

SEMIANNUAL REPORT OF THE INSPECTOR GENERAL

U.S. Small Business Administration

Fall 2003



A Report to Congress

April 1, 2003 – September 30, 2003

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.

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A Message From The Inspector General

I am pleased to present the Small Business Administration (SBA), Office of Inspector General (OIG), Semiannual Report covering activities from April 1, 2003, through September 30, 2003.

This reporting period, we issued 22 reports with significant recommendations for improving Agency operations, reducing fraud and unnecessary losses, and recovering funds. OIG investigations led to 13 indictments and 17 convictions of subjects who defrauded the Federal Government. In addition, the Office collectively reviewed 124 legislative, regulatory, policy, procedural, and other proposals concerning the SBA and Government-wide programs. With about 100 staff, the OIG continues to produce substantial savings and important program improvements.

Working with a number of other law enforcement agencies, the OIG has been an integral part of a continuing operation known as Operation Fleeced America. This effort has revealed an organized pattern of false U.S. citizenship claims on applications leading to SBA loans ranging from \$.5 million to over \$1 million, many of which defaulted soon after the loan was made, with the SBA sustaining substantial losses. While only in Phase I, the operation has already resulted in a number of indictments and guilty pleas. We are working with the Agency to mitigate vulnerabilities that can allow false citizenship claimants to receive SBA funding.

The SBA responded to the September 11th tragedy by dispersing over \$1 billion in disaster relief loans. The vast majority of these loans were made to businesses and individuals that were entitled to receive them. However, some preliminary survey work conducted by the OIG has revealed that certain of these loans were obtained through fraudulent misrepresentations. We intend to devote substantial resources in pursuing those individuals who took advantage of this terrible tragedy by defrauding the Federal Government and obtaining money to which they were not entitled.

During this period, the OIG issued two reports identifying the need for significant improvements in the oversight of the Small Business Investment Company and Microloan Programs, six reports concerning financial management and information systems development and security, and two reports for improving the management of the SBA's business development programs. Other reports covered improper loan guarantee payments, travel and purchase card controls, and a faulty policy and procedure directives system.

I would like to thank Administrator Barreto and his senior staff for their support of the OIG and the work we do. We will continue to be vigilant in protecting American taxpayers' interests as we work with the Agency and the Congress to achieve measurable results.

Harold Damelin
Inspector General

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Overview of the SBA and the 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. The SBA's two major goals are to help small businesses succeed and to recover from disasters. The 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. 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. The SBA has an FY 2003 appropriation of \$786 million and at the end of the reporting period has 3,671 employees (number of employees includes the Office of Disaster Assistance and the Office of Inspector General (OIG) personnel).

The Office of Inspector General

The SBA OIG was established by the Inspector General (IG) Act of 1978. Through its five divisions, the OIG 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 the 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 performance.
- **The Counsel Division** provides legal advice to all OIG components, represents the OIG in litigation arising out of or affecting the 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 the OIG Human Resource (HR) policy and providing a full-service HR program to the 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.

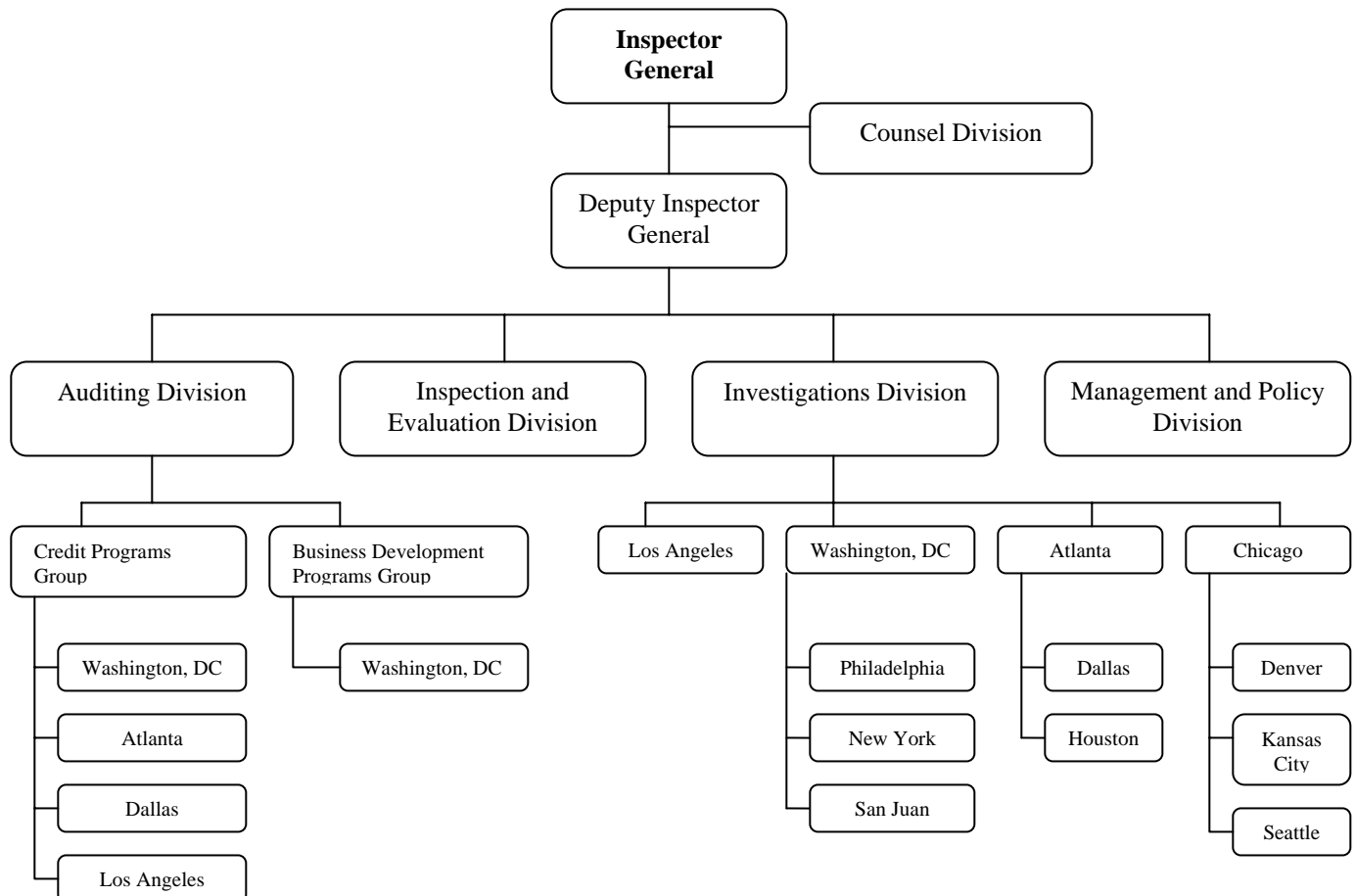
Overview of the SBA and the OIG

The 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 September 30, 2003, the OIG's on-board strength was 97. 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 the OIG's appropriation resulting from the government-wide rescission in FY 2003.

The 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. The OIG continues to focus on serving the needs of our customers and stakeholders and on safeguarding SBA resources from waste, fraud, and abuse. 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; (3) assist the SBA in improving its small business development programs and Government contracting; (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



Significant OIG Activities

Prevent Fraud and Unnecessary Losses in SBA Programs

The 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 the SBA's resources are devoted to providing financial assistance to qualified small businesses. The Section 7(a) Guaranteed Loan Program is the SBA's largest lending program and the primary vehicle for providing small businesses access to credit they cannot obtain elsewhere. This program is vulnerable to fraud and unnecessary losses because it relies on numerous parties (including borrowers, loan agents, lenders, and the SBA) to complete loan transactions. The processes for loan approval are risky, and no party has complete knowledge of the activities of all of the other parties.

The Disaster Loan Program is another key SBA lending program. It is the primary form of direct Federal assistance for non-farm private sector disaster losses. This highly visible 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 seek to take advantage of the program. As the SBA seeks to reengineer its business loan programs, their vulnerabilities may increase.

