the respondents reported a small backlog. A slight majority of the respondents indicated their decisions to deny purchase requests were supported by Headquarters, although a vocal minority disagreed. An overwhelming majority reported that their offices had found it simpler to ask the lender to repair or withdraw the guaranty request. They also reported using different criteria for various lenders and loans.

The loan officers' survey focused on: (1) workload; (2) management; (3) the review process; (4) individual experience; (5) documentation; (6) training; (7) risk assessment; (8) monitoring; and (9) communication. A majority of loan officers indicated that the SOP needs to be strengthened and, conversely to the directors, did not believe their denial recommendations were supported by SBA Headquarters. Most loan officers specified that they use different criteria for different lenders, largely due to poor performance by the particular lender. A majority of loan officers also reported they had not received formal training, and although not specifically asked in the general comments section, many offered unsolicited requests for formal training.
http://www.sba.gov/IG/03-16.pdf

OIG Analyzes Past Work to Determine Why Equity Injection Continues to Be an Issue in Section 7(a) Loans

OIG conducted a study involving an analysis of numerous audits and investigations where equity injection was identified as a prominent problem in Section 7(a) loans. The purpose of the study was to synthesize past OIG work to identify patterns of problems indicative of systemic program weaknesses and suggestions for solutions to these weaknesses. Analysis of this previous OIG work, and of SBA's guidance and forms, revealed that SBA guidance regarding equity injection is unclear. To remedy this inadequacy, OIG recommended that SBA revise SOP 50 10 4, the Loan Authorization, and loan application forms. These revisions should provide detailed guidance on amounts of injection the Agency requires, documentation the lender should provide to prove that the injection took place, as well as what the Agency will accept as evidence that the borrower's injection is not encumbered. In addition, standardized training for all Agency and lender employees as well as an Application Checklist should be developed.

The Agency did not agree with the recommendation that addressed the establishment of a firm minimum quantifiable equity injection level. SBA's concern was that the Agency needs flexibility and that the amount of equity injection would vary from industry to industry as well as case to case. The OIG response indicated that the report findings and recommendations regarding equity injection amounts speak to the issue of clarification of guidance for the lenders and SBA. The Agency may take corrective action using any of several approaches to resolve the lack of information that currently exists. In its initial response, SBA did not address the remaining four recommendations. OIG will continue to seek implementation and resolution of the five recommendations through SBA's follow-up process. http://www.sba.gov/IG/03-21.pdf

OIG Makes Major Recommendations to Correct Deficiencies in the Master Reserve Fund (MRF) Accounting Procedures and the Fiscal Transfer Agent (FTA) Functions and Contract Management

OIG conducted an audit to determine whether the: 1) MRF was properly accounted for in accordance with Federal regulations; 2) FTA properly performed its functions; and 3) FTA contract was properly awarded, administered, and monitored. The audit disclosed the following.

- The results of MRF operations were not properly accounted for in accordance with Federal accounting regulations and Federal financial management procedures. SBA neither knew the fiscal health of the MRF nor timely reported this information to Agency decision-makers. SBA had not implemented financial reporting procedures that would identify the results of loan pooling operations (surpluses and shortfalls) within the MRF, nor analyzed the MRF for future potential revenues and projected shortfalls from loan pooling operations. The MRF also had not been treated in a manner similar to a trust fund and public funds held in the MRF were not registered with symbols and titles by the Department of Treasury in consultation with OMB.

- SBA has allowed the FTA to hold basis point fees and other fees collected on behalf of SBA although these fees are due immediately to SBA. This allowed the FTA to receive approximately 23 days of float interest per month on the fees and this was the compensation for providing the collection services. An estimated $527,000 over 2 years was paid to the FTA. This practice is an inappropriate augmentation to SBA's appropriation as SBA had the FTA use the float collected on the fees as compensation for collecting these fees rather than paying the compensation from appropriated funds.

- SBA did not award, administer, and monitor the FTA contract in a manner that fully protected the interests of the Federal Government or ensured that the Government received the best services for the least cost. Specifically: (1) the FTA contract was improperly extended beyond 5 years; (2) the legality of float compensation payments to the FTA was unclear and an unsound business practice; (3) accurate FTA contract costs were not tracked or maintained; (4) Federal regulations for administering the MRF does not exist; and (5) there were discrepancies in the terms and conditions for auditing the FTA by its Independent Public Accountant including meeting Freedom of Information Act requirements and the need to conduct "Statements on Auditing Standards 70" reviews.