Fraud Detection and Prevention

During this semiannual reporting period, the efforts of the Investigations Division resulted in approximately \$2.3 million in potential fines and recoveries, \$1.5 million in loans/contracts not being approved, 13 indictments, and 17 convictions. 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 the SBA or to qualify for participation in an SBA program. Generally the misrepresentation occurs before the approval, but some occur after the fact. While the Investigations Division closed 72 cases during the reporting period, at the end of the fiscal year, the Division had 210 open investigations, involving 719 individuals or businesses.

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 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 thread of misrepresentations that leads to a vulnerability for the Agency. Because the SBA relies so heavily upon the truthfulness of the applicants, this will remain an extremely vulnerable area that the OIG will continue to focus on.

Significant OIG Activities

Operation Fleeced America and False Claims of U.S. Citizenship

Operation Fleeced America, based in Texas, has led to numerous legal actions against individuals for false claims to U.S. Citizenship on the SBA Personal History Statement (Form 912), and on applications for Texas Alcoholic Beverage Licenses. The operation revealed a pattern of false claims to U.S. Citizenship in support of applications leading to SBA loans ranging from \$.5 million to more than \$1 million dollars. This operation was Phase I of a continuing joint effort with, and among others, the Texas Alcoholic Beverage Commission (TABC), U.S. Border Patrol, U.S. Social Security Administration (SSA) OIG, and the Bureau of Immigration and Custom Enforcement to: (1) identify, disrupt and/or destroy any organized criminal enterprise that may be coordinating similar financial violations across the United States; and (2) identify the final destination of loan proceeds. Some indictments and convictions, as described in the following examples, have already occurred in these cases.

- The owner of a convenience store and service station in Fort Worth, Texas, pled guilty to one count of false statement to the SBA. The defendant induced a bank to fund a \$435,000 SBA-guaranteed loan by falsely representing himself as a U.S. citizen.
- The owner of a convenience store and service station in Grand Prairie, Texas, obtained a \$675,000 SBA-guaranteed loan from a non-bank participating lender by falsely representing himself as a U.S. citizen. He pled guilty to one count of false statement to the SBA.
- The owner of a convenience store and service station in Fort Worth, Texas, was indicted for inducing a bank to fund a \$1.1 million SBA-guaranteed loan by falsely representing himself as a U.S. citizen.
- The owner of a convenience store and service station in Palestine, Texas, pled guilty to making a false statement to the SBA. He was indicted for falsely claiming U.S. Citizenship to obtain a \$1,190,000 SBA-guaranteed loan.

In addition, as part of Operation Fleeced America, State of Texas District Judges issued felony arrest warrants that resulted in 21 arrests of individuals for false U.S. Citizenship claims on applications for Texas Alcoholic Beverage Licenses. Ten of the individuals made false claims of U.S. Citizenship in obtaining SBA-backed loans. Individuals taken into custody during this operation were to be processed for deportation from the United States.

As a result of recent investigative work involving misrepresentation of citizenship, the OIG issued an inspection report on *Insufficient Proof of Citizenship for SBA Loans* recommending actions to mitigate vulnerabilities in SBA loan guarantees.

Significant OIG Activities

The report found that the SBA and its lenders have little assurance that prospective borrowers truthfully disclose their citizenship status. Recent OIG investigations have identified borrowers who misrepresented their citizenship status in order to obtain SBA guaranteed loans, despite the fact that non-citizens (i.e., aliens) can receive SBA loans if they meet certain requirements. The Agency cannot be reasonably certain that its loan programs benefit only eligible citizens or legal aliens because of reliance on prospective borrowers' honesty, concerns about loan origination delays, concern over the appearance of discriminatory practices, and the lack of a definitive national identification system for foreign nationals. We recommended that, consistent with the USA PATRIOT Act, the SBA issue an interim directive instructing its lenders to verify the identities of new customers involved with Agency programs. Financial institutions are expected to follow the recently issued Patriot Act regulations while SBA non-bank lenders should take steps similar to those in the regulations to verify eligibility. Accordingly, the SBA had drafted a notice that was in the clearance process as of September 30, 2003.

The report also found that the SBA cannot readily determine how many loans go to citizens and how many to aliens. We recommended that the SBA collect citizenship status data, including available alien registration numbers, in its loan databases so that potential trouble spots in its portfolio can be identified and programmatic research can be performed. The Agency has not yet made a management decision on this recommendation.

Loan Agent Fraud

A Dallas, Texas, real estate proprietor was arrested for bank fraud involving his packaging/brokering of 10 SBA-guaranteed loans. Specific charges are pending. A co-conspirator in this scheme pled guilty to submitting to the SBA a false gift letter for \$250,000. He was sentenced to 5 years probation and ordered to pay restitution of \$50,000.

Fraud in Obtaining Business Loans

The following are examples of fraud in obtaining business loans:

- The former owner of a business in Cheney, Washington, pled guilty to making a false statement to the SBA and one count of bank fraud. The false statement charge pertained to statements made to obtain an \$880,000 SBA-guaranteed loan. He concealed notes payable totaling \$305,000, a \$60,000 gambling debt, and the sale of 10 percent of his investment group for \$100,000. The bank fraud count pertained to the submission of a false car loan application to a bank. In exchange for his plea, the Government dropped the remaining 24 counts of bank fraud for which he had been charged in a superseding indictment. He was previously indicted on seven counts of bank fraud against a financial institution and pled guilty to those charges. Later, however, he withdrew his plea, citing a conflict of interest on the part of his attorney. The indictment included the original seven counts of bank fraud, the false statement to the SBA count, and added 16 other bank fraud counts against another financial institution.

Significant OIG Activities

- As a result of an ongoing joint investigation with the FBI, a director of two management corporations in Norfolk, Virginia, pled guilty to conspiracy to commit wire fraud. The management corporations were borrowers that obtained two SBA-guaranteed loans totaling \$3,270,000 to purchase two adjacent motels in Norfolk, Virginia. The director conspired to: (1) inflate the purchase price of the properties by \$148,000 to fraudulently obtain loan proceeds from a non-bank lender and a bank; (2) inflate the purchase price by a scheme to have the corporations pay \$550,000 from the loan proceeds to a development corporation (owned by the director) for repairs that never took place; (3) pay \$200,000 to each of the stockholders of the corporations and disburse \$198,000 of the loan proceeds to purchase another motel; and (4) submit false statements to the non-bank lender and bank regarding the assets and liabilities of the shareholders of the corporations. The director caused the non-bank lender and the bank to wire loan funds to the management corporations.
- The president of a vending service company in Marietta, Georgia, was sentenced to 18 months incarceration, 3 years probation, 300 hours of community service and was ordered to pay \$350,000 restitution. He pled guilty to making material false statements and bankruptcy fraud. An earlier indictment alleged that he failed to disclose his criminal history on an SBA Form 912 submitted to the financial institution with an application for a \$500,000 SBA-guaranteed loan. He later testified in a bankruptcy hearing that the vending company had no contracts, no accounts receivable, and had not sold equipment or contracts within the previous 12 months. In fact, the company had sold numerous vending machines and accounts and at the time of bankruptcy was receiving undisclosed payments for the sold accounts and machines.
- A Castaic, California, businessman altered and submitted Federal income tax returns as part of his loan application for a \$1 million SBA-guaranteed loan. He defaulted on the loan. Subsequent investigation disclosed that he submitted two completely different altered Federal income tax returns to another financial institution in order to obtain a home loan. The defendant was indicted for making false statements to two Federally-insured financial institutions. He pled guilty.

Fraud After Business Loan Approval

The following are examples of fraud after business loan approval:

- Following an indictment related to an SBA-guaranteed loan for \$375,000, a former president of a business in Bloomington, Illinois, pled guilty to bank fraud and making false statements to a bank. The purpose of the loan was to take over a heating/cooling/plumbing business from a family member. The defendant submitted a series of false and fraudulent invoices to the bank in order to receive disbursements from the loan. Within a week of the loan closing, he took the \$125,000 capital injection out of his business and paid off a personal loan he previously secured in order to come up with the capital injection. This violated the Authorization and Loan Agreement, which provided that the capital injection was to be used as working capital and to purchase inventory.

Significant OIG Activities

- A Federal jury in the Northern District of Ohio, Western Division, found a Lima, Ohio, man guilty of bankruptcy fraud and concealment of assets from a bankruptcy trustee. After being told that the SBA's programs could not provide funding to assist in his business reorganization, he submitted a loan application to the Columbus, Ohio, District Office. To support his application, he falsified documentation detailing a non-existent \$10.75 million SBA loan, including a mortgage on his rental properties. The defendant included these fraudulent documents with his "Plan of Arrangements" that he filed with the bankruptcy court in connection with his voluntary petition for relief under Chapter 11 of the Bankruptcy Code.
- A Las Vegas, Nevada, business owner pled guilty to bank fraud after having been indicted for bank fraud, conversion of collateral pledged to the SBA, and money laundering. He submitted inflated income statements to misrepresent his net worth in connection with a \$213,000 SBA-guaranteed loan he obtained to start a business. It was further alleged that he misrepresented the source of his required equity injection by concealing personal loans he obtained prior to funding. After his loan went into default, he allegedly concealed proceeds and converted collateral equipment to impede full liquidation of collateral. The SBA sustained a loss of \$136,326.51.

Improper Actions by Lenders

The following are examples of improper actions by lenders:

- In a settlement agreement, a small business lending company agreed to pay the SBA \$200,000 to settle a civil suit filed by the U.S. Attorney's Office, Western District of Pennsylvania. The SBA had guaranteed a \$385,000 loan made by the lending company to a restaurant to purchase machinery, equipment, and fixtures. The borrower defaulted on the loan shortly thereafter, and the SBA purchased the guarantee for \$290,047. At liquidation, however, the former owner of the restaurant purchased the equipment for only \$11,000. An investigation initiated at the request of the SBA district office did not reveal any criminal violations but confirmed that the lending company did not administer the loan properly. The lending company had disbursed the entire amount of the loan for the purchase of machinery, equipment, and fixtures without having these items properly appraised. When the lending company refused to return any of the money SBA had paid to honor its guaranty, the U.S. Attorney's Office filed the civil suit.
- A former business banking associate for a Davenport, Iowa, bank pled guilty to making false statements to the SBA, admitting he made a false statement to secure a guarantee payment on a bank customer's loan. To induce the SBA to pay the guarantee on the defaulted loan, he fabricated and submitted a letter to the SBA purportedly written by an SBA official which falsely indicated that an SBA LowDoc loan had been properly approved, when, in fact, it had not met SBA requirements.

Significant OIG Activities

- The Associate Deputy Administrator for Capital Access concurred with the SBA New Jersey District Office and denied liability under its guaranty agreement with a bank in the amount of \$110,022 for a loan made to a business in Delran, New Jersey. The applicants obtained a \$149,000 SBA-guaranteed loan through the bank to purchase an existing business. Subsequently, the borrowers defaulted on their loan and the lender requested that the SBA honor its guaranty. The OIG's investigation determined that the bank did not properly liquidate this loan. Specifically, the bank advised the SBA in a Liquidation Plan that the landlord had disposed of the equipment citing that it was in poor condition. The investigation disclosed the landlord had made numerous attempts to have the bank remove the loan collateral from the business site, to no avail.

Disaster Loan Fraud

The OIG is conducting work to review abuses and improper payments in the Economic Injury Disaster Loans (EIDL) Program as a result of the September 11, 2001, terrorist attacks in New York City and on the Pentagon in Arlington, Virginia. As of September 11, 2003, the auditors have reviewed 55 defaulted EIDLs and have made 15 referrals to the Office of Investigations for further investigation and possible criminal prosecution. In addition, several systemic problems and the need for related improvements in SBA loan origination and processing controls have been identified.

- The president of a Carolina Beach, North Carolina, music company was sentenced to 10 months confinement, 2 years probation, and a \$5,000 fine after pleading guilty to money laundering. As part of the sentence, he was also ordered to forfeit \$750,000. The president's son was sentenced to 2 years probation and 120 hours community service for pleading guilty to an Information charging him with money laundering. The president, a former North Carolina Transportation Secretary, acting as attorney for his father, obtained two disaster loans totaling \$617,200 for damages associated with Hurricanes Bonnie and Floyd. The OIG's investigation disclosed that: (1) the music company was operating an illegal gambling business that would have made it ineligible for the disaster loans; (2) the company president claimed disaster damage for machinery and equipment that was not damaged by the storms; and (3) loan proceeds were used to improperly pay off pre-disaster debt. The son agreed to testify against his father and grandfather in lieu of being indicted on SBA charges. Although the president's father was actively involved in the music company, he was not indicted due to an onset of Alzheimer's disease.
- The owner of a resort in Talofofo, Guam, was sentenced to 1 year probation and assessed a \$5,000 fine after pleading guilty to one count of making a false statement. In submitting a disaster loan application for \$200,000 to repair damage to his business caused by Typhoon Paka, he falsely stated that he had not been arrested, convicted, or indicted for any offense. In fact, he had been convicted for bribery of a public official. He also attempted to bribe an SBA employee with \$5,000 to approve a disaster loan after Typhoon Paka. Further, on behalf of his company, he submitted as part of his disaster business loan package a series of false or altered invoices for work that he claimed was done after Typhoon Paka.

Significant OIG Activities

Section 8(a) Fraud

An Englewood, Colorado, man was indicted for bankruptcy fraud, money laundering, and forfeiture. The company was a certified SBA Section 8(a) company which generally sold computer equipment to the U.S. Government and was primarily controlled by a non-minority individual. While an officer of the company, the individual declared personal bankruptcy, receiving a discharge of approximately \$135,000 in debts. He directed company employees to divert company income to several bogus companies created in order to avoid paying creditors. He failed to disclose his income, other assets, and control of the company to the bankruptcy court and the SBA.

Character Eligibility

The SBA requires applicants for assistance to meet certain character standards before participating in Agency programs. The 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 the 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 business loan program managers declining 18 applications, and disaster loan program officials declining 8 applications, totaling more than \$3.6 million and nearly \$604,100 respectively. These actions made credit available to other applicants without character eligibility issues.

In addition, based on the OIG character eligibility information, officials of the SBA's Section 8(a) and surety bond programs declined, respectively, three applications for certification and three applications for guaranty. More than \$233 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 138 background investigations and issued 15 security clearances. OSO also reviewed and adjudicated 64 background investigative reports in accordance with Executive Order 10450 and OMB Circular A-130 and coordinated with the SBA's Office of Disaster Assistance to adjudicate 46 derogatory background investigative reports forwarded for review and appropriate action.

OIG Fraud Awareness Briefings

During this reporting period, the OIG conducted 4 briefings to more than 74 SBA employees, lenders, and other resource partners as part of its mission to educate its customers on identifying waste, fraud, and abuse.

Significant OIG Activities

Improper Payment Detection and Prevention

Loan Origination Problems and Improper Payments

Audits of seven loans totaling more than \$7.6 million found that lenders did not use prudent lending procedures. The SBA made improper payments totaling almost \$2.5 million on six of the loans. The audits were judgmentally selected for review as a part of the OIG's ongoing program to audit Section 7(a) loans charged off or transferred to liquidation within 24 months of approval—that is, early default loans. All of the audited loans were transferred to liquidation within 5 to 21 months of approval.

The SBA is released from liability on a Section 7(a) guaranty, in whole or in part, if the lender fails to comply materially with any of the provisions of the regulations or loan authorization, or does not make, close, service or liquidate the loan in a prudent manner. In each of the seven cases, the lender was in non-compliance with SBA requirements. The audits found that lenders variously did not: secure adequate documentation of equity injection; verify financial data; ensure lawful operation of the business; protect collateral; or determine credit worthiness, repayment or management ability. One borrower had a history of law suits, liens, and outstanding past-due taxes. In the case of two loans, the borrowers made false statements. They were referred to the Investigations Division.