OIG made 16 recommendations to correct the deficiencies identified in the report. The Chief Financial Officer generally agreed with the recommendations addressed to him. Comments provided by the Associate Deputy Administrator for Capital Access, Acting Assistant Administrator for Administration, and General Counsel did not state whether they agreed or disagreed with the recommendations addressed to them and actions to address the findings and recommendations will be evaluated during the audit resolution process. http://www.sba.gov/IG/03-08.pdf

OIG Evaluates the Oversight of the Section 504 Loan Program

As part of OIG's effort to evaluate SBA's lender oversight effort, OIG conducted an audit to determine if SBA's oversight of the Section 504 loan program accomplishes a thorough and reliable evaluation of certified development companies (CDC) to assess financial risk to the portfolio. The review found that although the Section 504 loan program appears to be operating efficiently, as evidenced by a low default rate, areas of program oversight could be improved. Specifically:

- SBA oversight did not adequately address financial risk;
- Incomplete annual reports were used in compliance reviews; and
- Lender oversight reviews were not tracked to ensure accomplishment once every 3 years.

OIG recommended that the Agency take action to design a separate review guide for the Section 504 loan program, ensure annual reports submitted by CDCs are complete, and implement a review tracking system. Management agreed to develop a review guide specific to the needs and requirements of the Section 504 loan program; indicated that a new tracking system for monitoring oversight reviews has already been implemented; and proposed that the Office of Lender Oversight, rather than the district offices, ensure that annual reports are complete. http://www.sba.gov/IG/03-10.pdf

Strengthen OIG's Ability to Identify and Have Impact on Significant SBA Issues

By design, OIG's strategic goals are focused on the critical issues facing SBA. To be successful in addressing these goals OIG must also address its own internal management issues that are integral to the implementation of our strategies such as human capital, information technology, and the resource allocation process. Consequently, OIG devoted significant resources toward developing an integrated, consolidated performance plan that is designed to reflect the actions that each OIG division will take to support and implement the goals in the new strategic plan. The plan serves as a mechanism for ensuring that the entire organization is focused on achieving the same goals. http://www.sba.gov/IG/SBAOIGStrategicPlan07-09-2002.doc

Direct Investigation Time by Program Area
October 1, 2002, through March 31, 2003

Program Area	**Direct Time %**	**Number of Investigations***	
		Closed**	In Progress
Capital Access	79.14%	67	188
Disaster Assistance	9.4%	31	43
Government Contracting and Business Development	7.75%	16	19
Agency Management	3.28%	6	15
Entrepreneurial Development	.43%	1	1
Total	100%	121	266

* Includes civil cases ** Includes cases canceled

Direct Audit Time by Program Area
October 1, 2002, through March 31, 2003

Program Area	**Direct Time %**	**Number of Audits**	
		Issued	In Progress
Capital Access	44.92%	7	26
Disaster Assistance	.98%	1	1
Government Contracting and Business Development	5.97%	3	3
Agency Management	38.4%	9	12
Entrepreneurial Development	9.73%	1	2
Total	100%	21	44

For more information about OIG's assessment of the FY 2003 Agency Management Challenges, please review our report available electronically at the following address: http://www.sba.gov/IG/challenges.html.

- SBA needs to improve its managing for results processes and produce reliable performance data.
- SBA faces significant challenges in financial management and reporting which affects its ability to provide reliable, timely and accurate financial information.
- Information systems security needs improvement.
- Maximizing program performance requires that SBA fully develop and implement its human capital management strategy.
- SBA needs better controls over the business loan purchase process.
- SBA needs to continue improving lender oversight.
- The Section 8(a) Business Development program needs to be modified so that: more participating companies receive access to business development, and standards for determining economic disadvantage are clear and objective, so that more eligible companies receive 8(a) contracts.
- SBA needs to clarify its rules intended to deter Section 8(a) Business Development participants from passing through procurement activity to non-Section 8(a) Business Development firms.
- Preventing loan fraud requires additional measures, including new regulations and funding.