One lender released the SBA from honoring the \$750,000 guarantee as a result of the audit and, for five other loans, the relevant SBA management officials agreed with the recommendations to seek recoveries. Additionally, payments were resumed for one loan which was subsequently brought current. SBA management has agreed to not honor the guaranty if the loan defaults again.

Improve Security Over and the Accuracy of SBA Accounting and Management Information

The SBA depends on a complex information technology (IT) environment which includes 38 mission critical systems running on a mix of legacy mainframe, client-server and minicomputers. The SBA has difficulty producing reliable and timely financial and management information to support its operations, primarily because of reliance on outdated IT systems that are not integrated. The SBA is developing a new Disaster Credit Management system to modernize and improve its disaster loan making activities. The SBA is also implementing a Loan Monitoring System to monitor its business loan portfolio. These efforts are critical to the SBA's successful future operations. However, even with these efforts, the SBA will have a Loan Accounting System which is sorely outdated and in need of replacement.

The SBA has also been slow to identify and develop reliable and appropriate management data to support implementation of the Government Performance and Results Act. As the Office of Management and Budget (OMB) moves the Federal Government toward performance budgeting by rating the effectiveness of all programs, the need for reassessing data requirements and collection activities to demonstrate accountability has become essential.

Significant OIG Activities

Development, Acquisition, and Implementation of the SBA's Joint Accounting and Administrative Management System (JA²MS) Was Seriously Flawed

The audit of JA²MS disclosed that mistakes were made from the inception of the JA²MS concept. Initially, the SBA's Business Technology Investment Committee (BTIC) received biased and misleading information on costs, benefits, and alternatives on which to base its decision to select a new financial accounting system. Because the SBA did not require a separation of duties by contractors in the system selection and requirements collection processes, and the design and implementation phase of the JA²MS system, the JA²MS selection process was not free of inherent bias or conflicts of interest toward one competing product.

The SBA implemented an outdated version of the Oracle database management system and not the version that had been demonstrated and approved by the BTIC. Moreover, JA²MS was placed into production without sufficient and complete testing of functions and interfaces. Additionally, the SBA purchased and bought license updates for software modules that it has never implemented.

JA²MS was not fully accredited by the Chief Financial Officer (CFO) prior to being put into production at its permanent site. Other aspects of JA²MS may not allow for complete confidentiality of sensitive SBA personnel information. JA²MS has not fully met Joint Financial Management Improvement Program (JFMIP) requirements, even though Oracle Federal Financials is certified as being JFMIP compliant. Finally, JA²MS does not meet a number of major system requirements, including many aspects of an Enterprise Resource Planning (ERP) system.

The OIG has reached agreement with the CFO and Chief Information Officer (CIO) on most of the recommendations in the report.

Financial Statement Management Letter

As a result of the SBA's FY 2002 financial statement audit, the OIG's independent accountant, Cotton & Company LLP (Cotton), communicated certain conditions to SBA management in a management letter. The issues relate to: (1) fund balance with Treasury differences; (2) foreclosed property records and valuations; (3) allotment detail; (4) administrative undelivered orders; (5) administrative costs; (6) sampling for erroneous payments; (7) intra-governmental reconciliations; (8) Federal Managers Financial Integrity Act reporting; (9) alignment of strategic goals with the Statement of Net Cost; (10) transactional detail for prior-year obligations; (11) fund control over administrative costs; (12) the general ledger account for loan sales; and (13) cash flow modeling. With certain exceptions, SBA management generally concurred with the recommendations.

Significant OIG Activities

SBA Compliance with Joint Financial Management Improvement Program (JFMIP) – Property Management System Requirements

An audit of JFMIP's Property Management System Requirements concluded that the SBA's property management system complied with the requirements of the JFMIP in many areas. Nevertheless, we found that the SBA's property management system was not compliant with requirements for feeding property data into the SBA's core financial system and lacked necessary cost control and accountability features. The SBA's property management systems are also fragmented and no single Agency-wide functional system is used. Agency property is managed at multiple locations, using different applications, each with varying degrees of accountability and control. As a result, the SBA does not fully comply with Federal property management requirements and is unable to ensure all of its assets are properly safeguarded. The CFO and the Assistant Administrator for Administration (AA/A) generally agreed with the recommendations.

Travel Card and Purchase Card Controls Inadequate

This audit found that the SBA lacked adequate controls to ensure that travel cards were used in accordance with applicable laws and regulations. We also found no evidence that purchase card statements in various SBA offices were reviewed by approving officials to ensure that the charges were for authorized purchases.

The Denver Finance Center (DFC) had previously identified only 213 of the 1,968 inappropriate travel card transactions that we identified in our audit. When the DFC did identify potential misuse, the DFC did not always follow through to determine if actual misuse had occurred. As a result, supervisors were not always notified of the inappropriate transaction. We also found that the SBA's internal controls did not ensure that individual accounts were always cancelled or deactivated when an employee left the Agency. There were 264 active travel card accounts maintained by separated employees on July 16, 2002.

We made four recommendations to the CFO and one recommendation to the AA/A. The CFO disagreed with one recommendation and did not comment on two. Taking into consideration his staff's concerns, we modified a fourth recommendation. The AA/A agreed with the one recommendation and has taken final action to resolve the matter.

Disaster Credit Management System Security not Adequately Planned

An audit report on SBA's Implementation of the Disaster Credit Management System (DCMS) disclosed that the Office of the Chief Information Officer did not provide adequate oversight of the DCMS development project. The SBA failed to: (1) conduct a security risk analysis for the DCMS project; (2) fully determine security requirements for DCMS before important decisions were made as to selecting Commercial Off-The-Shelf (COTS) software; (3) prepare a security plan for DCMS in a timely manner; (4) plan for an Independent Verification and Validation of DCMS; and (5) plan to perform a certification and accreditation review of DCMS before it went into production. The Associate Administrator for Disaster Assistance and the CIO generally agreed with five recommendations and disagreed with one recommendation.

Significant OIG Activities

Microloan Program Effectiveness Data Limited

The OIG issued an inspection report revealing that, although program management has made, and continues to make, improvements in the Microloan Program, sufficient information has not been developed to effectively monitor results beyond microloan volume information. Reporting requirements are not always met by participants or enforced by program staff. The microloan data currently required focuses more on activities than accomplishments and is not related to specific outcome-oriented annual and strategic goals. To demonstrate program effectiveness and increase efficiency, we recommended that program officials set program goals, improve the enforcement of reporting requirements, and use comparative cost data to determine participant viability. OIG recommendations also included, among others, the establishment of a role for the district offices in the marketing and oversight of the program, the development of a Standard Operating Procedure, an increase in the Intermediaries' per year microloan minimum requirement, an automated grant reporting process, and a periodic grant competition for the Non-Lending Technical Assistance Providers (NTAPs). We have reached agreement with the Office of Financial Assistance on all but two of the recommendations. The Agency has one recommendation under consideration, and the OIG has appealed management's decision on the other recommendation.

Independent Evaluation of the SBA's Information Security Program

The OIG's Independent Evaluation of the SBA's Information Security Program found that, while the SBA's Information Security Program continues to improve for high priority financial management and general support systems, it continues to have material weaknesses and security vulnerabilities. These weaknesses and vulnerabilities exist in: (1) computer intrusion detection and incident escalation procedures; (2) security controls in the systems development life-cycle; (3) system access controls; (4) system certification and accreditation; and (5) disaster recovery and contingency planning. This evaluation did not contain any recommendations and will be included as a part of the OIG's Federal Information Security Management Act (FISMA) submission.

Assist the SBA in Improving its Small Business Development and Government Contracting Programs

The SBA provides assistance to existing and prospective small businesses through a variety of counseling and training services offered by Agency partner organizations. Among these are Small Business Development Centers (SBDCs), the Service Corps of Retired Executives (SCORE), and Women's Business Centers (WBCs). The SBA also manages the Section 8(a) Business Development Program, which was established to provide business development assistance to small businesses owned by socially and economically disadvantaged individuals and to help them access the \$200 billion Federal procurement market. Through its broader Government contracting program, the SBA works with Federal agencies to establish and implement procurement goals for contracting with small, small-disadvantaged, women-owned, service-disabled veteran-owned, and HUBZone-located small businesses. These programs demand effective and efficient management, outreach, and service delivery. Determining whether business development and Government contracting programs meet these demands depends on reliable internal and external data for effective monitoring and oversight.