Statistical Highlights

FY 2002 6-Month Productivity Statistics
October 1, 2002, through March 31, 2003

Office-wide Dollar Accomplishments	**Totals**
A. Potential Investigative Recoveries and Fines	$4,999,468.00
B. Loans Not Made as Result of Investigations and Name Checks	$3,229,481.00
C. Disallowed Costs Agreed to by Management	$609,203.00
D. Recommendations that Funds Be Put to Better Use Agreed to by Management	$1,144,962.00
Total	$9,983,114.00

Efficiency and Effectiveness Activities

A. Reports Issued	21
B. Recommendations Issued	103
C. Dollar Value of Costs Questioned	$2,889,112.90
D. Dollar Value of Recommendations that Funds Be Put to Better Use	$377,854.02

Follow-up Activities

A. Recommendations Closed	55
B. Disallowed Costs Agreed to by Management	$609,203.00
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management	$1,144,962.00
D. Unresolved Recommendations	106

Legislation/Regulations/SOPs/Other Reviews

A. Legislation Reviewed	66
B. Regulations Reviewed	16
C. Standard Operating Procedures Reviewed	6
D. Other Issuances Reviewed*	98

* 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

Fraud Deterrence Activities

A. Total Cases	387
B. Closed Cases	121
C. Pending Cases	9
D. Open Cases	257
E. Subjects Currently Under Investigation	779
F. Cases Referred to FBI or Other Agencies for Investigation.	5

Summary of Indictments and Convictions

A. Indictments from OIG Cases	31
B. Convictions from OIG Cases	15

Summary of Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations	$4,999,468.00
B. Loans/Contracts Not Approved as a Result of OIG Investigations	$4,557,996.00
C. Loans/Contracts Not Approved as a Result of the Name Check Program	$8,671,485.00
Total:	$18,228,949.00

SBA Personnel Actions Taken as a Result of Investigations

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

Program Actions Taken as a Result of Investigations

A. Suspensions	1
B. Debarments	1
C. Removals from Program	1
D. Other Program Actions	0

Summary of OIG Fraud Line Operation

A. Total Fraud Line Calls/Letters	422
B. Total Calls/Letters Referred to Investigations Division	12
C. Total Calls/Letters Referred to Program Offices or Other Federal Investigative Agencies	62
D. Total Calls/Letters with no Action Appropriate	348

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.

APPENDIX I
OIG Reports Issued
October 1, 2002, through March 31, 2003

TITLE	REPORT NUMBER	ISSUE DATE	QUESTIONED COSTS	FUNDS FOR BETTER USE
Capital Access				
Audit of an Early Defaulted Loan	3-01	12/19/02	$609,203.00	
Audit of an Early Defaulted Loan	3-07	1/23/03		$377,854.02
504 Loan Program Oversight	3-10	2/6/03		
Guaranty Purchase Process (Audit)	3-15	3/17/03		
Guaranty Purchase Process (Inspection)	3-16	3/17/03		
Complaint by Applicant for SBIC License	3-17	3/20/03		
Equity Injection in the SBA Section 7(a) Program	3-21	3/31/03		
Program subtotal	7 reports		$609,203.00	$377,854.02
Disaster Assistance				
Economic Injury Disaster Loans	3-13	3/14/03		
Program subtotal	1 report		$0	$0
Government Contracting and Business Development				
Performance Measurement in FAST program	3-02	1/6/03		
Eligibility of 15 HUBZone Companies & Review of the HUBZone Empowerment Contracting Programs Internal Controls	3-05	1/22/03		
PRO-Net Referral	3-09	2/7/03		
Program subtotal	3 reports		$0	$0
Entrepreneurial Development				
Grants to the Texas Center for Women's Business Enterprise	3-18	3/20/03	$38,073.00	
Program subtotal	1 report		$38,073.00	$0
Agency Management				
SBA's Implementation of its Cyber-Based Critical Infrastructure Protection Plan	3-03	1/10/03		
FY 2003 Top Management Challenges	3-04	1/17/03		
SBA's FY 2002 Financial Statements	3-06	1/30/03		
SBA's Oversight of the Fiscal Transfer Agent for the 7(a) Loan Program	3-08	1/30/03		
Agreed-upon Procedures Report for FACTS Verification	3-11	2/6/03		
Agreed-upon Procedures Report for Intragovernmental Activity & Balances Data	3-12	2/6/03		
Audit of TEP Consulting	3-14	3/14/03	$37,002.90	
SBA Oversight of Due Diligence Contract	3-19	3/31/03	$2,204,834.00	
SBA's FY 2002 IT Controls	3-20	3/31/03		
Program subtotal	9 reports		$2,241,836.90	$0
TOTALS (all programs)	21 reports		$2,889,112.90	$377,854.02

APPENDIX II
Summary of Collections As a Result of Recommendations with Questioned Costs