Significant OIG Activities

Inappropriate Activities of the National Women’s Business Council

The OIG issued an audit report on the National Women’s Business Council (NWBC) disclosing that the former Executive Director and former Program Manager appeared to have violated Government ethics regulations. They continued to use their positions as Government employees to engage in matters related to Springboard venture capital forums for women after they developed a financial interest in Springboard 2000 Enterprises, Inc., a non-profit entity they created to take over the Springboard forums. Inappropriate activities identified in the NWBC audit include: (1) violating Federal regulations when contracting for various services and activities; (2) allowing organizations to receive revenues from Government sponsored events without a properly executed contract and justification; (3) disbursing cash awards without proper authorization; (4) using the Government purchase card for unallowable purchases; (5) violating the Federal Travel Regulations; (6) misusing the Business Assistance Trust Fund; (7) misusing the Government-issued cellular phone for personal calls; (8) engaging in unlawful lobbying activities; (9) allowing a non-appointed individual to serve as a NWBC member; and (10) failing to prepare a required annual report to the President and Congress.

We made 24 recommendations to the Administrator, the Office General Counsel (OGC), the CFO, and the NWBC’s Executive Director to correct deficiencies, implement new controls to prevent such occurrences in the future, determine whether some expended funds should be recovered, and recover inappropriate travel and other funds. We also recommended that the CFO recover \$195,470 and seek justification, or recover from outside parties, \$579,368 in unsupported revenues the organizations retained from the Springboard forums.

SBA Management officials generally agreed with the recommendations presented in the report but stated that recommendations seeking recovery were not justified until OGC determines recovery is legally supportable, and SBA reviews its legal options and makes a final determination as to how to proceed.

Office of Veterans Business Development (OVBD) Monitoring of Cooperative Agreement

A report on OVBD’s administrative oversight of TEP Consulting, Inc. found that OVBD did not address TEP’s possible noncompliance with cooperative agreement terms and conditions with TEP as the issues arose. OVBD staff lacked the necessary expertise and training and were overly cautious in notifying TEP of noncompliance issues. As a result, problems were not corrected and Federal funds may not have been used effectively and efficiently. OVBD agreed with the OIG’s recommendations and also decided not to extend the option year on the cooperative agreement.

Report on the Service Corps of Retired Executives (SCORE) Program

An audit of selected aspects of the SCORE Program found that, while the National SCORE Office (NSO) had an internal control structure in place to ensure appropriate use of Federal funds, the NSO did not: 1) report program income earned by its chapters on SBA Form 269, “Financial Status Report,” as required by the terms and conditions of the Notice of Award; and (2) include its chapters’ financial activities in its financial statements in accordance with financial accounting standards. The report did not determine whether the established salary levels for the three highest paid salaried positions for FY 2002

Significant OIG Activities

were allowable and reasonable because the auditors concluded that the SBA does not have express legislative authority to provide funding to SCORE for its paid positions. The report also concluded that the SBA's monitoring of the performance and financial aspects of the award should be strengthened. Program officials generally concurred with the recommendations.

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

In May 1997, the OIG issued a report on "Critical Management Issues Facing SBA." Since then the OIG has responded to successive congressional requests and the Reports Consolidation Act of 2000 by refining these into the most serious management challenges confronting the Agency each fiscal year. The list of challenges 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/or are confirmed by the OIG's investigations of fraud or abuse. The OIG continues to work with Agency management to make recommendations for quick and efficient corrective actions. The OIG is also committed to monitoring the SBA's progress in addressing 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.

A key objective of OIG work is the early identification of risks to Agency programs so that appropriate strategies for minimizing potential losses can be developed. In addition, the OIG has also undertaken work to identify emerging and persistent operational problems that may hamper the SBA's ability to effectively support small business.

In FY 2003, the OIG updated the management challenges that had been identified the previous year. We continue to work with SBA program management to focus attention on the following critical issues.

Agency-wide Challenges

- 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.

Challenges in the Loan Programs

- SBA needs better controls over the business loan purchase process.
- SBA needs to continue improving lender oversight.

Significant OIG Activities

Section 8(a) Business Development Challenges

- The Section 8(a) Business Development Program needs to be modified so that: (1) more participating companies receive access to business development, and (2) 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.

Fraud Deterrence and Detection Challenges

- Preventing loan fraud requires additional measures, including new regulations and funding.

For more information about the 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>

Other Significant Management Issues

The SBA's Directives System is Breaking Down

An inspection memorandum on the SBA's directives system found that the current status of the system has negative consequences for Agency staff, resource partners, and small businesses. Expired policy and procedural notices continue to be used, while drafts of proposed standard operating procedures are sometimes used before they are officially cleared and issued. The uncertainty created can result in an inefficient use of employee time, delay service delivery to small businesses, create a negative public image, and produce unforeseen legal issues. The Agency concurred with the substance of the recommendation, has established a working group, and is developing a plan for revising the fundamental structure of the directives system.

Small Business Investment Company Oversight

The OIG issued an audit report on the Small Business Investment Company (SBIC) Program that found unnecessary costs were incurred by the SBA because of inadequate and inconsistent oversight of the SBICs. The SBICs are private investment firms, licensed by the SBA, that make investments using private capital as well as borrowed funds guaranteed by the SBA. We found that the SBA needs to improve both the evaluation of each SBIC's reported financial condition and the management actions taken to limit risk to the Federal Government from financially troubled SBICs.

Significant OIG Activities

The OIG found that the SBA established the concept of forbearance, as published in regulations for the program, in such a way that it restricted the Agency's ability to limit risk. The regulations set forth forbearance periods for determining when an SBIC has a condition of capital impairment (a financial condition occurring when an SBIC's net realized and unrealized losses exceed its earnings and unrealized gains). The regulations also exempt certain levels of capital impairment from the remedies provided in CFR 107.1820 during the first eight years following an SBIC's first issue of Participating Securities. As a result, the Agency delayed the liquidation of SBICs with inadequate capital, allowed the financially troubled SBICs' assets to erode in value, and made unnecessary interest payments for these SBICs. Additionally, the SBA's ability to limit risk was hindered by outdated program guidance that failed to: 1) address current practices and procedures; 2) to require a financial analysis of SBIC financial data needed to enhance the recovery of SBA guaranteed funds; and 3) to ensure the consistent implementation of restricted operations for troubled SBICs.

The OIG recommended that the SBA reassess the appropriateness of the forbearance regulations and obtain a legal opinion on whether it could use receiverships to liquidate financially troubled SBICs. Additionally, we recommended that the SBA revise guidance for the program to require financial analyses that could be used to recover funds, take into consideration the specific situation for each SBIC including the appropriateness of forbearance to the situation, and ensure a systematic approach to liquidations. We also recommended that the SBA explore the use of receiverships for the program.

The Agency responded with a justification for its use of forbearance and agreed to obtain a legal opinion on receiverships; provide support for the established forbearance periods; and to revise program operating procedures. The Agency did not agree to other specific recommendations related to forbearance and consistent implementation of restricted operations.

Increase in Overdue Management Decisions

Management decisions on OIG recommendations may take several forms. Program officials may agree to a recommendation as presented by the OIG, they may seek to negotiate a compromise agreement with the OIG, or they may disagree. The IG Act requires that Federal agencies make management decisions on all findings and recommendations within a maximum of 6 months of report issuance. During this reporting period, there has been a significant increase in the number of overdue management decisions—i.e., decisions which are not made within 6 months of report publication. As of September 30, 2003, management decisions on 16 OIG reports were overdue (See Appendix V). This is the highest number of overdue management decisions for any single reporting period since March 1999. Moreover, in the eight years prior to FY 2003, the average number of overdue management decisions was only five per reporting period. We are concerned that, while we continue to work with the Agency on these issues, they remain unresolved.