Year	# of Recs w/ QC	Sum of QC	# of Recs Resolved with QC	Sum of QC Resolved	Mgt Decisions	Write-Offs Adjustments	Collected/ Recovered	Balance
1999	36	$2,317,050	***	***	35	***	***	***
2000	12	$8,313,768	***	***	15	***	***	***
2001	10	$520,673	***	***	11	***	***	***
2002	3	$13,882.35	***	***	7	***	***	***
2003	9	$2,889,112.90	2	$609,203	1	0	$610,595	$2,278,517.90
Total	70	$14,054,486.25	2	$609,203	69	0	$610,595	$2,278,517.90

******* OIG began tracking final actions during FY03, therefore numbers are not available.

APPENDIX III
OIG Reports with Questioned Costs
October 1, 2002, through March 31, 2003

		REPORTS	RECs*	COSTS**	
				QUESTIONED	UNSUPPORTED
A.	For which no management decision had been made by September 30, 2002	0	0	$0	$0
B.	Which were issued during the period	4	8	$2,889,112.90	$2,247,791.90
	Subtotals (A + B)	4	8	$2,889,112.90	$2,247,791.90
C.	For which a management decision was made during the reporting period	1	1	$609,203.00	$0
	(i) Disallowed costs	1	1	$609,203.00	$0
	(ii) Costs not disallowed	0	0	$0	$0
D.	For which no management decision had been made by March 31, 2003	3	7	$2,279,909.90	$2,247,791,90

***** Recommendations

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

APPENDIX IV
OIG Reports with Recommendations that Funds Be Put to Better Use
October 1, 2002, through March 31, 2003

		REPORTS	RECs*	RECOMMENDED FUNDS FOR BETTER USE
A.	For which no management decision had been made by September 30, 2002	6	6	$2,063,767.18
B.	Which were issued during the period	1	1	$377,854.02
	Subtotals (A + B)	7	7	$2,441,621.20
C.	For which a management decision was made during the reporting period	3	3	$1,144,962.00
	(i) Recommendations agreed to by SBA management	3	3	$1,144,962.00
	(ii) Recommendations not agreed to by SBA management	0	0	$0
D.	For which no management decision had been made by March 31, 2003	4	4	$1,296,659.20

***** Recommendations

APPENDIX V
OIG Reports with Non-Monetary Recommendations
October 1, 2002, through March 31, 2003

		REPORTS	RECOMMENDATIONS
A.	For which no management decision had been made by September 30, 2002	*14	*52
B.	Which were issued during the period	16	94
	Subtotals (A + B)	30	146
C.	For which a management decision was made (for at least one recommendation in the report) during the reporting period	13	51
D.	For which no management decision (for at least one recommendation in the report) had been made by March 31, 2003	21	95

* The beginning balance is different from the ending of the last SAR because beginning in FY2003, OIG is tracking all recommendations made in all reports, not just Audits. It is also different because several management decisions for report 2-18 were not reported even though they had been signed before 9/30/02.

APPENDIX VI
OIG Reports with Overdue Management Decisions
as of March 31, 2003

TITLE	NUMBER	ISSUED	STATUS
PLP Oversight Process	1-19	9/27/01	Negotiating with program officials
Borrowers with Prior Defaulted Loans	2-19	5/28/02	Awaiting proposed management decisions from program officials.
SBA-Guaranteed Loan	2-21	8/5/02	Awaiting decision by General Counsel.
Georgia District Office Sponsorship Activities	2-25	8/26/02	Awaiting decision by General Counsel.
Internal Control Over Colson Services Corporation's Contract as Central Servicing Agent for SBA's Certified Development Company Loan Program	2-29	9/16/02	Awaiting proposed management decisions from program officials.
SBA-Guaranteed Loan to Earth Treasures, Inc.	2-30	9/24/02	Appealing District Office decision to the Office of Financial Assistance.
Impact of Loan Splitting on Borrowers and SBA	2-31	9/30/02	Awaiting proposed management decisions from program officials.
Audit of SBA-Guaranteed Loan	2-32	9/30/02	A check has been received, however, OIG is awaiting the 1824 and resolution of additional $80,250.
7(j) Management and Technical Assistance Program	2-33	9/30/02	Awaiting proposed management decisions from program officials.
Use of Social Security Numbers	2-34	9/30/02	Awaiting proposed management decisions from program officials.
Performance Measurement in FAST Program	3-02	1/6/03	Awaiting proposed management decisions from program officials.