Statistical Highlights

FY 2003 6-Month Productivity Statistics April 1, 2003, through September 30, 2003

Office-wide Dollar Accomplishments	Totals
A. Potential Investigative Recoveries and Fines	\$2,301,361.00
B. Loans Not Made as Result of Investigations and Name Checks	\$5,412,093.00
C. Disallowed Costs Agreed to by Management	\$973,545.00
D. Recommendations that Funds Be Put to Better Use Agreed to by Management	\$0
Total	<u>\$8,686,999.00</u>

Efficiency and Effectiveness Activities

A. Reports Issued	22
B. Recommendations Issued	113
C. Dollar Value of Costs Questioned	\$2,596,451.00
D. Dollar Value of Recommendations that Funds Be Put to Better Use	\$65,061.00
E. Collections as a Result of Questioned Costs	\$4,874,253.00

Follow-up Activities

A. Recommendations Closed	102
B. Disallowed Costs Agreed to by Management	\$973,545.00
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management	\$0
D. Unresolved Recommendations	49

Legislation/Regulations/Standard Operating Procedures (SOPs)/Other Reviews

A. Legislation Reviewed	74
B. Regulations Reviewed	11
C. Standard Operating Procedures Reviewed	4
D. Other Issuances Reviewed*	35

* 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

Summary of Indictments and Convictions

A. Indictments from OIG Cases	13
B. Convictions from OIG Cases	17

Summary of Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations	\$2,301,361.00
B. Loans/Contracts Not Approved as a Result of OIG Investigations	\$1,501,063.00
C. Loans/Contracts Not Approved as a Result of the Name Check Program	<u>\$3,911,030.00</u>
Total	<u>\$7,713,454.00</u>

SBA Personnel Actions Taken as a Result of Investigations

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

Program Actions Taken as a Result of Investigations

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

Summary of OIG Fraud Line Operation

A. Total Fraud Line Calls/Letters	279
B. Total Calls/Letters Referred to Investigations Division	17
C. Total Calls/Letters Referred to Program Offices or Other Federal Investigative Agencies	6
D. Total Calls/Letters Needing No Action	256

Statistical Highlights

FY 2003 Full Year Productivity Statistics October 1, 2002, through September 30, 2003

Office-wide Dollar Accomplishments	Totals
A. Potential Investigative Recoveries and Fines.....	\$7,300,829.00
B. Loans Not Made as Result of Investigations and Name Checks.....	\$18,641,574.00
C. Disallowed Costs Agreed to by Management	\$1,582,748.00
D. Recommendations that Funds Be Put to Better Use Agreed to by Management.....	<u>\$1,144,962.00</u>
Total	<u>\$28,670,113.00</u>

Efficiency and Effectiveness Activities

A. Reports Issued.....	43
B. Recommendations Issued.....	217
C. Dollar Value of Costs Questioned.....	\$5,485,564.00
D. Dollar Value of Recommendations that Funds Be Put to Better Use	\$442,915.00
E. Collections as a Result of Questioned Costs	\$4,874,253.00

Follow-up Activities

A. Recommendations Closed.....	157
B. Disallowed Costs Agreed to by Management	\$1,582,748.00
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management.....	\$1,144,962.00
D. Unresolved Recommendations.....	49

Legislation/Regulations/Standard Operating Procedures (SOPs)/Other Reviews

A. Legislation Reviewed.....	214
B. Regulations Reviewed.....	27
C. Standard Operating Procedures Reviewed.....	10
D. Other Issuances Reviewed*	133

* 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

Summary of Indictments and Convictions

A. Indictments from OIG Cases	44
B. Convictions from OIG Cases	32

Summary of Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations	\$7,300,829.00
B. Loans/Contracts Not Approved as a Result of OIG Investigations	\$6,059,059.00
C. Loans/Contracts Not Approved as a Result of the Name Check Program	<u>\$12,582,515.00</u>
Total	<u>\$25,942,403.00</u>

SBA Personnel Actions Taken as a Result of Investigations

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

Program Actions Taken as a Result of Investigations

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

Summary of OIG Fraud Line Operation

A. Total Fraud Line Calls/Letters	701
B. Total Calls/Letters Referred to Investigations Division	29
C. Total Calls/Letters Referred to Program Offices or Other Federal Investigative Agencies	68
D. Total Calls/Letters with No Action Appropriate	604

APPENDIX I
OIG Reports Issued
April 1, 2003, through September 30, 2003

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
<i>Capital Access</i>				
Advisory Report-Defaulted Loan	3-25	4/24/03		
The Microloan Program: Moving Toward Performance Management (Inspection)	3-26	5/12/03		
Audit of an Early Defaulted Loan	3-27	5/22/03		
Audit of an Early Defaulted Loan	3-30	6/19/03	\$630,224.00	
Audit of an Early Defaulted Loan	3-31	6/24/03	\$225,324.00	
Audit of SBIC Oversight	3-33	7/1/03		
Audit of an Early Defaulted Loan	3-36	8/19/03	\$282,447.00	
Audit of an Early Defaulted Loan	3-38	9/22/03		
Audit of an Early Defaulted Loan	3-40	9/24/03	\$316,165.00	
Audit of an Early Defaulted Loan	3-41	9/29/03	\$273,675.00	
Insufficient Proof of Citizenship Status for SBA Loans (Inspection)	3-43	9/30/03		
Program Subtotal	11 reports		\$1,727,835.00	\$0
<i>Entrepreneurial Development</i>				
OVBD's Monitoring of Cooperative Agreement	3-22	4/2/03		
Service Corps of Retired Executives Program	3-23	4/11/03		
Program Subtotal	2 reports		\$0	\$0
<i>Agency Management</i>				
Audit of SBA's FY 2002 Financial Statements – Management Letter	3-24	4/14/03		
Problems with SBA's Directives System (Inspection)	3-28	5/22/03		
Supplemental Report Related to Cotton Agreed Upon Procedures Report on Sensitive Payments	3-29	5/29/03		
SBA's Acquisition, Development and Implementation of JA ² MS	3-32	6/30/03	\$93,776.00	\$65,061.00
SBA's Compliance with JFMIP Property Management System Requirements	3-34	7/23/03		
Audit of the NWBC	3-35	7/28/03	\$774,840.37	
Independent Evaluation of SBA's Information Security Program	3-37	9/17/03		
SBA's Implementation of the Disaster Credit Management System	3-39	9/24/03		
Travel Card and Purchase Card Control	3-42	9/29/03		
Program Subtotal	9 reports		\$868,616.37	\$65,061.00
TOTALS (all programs)	22 reports		\$2,596,451.37	\$65,061.00

APPENDIX II
OIG Reports with Questioned Costs
April 1, 2003, through September 30, 2003

		Reports	Recs*	Questioned Costs**	Unsupported Costs**
A.	For which no management decision had been made by March 31, 2003	3	7	\$2,279,909.90	\$2,247,791.90
B.	Which were issued during the period	7	15	\$2,596,451.37	\$0
	Subtotals (A + B)	10	22	\$4,876,361.27	\$2,247,791.90
C.	For which a management decision was made during the reporting period	5	7	\$973,544.90	\$66,666.90
	(i) Disallowed costs	1	1	\$37,002.90	\$38,073.00
	(ii) Costs not disallowed	0	0	\$0	\$0
D.	For which no management decision had been made by September 30, 2003	6	15	\$3,902,816.37	\$2,181,125.00

* Recommendations; reports may have more than one recommendation.

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

APPENDIX III
OIG Reports with Recommendations that Funds Be Put to Better Use
April 1, 2003, through September 30, 2003

		Reports	Recs*	Recommended Funds For Better Use
A.	For which no management decision had been made by March 31, 2003	4	4	\$1,296,659.18
B.	Which were issued during the period	1	1	\$65,061.00
	Subtotals (A + B)	5	5	\$1,361,720.18
C.	For which a management decision was made during the reporting period	0	0	\$0
	(i) Recommendations agreed to by SBA management	0	0	\$0
	(ii) Recommendations not agreed to by SBA management	0	0	\$0
D.	For which no management decision had been made by September 30, 2003	4	5	\$1,361,720.18

* Recommendations; reports may have more than one recommendation.