APPENDIX VII
OIG Reports Described in Prior Semiannual Reports Without Final Action as of March 31, 2003

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target
43H006021	8(a) Continuing Eligibility Reviews	9/30/94	10/30/94	10/30/02
87H002017	NOAA Computer Workstation Contracts	6/19/98	3/1/99	3/31/03
9-23	Survey of Electronic Records Management	9/15/99	11/30/99	4/15/03
0-14	7(a) Service Fee Collections	3/30/00	8/22/00	9/30/03
0-19	SDB Certification Program Obligations and Expenditures	6/30/00	3/30/01	9/30/02
0-25	GPRA for the SBIC Program	9/7/00	12/27/00	7/30/03
0-28	Rhode Island District Advisory Council	9/29/00	***	**
0-29	MBELDEF	9/29/00	***	1/31/03
0-30	SBA's Administration of MBELEDF Cosponsorship	9/30/00	3/26/01	**
0-31	Boscart Construction, Inc.	9/30/00	***	**
1-01	GPRA for the 7(a) Business Loan Program	12/4/00	***	**
1-09	PDD 63	3/26/01	9/27/01	9/15/03
1-11	GPRA for the MSB&COD Program	3/27/01	9/28/01	7/31/03
1-12	SBA's Information Systems Controls – FY 2000	3/27/01	***	**
1-16	SBA's Follow-up on SBLC Examinations	8/17/01	9/25/01	12/31/03
1-19	PLP Oversight Process	9/27/01	8/27/02	6/30/03
A1-05	SBA's Use of Government Cars and Hired Car Services	9/27/01	1/15/02	1/31/03
1-20	Agreed-upon Procedures Report on Sensitive Payments	9/28/01	12/18/01	9/30/03
1-21	SBA's INIX Operating Systems	9/28/01	1/28/02	6/30/03
A1-06	Evaluation of SBA's Computer Security Program	9/28/01	***	**
2-04	SBA's FY 2001 Financial Statements	2/27/02	***	**
2-12	Improvements in the SBLC Oversight Process	3/20/02	8/27/02	**
2-17	SBA's FY 2001 Financial Statements – Management Letter	4/12/02	***	**
2-18	SBA's Information Systems Controls FY 2001	5/6/02	***	**
2-19	Borrowers with Prior Defaulted Loans	5/28/02	3/19/03	5/16/03
2-20	Modernizing Human Resource Management	5/31/02	2/24/03	**
2-22	Travel of SBA's Former Region VI Regional Administrator	8/7/02	9/26/02	**
2-26	Review of "Out-of-Sequence" Payments	9/3/02	12/19/02	6/30/03
2-27	SBA's Experience with Defaulted Franchise Loans	9/16/02	12/19/02	6/30/03
2-29	Internal Control over Colson CSA for SBA's CDC Program	9/16/02	12/12/02	12/15/03
2-33	7(j) Management & Technical Assistance Program	9/30/02	12/10/02	4/30/03
3-03	SBA's Implementation of its CIPP	1/10/03	2/4/03	**
3-06	SBA's FY 2002 Financial Statements	1/30/03	***	**
3-08	SBA's Oversight of the FTA for the 7(a) Loan Program	1/30/03	3/4/03	4/3/03

** Target dates vary with different recommendations. *** Management decision dates vary with different recommendations.

APPENDIX VIII
6-Month Legal Actions Summary
October 1, 2002, through March 31, 2003