APPENDIX IV
OIG Reports with Non-Monetary Recommendations
April 1, 2003, through September 30, 2003

		Reports	Recommendations
A.	For which no management decision had been made by March 31, 2003	*22	*97
B.	Which were issued during the period	15	97
	Subtotals (A + B)	37	194
C.	For which a management decision was made (for at least one recommendation in the report) during the reporting period	19	94
D.	For which no management decision (for at least one recommendation in the report) had been made by September 30, 2003	28	100

* The beginning balance is different from the ending of the last SAR because, beginning in FY 2003, the OIG began tracking recommendations made in all reports, not just audits. It is also different because several management decisions for report 2-18 were not reported in the previous SAR even though they were signed before 9/30/02.

APPENDIX V
OIG Reports with Overdue Management Decisions
as of September 30, 2003

Title	Number	Issued	Status
PLP Oversight Process	1-19	9/27/01	One outstanding recommendation is to be submitted to the resolution process.
Borrowers with Prior Defaulted Loans	2-19	5/28/02	Mgmt states they have satisfied all open recommendations. Evidence of their actions should be submitted to the OIG by 10/31/03.
Georgia District Office Sponsorship Activities	2-25	8/26/02	Mgmt states that management proposals will be provided to the OIG for evaluation by 10/24/03.
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 management decision on outstanding recommendations.
SBA-Guaranteed Loan to Earth Treasures, Inc.	2-30	9/24/02	Appealing District Office decision to the Office of Financial Assistance. General Counsel is still reviewing the recommendation.
Impact of Loan Splitting on Borrowers and SBA	2-31	9/30/02	Awaiting management decision on outstanding recommendations.
Audit of SBA-Guaranteed Loan	2-32	9/30/02	A check has been received; however, the OIG is awaiting the resolution of additional \$80,250 and other management decisions.
Eligibility of 15 HUBZone Companies and a Review of the HUBZone Empowerment Contracting Program's Internal Controls	3-05	1/22/03	Awaiting management decision on outstanding recommendation.
Audit of SBA-Guaranteed Loan	3-07	1/23/03	Awaiting management decision on outstanding recommendation.
SBA's Oversight of the Fiscal Transfer Agent for the 7(a) Loan Program	3-08	1/30/03	Awaiting management decision on outstanding recommendations.
Program Vulnerability Memorandum (PVM) – Pro-Net Registrant Data Integrity Warnings and Certification	3-09	2/7/03	Awaiting management decisions on outstanding recommendations.
TEP Consulting Inc.	3-14	3/14/03	Awaiting management decision on outstanding recommendations.
Guaranty Purchase Process	3-15	3/17/03	Awaiting management decision on outstanding recommendations.
Asset Sales Program	3-19	3/31/03	Awaiting management decision on outstanding recommendations.
SBA's Information System Controls for FY 2002	3-20	3/31/03	Awaiting management decisions on outstanding recommendations.
Equity Injection in the SBA 7(a) Loan Guaranty Program	3-21	3/31/03	Awaiting management decisions on outstanding recommendations.

APPENDIX VI
OIG Reports Without Final Action as of September 30, 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	3/31/04
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	12/31/03
1-20	Agreed-Upon Procedures Report on Sensitive Payments	9/28/01	12/18/01	11/30/03
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	1/15/04
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	**
2-27	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	**
2-34	SBA's Controls over the Access, Disclosure and Use of Social Security Numbers by Third Parties	9/30/02	7/23/03	9/15/03
3-03	SBA's Implementation of its CIPP	1/10/03	2/4/03	7/15/03

APPENDIX VI
OIG Reports Without Final Action as of September 30, 2003

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target
3-05	Eligibility of 15 HUBZone Companies and a Review of the HUBZone Empowerment Program's Internal Controls	1/22/03	7/10/03	7/21/03
3-06	SBA's FY 2002 Financial Statements	1/30/03	3/28/03	11/15/03
3-08	SBA's Oversight of the FTA for the 7(a) Loan Program	1/30/03	***	**
3-13	Economic Injury Disaster Loans	3/14/03	***	**
3-14	TEP Consulting, Inc.	3/14/03	4/10/03	6/30/03
3-18	Grants to the Texas Center for Women's Business Enterprise	3/20/03	6/04/03	10/15/03
3-20	SBA's Information System controls for FY 2002	3/31/03	***	**
3-22	OVBD's Monitoring of Cooperative Agreement	4/2/03	5/8/03	10/15/03
3-23	Service Corps of Retired Executives Program	4/11/03	9/30/03	6/30/04
3-24	Audit of SBA's FY 2002 Financial Statements Management Letter	4/14/03	***	**
3-26	The Microloan Program: Moving Toward Performance Management (Inspection)	5/13/03	***	**
3-28	Problems with SBA's Directives System	5/22/03	6/18/03	10/31/03
3-31	Audit of an Early Defaulted Loan	6/24/03	8/12/03	12/31/03
3-32	SBA's Acquisition, Development and Implementation of the Joint Accounting and Administrative Management System	6/30/03	9/11/03	9/30/04
3-34	SBA's Compliance with JFMIP Property Management System Requirements	7/23/03	9/11/03	**
3-35	National Women's Business Council	7/28/03	***	**

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

APPENDIX VII
6-Month Legal Actions Summary
April 1, 2003, through September 30, 2003

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
CA	BL	Business owner submitted altered federal income tax returns to a financial institution as part of his \$1 million SBA-guaranteed loan application. Subject submitted two completely different altered federal income tax returns (for the same years) to another financial institution in order to obtain a \$580,000 home loan.*	Business owner pled guilty	FBI
CO	GC	Company officer declared personal bankruptcy and received a discharge of \$135,000 in debts. He directed company employees to divert \$690,000 of company income to bogus companies he created to avoid paying creditors. He also failed to disclose his income and control of the company to the bankruptcy court and the SBA. Additionally, he hid other assets from the bankruptcy court, including a Mercedes 400 SEL, Chevrolet Tahoe and a personal residence.*	Company officer indicted	FBI, IRS, DCIS
GA	BL	Company president failed to disclose his criminal history on an SBA Form 912 submitted with an application for a \$500,000 SBA-guaranteed loan. In a subsequent bankruptcy hearing, he testified that the company had no contracts or accounts receivable and had not sold equipment or contracts within the previous 12 months. In fact, the company had sold numerous vending machines and accounts and was receiving undisclosed payments for the sold items.*	Company president pled guilty; received 18 months incarceration, 3 years probation, 300 hours of community service, and a \$250 assessment fee; made to pay \$350,000 restitution	None
GU	DL	Resort owner failed to disclose his criminal history on his disaster loan application. Additionally, he submitted false and altered invoices to the SBA in an attempt to secure loan proceeds in excess of \$200,000.*	Resort owner indicted and pled guilty; received 1 year probation and a \$5,000 fine	FBI
IA	BL	Former business banking associate submitted a letter to the SBA purportedly written by an SBA official that falsely indicated that an SBA LowDoc loan had been properly approved.*	Former business banking associate charged by Information; pled guilty	None
IL	BL	Former business owner submitted invoices from a fictitious business for items that were never purchased and that far exceeded the amount of equipment that was actually purchased in connection with a \$375,000 SBA-guaranteed loan. Additionally, he used the capital injection to pay off a personal loan secured for the capital injection instead of for working capital as designated by the loan agreement.*	Former owner pled guilty	None