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
AZ	BL	Businessman submitted false documentation to the lender to obtain a $462,000 SBA-guaranteed loan. Additionally, he diverted funds collected through his corporate entity for the Combined Federal Campaign for his own use.	Businessman pled guilty and received 33 months incar-ceration, 10 months incarceration for parole violation to be served consecutively, up to $462,000 restitution	None
CA	BL	In connection with two SBA-guaranteed loans for $250,000 and $300,000, a businesswoman and her son submitted false documents to two banks from shell companies they created then funneled the money to offshore bank accounts.	Businesswoman and son indicted	IRS/CI
CA	BL	Businessman submitted a fictitious invoice for tenant improvements from a non-existent construction company as partial proof of his capital injection and documentation that the invoice was paid.	Businessman indicted	None
CO	BL	Bank president signed a settlement agreement and release when actions of a former bank officer caused the bank's failure to comply with SBA regulations.	Settlement agreement that bank would repay $238,683 for two guaranteed loans; SBA declined to renew the lender's preferred lender status	FBI, other OIGs
CO	BL	Shortly after receiving a $100,000 SBA-guaranteed loan, the wife defaulted and filed bankruptcy. The husband conspired with wife to hide assets in excess of $250,000 from the bankruptcy court.	Husband indicted; arrest warrant issued	FBI
CT	BL	On bankruptcy schedules a businessman concealed his ownership of his company, his interest in two other companies, and considerable assets such as trusts and income from the trusts which he included on the personal financial statement he prepared as part of his loan application for a $450,000 SBA-guaranteed loan. The company defaulted on the loan after filing bankruptcy.	Businessman pled guilty and received 6 months of home confinement, 2 years probation, 200 hours of community service, $53,000 restitution, $400 fine	None
GA	BL	Company president submitted an SBA Form 912 in connection with a $500,000 SBA-guaranteed loan indicating he had never been charged with a criminal offense, when he had been charged with four criminal offenses and convicted on three. He made statements to the bankruptcy court that he had not sold any accounts receivables or equipment during the previous year when he had.	Company president indicted	None
Guam	DL	An import company owner was indicted on one count of mail fraud, two counts of wire fraud, and one count of making material false statements. The owner obtained a $103,400 SBA disaster loan. The investigation revealed that he, on behalf of the company, submitted two false invoices to SBA for work that was not done as claimed.	Owner of importing company indicted	FBI
Guam	DL	A disaster loan applicant made material false statements to SBA. His application was initially denied because of his inability to repay the loan based on income. He subsequently submitted additional	Disaster home loan applicant charged by information; pled	FBI

		false income information that indicated he was employed. Based on the false information his request for a $51,400 SBA disaster loan was approved.	guilty	
IL	BL	Business owners' checks totaling $573,000 were seized when they were presented to a bank, as a result of a civil fraud complaint for false claims to SBA, false statements, and conspiracy. The couple signed a non-compete clause when they never had any intention of complying, and submitted false tax returns to get a $954,000 SBA-guaranteed loan to a mergers and acquisition company approved.	Writ of garnishment	FBI
IL	BL	Businessman failed to disclose a significant number of liabilities including a $87,000 debt to a bank and a $300,000 personal loan on his SBA personal financial statement submitted in connection with a $954,000 SBA-guaranteed loan.	Businessman pled guilty	FBI
IL	BL	Company president submitted false invoices to bank in order to receive disbursements from a $375,000 SBA-guaranteed loan. He used loan proceeds to pay off loan used for his capital injection.	Company president indicted	None
MA	BL	Two co-managers of a microloan intermediary paid themselves more than $300,000 in unauthorized consulting and technical assistance fees, improperly charged the business $170,000 in recreational travel, and forged signatures of board members on business checks. A board member received a portion of the unauthorized consulting fees and travel money, and the fund's accountant rented space in his building to the fund and obtained a loan from microloan intermediary. The four top officials were indicted on a total of 20 counts of program fraud, 7 counts of false statements, 32 counts of money laundering, 1 count of conspiracy, and 3 counts of defrauding SBA.	Four top officials of a microloan intermediary indicted	FBI, HUD, DOC/OIG, IRS/CI
MD	BL	In connection with a $440,000 SBA-guaranteed loan, a company president falsely stated that he had never been involved in bankruptcy, and he and the company secretary concealed assets and properties in the course of filing bankruptcy, fraudulently procured a mortgage in a family member's name, and fabricated pay stubs and W-2 forms to show the family member worked at their restaurant.	Company president and secretary indicted	FBI
MO	BL	In connection with a $200,000 SBA-guaranteed loan, a businessman made false statements to SBA and the participant bank and converted company health plan pension funds, resulting in losses to SBA and the bank totaling $137,868.	Businessman charged by information; pled guilty	FBI, DOL
MO	GC	The president of a Section 8(a) contractor and his corporation executed a $500,000 civil fraud lawsuit settlement. Under the terms of the settlement, the president and the corporation admitted no fault but repaid the U.S. Government $303,010, and agreed to forgo $196,989 in payments otherwise due from the U.S. Army Corp of Engineers on contracts the Government alleged were obtained by fraud (falsely claimed social and economic disadvantage). The Section 8(a) contractor received approximately $17 million on 17 Federal contracts.	Civil claim filed against President of Section 8(a) contracting company; settlement agreement; and suspended by DOD from receiving all new Government contracts	DOL/OIG; FBI
MS	BL	Law firm president provided false personal and corporate financial statements to bank that failed to report liabilities, including an outstanding $340,000 SBA-guaranteed loan to a company he owned, in order to obtain a $15,000 loan. He has reportedly fled.	Law firm president indicted; arrest warrant issued	IRS, Missouri Attorney General's Office
NC	GC	The president of a general contractor submitted false payment certification requests under various Army, Navy, Postal Service, and Veterans Administration Section 8(a) contracts. The total losses	President of general contracting company received 24 months	N/A