APPENDIX VII
6-Month Legal Actions Summary
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State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
IL	BL	Former restaurant owners submitted false information to assist the purchaser of their restaurant in obtaining financing for a \$954,000 SBA-guaranteed loan.	Former restaurant owners agreed to a settlement of \$715,500 and to release claims to seized funds of \$344,313 and \$371,187 held by a writ of garnishment	FBI
MD	BL	Businessman failed to disclose numerous arrests and convictions on his application for a \$65,000 LowDoc loan.	Businessman indicted	None
MD	BL	Owner of a closed restaurant falsely stated he had never been involved in bankruptcy proceedings when he applied for a \$440,000 SBA-guaranteed loan. He and the Secretary (his wife) concealed various assets and properties in the course of a bankruptcy filed earlier.	President and Secretary pled guilty	FBI
MO	BL	Missouri man failed to appear on false claim and money laundering charges involving an SBA-guaranteed loan	Missouri man arrested as a fugitive and indicted	IRS-CID
MO	GC	8(a) company president was the subject of a civil suit that claimed he made false statements regarding his social and economic disadvantage.	President agreed to a 3-year administrative settlement agreement where he and his company institute a Contractor Responsibility Program, retain an Ombudsman and pay the Government \$20,000 as partial compensation for related administrative and investigative costs	FBI, DOL/OIG

APPENDIX VII
6-Month Legal Actions Summary
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State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
NC	DL	Company president obtained two disaster loans totaling \$617,200. Company was operating an illegal gambling business that would have made them ineligible for disaster assistance. President claimed machinery and equipment damage that had not been caused by the storms, and loan proceeds were used to pay off pre-disaster debt. This use violated the loan and authorization agreements.*	Company president received 10 months confinement, 2 years probation, and a \$5,000 fine; president's son received 2 years probation, 120 hours community service; Company received \$750,000 in asset forfeitures	FBI
NJ	BL	New Jersey bank advised the SBA in a liquidation plan for a \$149,000 SBA-guaranteed loan that the landlord had disposed of collateral that was in poor condition, when in fact the landlord had made numerous attempts, to no avail, to have the bank remove the equipment from the business site.*	Guaranty denied for New Jersey bank	None
NY	BL	As part of a \$300,000 SBA-guaranteed loan, business owner received a \$250,000 two party check for the purchase of equipment from the specified vendor. He forged the vendor's endorsement and used the funds for various personal expenditures.	Business owner indicted	None
NV	BL	Business owner submitted inflated income statements in connection with a \$213,000 SBA-guaranteed loan. Additionally, he misrepresented the source of his equity injection by concealing personal loans he obtained. Upon default, he also converted collateral equipment and concealed proceeds to impede full liquidation of the loan collateral.*	Business owner pled guilty	FBI, BATF, IRS
OH	BL	Ohio man obtained blank copies of SBA loan documents and fraudulently completed and filed false mortgages and promissory notes with the Recorder's Office that detailed a \$10.75 million loan from the SBA. He included these false documents with his bankruptcy petition.*	Ohio man found guilty by jury	None
OR	BL	Former restaurant owner used false Social Security numbers to obtain loans from two financial institutions. He also failed to disclose prior bankruptcies, judgments, other business interests and his criminal history.	Former restaurant owner received 37 months incarceration, 5 years supervised release, and made to pay \$306,451 restitution	FBI

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State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
PA	GC	Construction company president transferred \$495,000 from his construction company account to a personal account in the Bahamas, abandoned company contracts and subcontractors, and submitted false financial statements to a bank in support of a \$300,000 line of credit for the company. He also falsely stated in his SBA 8(a) Annual Update Form that he and the company had relocated and controlled the day-to-day operations of the company.	Construction company president indicted	NCIS
PA	BL	The SBA purchased the guaranty on an SBLC loan for \$290,047. The SBA later questioned the gross disparity between the amount the business equipment was originally purchased for and sold for at liquidation. The SBLC had disbursed the entire loan amount to purchase machinery, equipment and fixtures without having items appraised. After the SBLC refused to reimburse the guaranty payment, the SBA filed a civil suit to obtain reimbursement*	SBLC entered into a settlement agreement. SBLC agreed to pay the SBA \$200,000 in connection with a \$385,000 SBA-guaranteed loan.	None
PA	BL	Law practice owner diverted funds from a \$107,000 SBA-guaranteed loan for his law practice to purchase a home, pay personal credit card bills, purchase stock and pay for a tractor. He transferred real estate purchased with loan proceeds into his parent's name and hid \$65,000 of other assets from creditors during bankruptcy proceedings. He falsely testified during bankruptcy proceedings that the lender was aware of, and had agreed to, his diversion of the loan proceeds.	Owner of defunct law practice received 21 months incarceration, 3 years probation, a \$5,000 fine, and a \$30,000 special assessment; made to pay \$172,000 restitution (\$107,000 to SBA)	None
TX	BL	Convenience store/Service station owner falsely represented that he was a U.S. citizen on his SBA Form 912 in connection with a \$1,115,000 SBA-guaranteed loan.*	Business owner pled guilty	TIGTA, DHS, SSA/OIG, TEXAS-ABC, TEXAS-DPS
TX	BL	Convenience store/Service station owner falsely represented that he was a U.S. citizen on his SBA Form 912 in connection with a \$1,190,000 SBA-guaranteed loan.*	Business owner pled guilty	TIGTA, DHS, SSA/OIG, TEXAS-ABC, TEXAS-DPS

APPENDIX VII
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State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
TX	BL	Businessman submitted inflated income statements that misrepresented his net worth in connection with a \$213,000 SBA-guaranteed loan. He also misrepresented the source of his equity injection by concealing personal loans obtained for this purpose. After default he concealed proceeds and converted collateral.	Businessman indicted	FBI, BATF, IRS
TX	BL	Real estate proprietor arrested for fraud involving his packaging/brokering of 10 SBA-guaranteed loans. Co-conspirator submitted a false gift letter for \$250,000.*	Real estate proprietor arrested; Co-conspirator pled guilty, received 5 years probation and made to pay \$50,000 restitution	FBI
TX	BL	Convenience store/Service station owner falsely represented that he was a U.S. citizen on his SBA Form 912 in connection with a \$435,000 SBA-guaranteed loan.*	Owner pled guilty	TIGTA, DHS, SSA/OIG, USDA/OIG, TEXAS-ABC
TX	BL	Convenience store/Service station owner falsely represented that he was a U.S. citizen on his SBA Form 912 in connection with a \$675,000 SBA-guaranteed loan.	Owner pled guilty	TIGTA, DHS, SSA/OIG, USDA/OIG, TEXAS-ABC
VA	BL	Former corporation president falsely stated his date of birth, Social Security number and criminal history on an application for a \$290,000 SBA-guaranteed loan. He also falsely certified value of collateral for the loan.	Former corporation president received 16 months incarceration and made to pay \$178,629 restitution	None
VA	BL	Management corporations obtained two SBA-guaranteed loans totaling \$3,270,000 to purchase two adjacent motels. Director conspired to inflate the purchase price of the properties, have the corporation pay for repairs that never took place, pay stockholders, and submit false financial statements of shareholders. He also falsely stated that a loan was a gift to the shareholders.*	Director of management corporations charged by Information; pled guilty	FBI

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State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
WA	BL	Former business owner concealed notes payable, a gambling debt and the sale of 10 percent of his investment group in order to obtain an \$880,000 SBA-guaranteed loan*	Business owner indicted; pled guilty	FBI
WY	BL	Business owner submitted two false personal financial statements. He failed to list additional debts, totaling \$312,000, to the bank in order to obtain two separate SBA-guaranteed loans totaling \$250,000.	Business owner indicted; pled guilty	FBI

* 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

Joint-investigation Federal agency acronyms: BATF=Bureau of Alcohol, Tobacco, and Firearms; DCIS=Defense Criminal Investigative Service; DHS=Department of Homeland Security; DOL/OIG=Department of Labor OIG; FBI=Federal Bureau of Investigation; IRS=Internal Revenue Service; IRS-CID=IRS Criminal Investigation Division; NCIS=Naval Criminal Investigative Service; SSA/OIG=Social Security Administration OIG; TEXAS-ABC=Texas Alcoholic Beverage Commission; TEXAS-DPS=Texas Department of Public Safety; TIGTA=Treasury Inspector General for Tax Administration; USDA/OIG=United States Department of Agriculture OIG