		were more than $1.2 million on 10 separate Government contracts and $700,000 for having to fund the completion of several contracts left uncompleted by the contractor.	imprisonment; 3 years supervised release and ordered to pay $1.5 million in restitution; debarred from Government contracting	
NJ	BL	CFO failed to purchase machinery and fixtures for which the $500,000 SBA-guaranteed loan was intended, provided a forged landlord waiver in applying for the loan, and passed three checks containing fraudulent endorsements to banks. Additionally, he and another company principal violated the Water Pollution /Control Act by discharging chemical wastes and industrial wastes into county utilities sewer lines.	CFO received 5½ years incarceration, $4,000 fine; Company principal received 7 years incarceration	EPA/OIG, New Jersey Division of Criminal Justice
NM	DL	A disaster loan applicant was sentenced to serve 78 months in prison, 3 years supervised release, ordered to pay $40,000 in restitution to SBA, and $1,700 in restitution to FEMA. The sentencing was the result of a trial conviction on multiple fraud charges including mail and wire fraud, false statements, false claims, and impersonation of a U.S. employee.	Loan applicant received 78 months incarceration (with credit for the 24 months served); 3 years supervised release; $40,000 in restitution to SBA, and $1,700 to FEMA	FEMA
NY	SBIC	A former pension plan manager pled guilty to an information charging him with embezzlement of employee benefit pension plan funds. The plan manager misused a corporate credit card; double and sometimes triple billed for expenses such as investment publications, computers, and travel; and sought reimbursement for the same expenses from two or more sources, including the utility company and the pension plan brokers. He admitted using the money for unauthorized personal expenses. He was also responsible for recommending investments of the company pension funds made through various venture capital firms, including a New York City small business investment company presently in receivership.	Former pension plan manager for utilities company charged by information and pled guilty	DOL/OIG
OH	BL	A former husband and wife converted collateral pledged to SBA in relation to a $200,000 SBA-guaranteed loan for the purchase of a house that was to be converted to a bed and breakfast business.	Husband and wife received 3 years probation; ordered to pay $25,000 in restitution	N/A
OH	BL	A businessman obtained blank copies of SBA loan documents, fraudulently completed and filed false mortgages and promissory notes with a county Recorder's Office. The documents falsely detailed a $10.75 million SBA loan, including a mortgage on his rental properties, when in fact SBA had not participated in any such transaction. He later included these fraudulent documents with his "Plan of Arrangements" filed with the Bankruptcy Court	Businessman indicted on two counts of bankruptcy fraud, and one count of concealment of assets from the bankruptcy trustee.	FBI
OH	BL	A businessman made false statements to an FDIC insured financial institution in connection with a $337,500 SBA-guaranteed loan and used the loan proceeds to pay for unauthorized purposes.	Businessman pled guilty; received 5 months imprisonment, plus 5 months home detention, 5 years of supervised release, and $76,978 in	N/A

			restitution.	
PA	BL	An attorney diverted the proceeds from a $107,000 SBA-guaranteed loan for unauthorized personal expenditures, then defaulted on the loan and filed for bankruptcy. The attorney perjured himself at the bankruptcy hearings when he testified that the lender agreed to his diversion of loan proceeds and hid $65,000 of assets from creditors.	Attorney pled guilty; paid lender first restitution payment of $10,000	FBI
PA	GC	A former SBA Section 8(a) program participant pled guilty to one count of conspiracy and one count of mail fraud. A principal condition of the guilty plea is that the defendant will make restitution to the insurance company pursuant to a $500,000 settlement agreement. The conspiracy count refers to the defendant making material false statements and representations to SBA that someone else controlled the SBA 8(a) certified company.	8(a) participant pled guilty; settlement agreement	NCIS; VA/OIG; DCIS; USCS
PA	BL	The president of a business that made and sold Civil War era clothing submitted false tax returns for 1997, 1998, and 1999, with her loan application for a $243,000 SBA-guaranteed loan. As a result, the loan was cancelled prior to disbursement.	President of a business pled guilty to one count of making a material false statement to SBA.	N/A
TX	BL	The co-owner of a dry cleaning business was sentenced following his conviction on one count of bank fraud and one count of making a false statement to SBA to obtain a $77,500 SBA-guaranteed loan. According to the indictment, he understated his liabilities by concealing credit card and other personal debt and induced disbursement of loan funds by falsely certifying there had been no substantial adverse changes in his financial condition.	Co-owner of a dry cleaning business convicted and received 21 months in a Federal correctional facility and 5 years of supervised release; and was ordered to pay $76,767 in restitution	FBI; USPS
TX	BL	A gas station/convenience store owner pled guilty to a one-count information charging him with causing a false statement to be made to SBA. Specifically, the defendant caused his wife to falsely obtain a $1.18 million SBA-guaranteed loan to purchase the deli by falsely claiming that she was 100 percent owner of the business on the loan application and that she was a U.S. citizen on the SBA Statement of Personal History.	Businessman charged by information; plead guilty	FBI
TX	BL	Two former owners of a gas station and dry cleaning business pled guilty to pre-trial diversions and a CPA was sentenced for falsifying nine federal tax returns, six IRS tax return verifications and their $85,000 capital injection, and forging two fuel company leases in connection with a $355,000 SBA-guaranteed loan for the gas station.	Two businessmen pled guilty; CPA received 33 months incarceration, 3 years supervised release, $1,676,569 restitution	TIGTA
TX	BL	Business owner falsely represented himself to be a citizen of the United States on SBA Form 912 in order to obtain a $675,000 SBA-guaranteed loan.	Business owner arrested and indicted	TIGTA, Homeland Security, SSA, USDA, Texas Alcoholic Beverage Commission

APPENDIX VIII
6-Month Legal Actions Summary
October 1, 2002, through March 31, 2003

TX	BL	Business owner falsely represented himself to be a United States citizen on SBA Form 912 in order to obtain a $435,000 SBA-guaranteed loan.	Businessman indicted	INS, TIGTA, Homeland Security, SSA, Texas Alcoholic Beverage Commission
VA	BL	The president of a defunct soap-making business pled guilty to one count of wire fraud per a plea agreement. SBA/OIG agents arrested the defendant as he reentered the country from Canada. He was indicted and charged with wire fraud, and multiple false statement counts. The charges related to a $290,000 SBA-guaranteed loan.	President of business was arrested; indicted and pled guilty	N/A
WA	BL	A Netherlands citizen pled to one count of theft of public monies in the amount of $1,093,082. He submitted false accounts receivable aging reports to the bank to obtain a $1.3 million guaranteed line of credit, then diverted payments on accounts receivable away from the bank, and used diverted proceeds and line of credit for personal use.	Business owner pled guilty	FBI
WVA	BL	Company president obtained three SBA-guaranteed loans totaling $780,000. President submitted false invoices to obtain $127,981 and defaulted on all three loans. SBA refused to honor the guaranty on one loan because the bank did not properly oversee the loan.	Company president pled guilty; received 12 months incarceration, 5 years supervised release, $127,981 restitution, $100 special assessment fee	FBI
	SBA	An SBA employee was suspended and reduced in grade from a GS-15 to a GS-13. The investigation disclosed various improprieties and claims in relation to the employee's travel. The employee was also required to repay SBA over $50,000 through salary offset for erroneous travel claims.	SBA employee suspended for 30 days and reduction in grade	N/A

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

Program codes: BL=business loans, DL=disaster loans, GC =Government Contracting and Business Development/Section 8(a) business development, SBIC=small business investment companies, SBA = employee conduct case.

Joint-investigation Federal agency acronyms: ATF=Bureau of Alcohol, Tobacco, and Firearms DCIS=Defense Criminal Investigative Service; DOC/OIG=Department of Commerce OIG; DOL=Department of Labor; DOL/OIG=Department of Labor OIG; EPA/OIG=Environment Protection Agency OIG; FBI=Federal Bureau of Investigation; FEMA=Federal Emergency Management Agency; HUD=Housing and Urban Development; INS=Immigration and Naturalization Service; IRS=Internal Revenue Service; NCIS=Naval Criminal Investigative Service; SSA=Social Security Administration; TIGTA=Treasury Inspector General for Tax Administration; USCS=Customs Service; USDA=United States Department of Agriculture; USPS=United States Postal Service; VA/OIG=Veterans Affairs Department 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 HOTLINE.*

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