SEMIANNUAL REPORT TO CONGRESS
OFFICE OF INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION

PERIOD: APRIL 1, 1998, TO SEPTEMBER 30, 1998

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Foreword

Pursuant to Public Law 95-452, the U.S. Small Business Administration's (SBA) Office of Inspector General (OIG) is required to prepare a Semiannual Report of its activities for the Congress of the United States. This report covers the full range of SBA/OIG activities from April 1, 1998, to September 30, 1998.

As Acting Inspector General, I am pleased to report on the many accomplishments of the men and women of the Office of Inspector General. Their work helps to ensure integrity in SBA's programs and provides senior policy officials and program managers with information critical to improving program effectiveness and operational efficiency. Several examples are illustrative of these accomplishments. In FY 1998, a record 81 indictments were obtained of individuals alleged to have committed fraud against the SBA and its resource partners. A nationwide audit of 7(a) business loans is finding lender non-compliance with required procedures in approximately 45 percent of the loan sample reviewed to date. Moreover, almost 90 percent of the deficiencies identified were processing or disbursing actions not normally reviewed by or reported to SBA under existing procedures –- a condition that has implications for SBA's lender oversight program. An inspection assessed performance measurement efforts in the Small Business Development Center (SBDC) program. The findings provide guidance to SBA and the SBDCs on ways to improve current performance measurement to fulfill both internal management needs and Government Performance and Results Act (GPRA) requirements. In depth reviews of draft regulations assisted the Agency in implementing new initiatives such as the HUBZone and small disadvantaged business contracting programs.

OIG staff has also worked closely with senior SBA managers on various task forces and working groups addressing the challenges and risks associated with the Agency's increased reliance on private sector partners. Examples include initiating implementation of the Committee of Sponsoring Organizations internal control framework in the SBA, structuring the sale of loan portfolio assets, validating the renovation of automated information systems to accommodate the year 2000, and implementing GPRA performance planning. In addition to performing its traditional audit, inspection, and investigations work, the OIG will continue to proactively assist the Agency in its transition to the 21st century.

Finally, I am happy to note that the OIG continues to receive excellent support and cooperation from SBA policy officials, senior executives, program managers, and employees. The OIG alone could not have achieved the reported accomplishments without their support and cooperation.

Karen S. Lee
Acting Inspector General

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Executive Summary

This report on the activities of the Office of Inspector General (OIG) of the Small Business Administration (SBA) is submitted pursuant to Section 5(b) of P.L. 95-452, the Inspector General Act of 1978, as amended. It summarizes OIG activities for the 6-month period from April 1, 1998, to September 30, 1998.

Summary of Accomplishments

OIG audits, inspections, and investigations over the last 6 months achieved $18,704,564 in potential dollar results, 37 indictments, and 31 convictions. The dollar results consist of $2,843,277 in potential recoveries, including judicially-awarded fines and restitution; $12,524,605 in management avoidances; $393,386 in disallowed costs agreed to by SBA's management; and $2,943,296 in management commitments to use funds more efficiently.

The OIG alone could not have achieved the accomplishments set forth in this report to the Congress. The results for this reporting period reflect the cooperation and support of other Federal audit, inspection, and investigative organizations such as the Federal Bureau of Investigation (FBI); U.S. Secret Service; U.S. Marshals Service; Internal Revenue Service (IRS); U.S. Customs Service; U.S. Drug Enforcement Administration; other Federal OIGs; Department of Justice (DOJ) prosecutors; and, most importantly, the actions of SBA program managers and employees. Indeed, much of our success is due to referrals made by conscientious SBA employees.

Highlights of the Past Six Months

Efforts to Improve SBA Program Management

Audits of Section 7(a) Business Loans Find Lender Non-compliance with Required Procedures

Audits of Section 7(a) business loans in Atlanta, Buffalo, Newark, Madison, and Glendale found 92 procedural errors in 68 of 150 loans reviewed. The errors involved **financial data not verified with IRS data, misuse of loan proceeds, lack of joint payee checks and credit reports, lack of capital injection, ineligible purposes, incorrect size standards, adverse changes not reported to SBA, and no standby agreements.** The auditors also identified five borrowers who made **false statements** concerning their criminal histories.

Recommendations were generally agreed to by the directors of the five SBA district offices and the Preferred Lender Program (PLP) processing center, except that the Buffalo District Director disagreed with two recommendations—one concerning obtaining credit reports before disbursement and one concerning actions to protect the Government's interest before default or purchase request. The PLP processing center agreed with the latter statement by the Buffalo District Director, further stating that SBA does not have a procedure to recommend denial of the guarantee prior to receipt of a purchase request from the lender. This issue is being negotiated currently between the Office of Financial Assistance and the OIG.

The audits were performed as part of a national audit of lender processing of Section 7(a) loans. Three additional audits are being done in Kansas City, Charlotte, and Denver. After the eight individual district office reports are completed, the OIG will summarize the findings in a national report.

Inspection Finds SBA*Express* Pilot Program Effective but in Need of Policy Clarification

The OIG issued an inspection report on SBA*Express*, a pilot program to test the concept of granting selected banks additional authority and autonomy in approving SBA-guaranteed loans of up to $150,000. The report found that **the program appears to be meeting its overall objectives and is considered by lenders to be highly effective in increasing the capital available to small businesses.** The OIG did find, however, that language governing the program leaves room for broad interpretation in two areas. First, **it is unclear whether SBA considers credit scoring alone sufficient for loan underwriting analysis.** Second, **there is substantial ambiguity over whether promissory notes are required.** The Office of Financial Assistance agreed with the OIG's recommendation that the language governing each of these areas be reviewed and clarified.

Audits of Two Early Defaulted loans Estimate SBA Sustained Losses of $609,400

Two audits of SBA guaranteed loans that defaulted within 12 months of origination showed that the **early defaults were the result of the lenders not following SBA requirements**. One audit found that the lender failed to verify the status of a major debt of the borrower, and that the borrower made false statements during the application process. The debt, which comprised nearly 50 percent of the borrower's liabilities, had been in default since October 1, 1992. The second audit determined that the lender neither compared income tax information with the business' financial statements nor notified SBA of the significant discrepancy, materially misrepresented the value of the collateral, and did not perform a proper credit analysis of projected sales. SBA sustained total losses of about $609,400.

Audits of Three Preferred Surety Bond Companies Found Inappropriate Bond Guarantees and Claims

The OIG issued contract audits of claims submitted to SBA by surety companies in Calabasas, California; Philadelphia, Pennsylvania; and Seattle, Washington. The audits were requested and funded by the Associate Administrator for Surety Guarantees (AA/SG). The audits found that the **sureties did not always comply with SBA's policies and procedures for underwriting; claimed unallowable expenses; and calculated fees accurately, but did not remit them to SBA in a timely manner**. The audits identified inappropriate claims of $687,639, inappropriately obtained SBA bond guarantees of $934,967, and unremitted fees of $274,724. The AA/SG generally concurred with the findings and recommendations, but stated he needed to obtain legal clarification on one issue.

Ineligible 8(a) Sole Source IDIQ Contracts Awarded Under GSA's Federal Acquisition Services for Information Technology (FAST) Program

A limited review of 157 sole source Indefinite Delivery/Indefinite Quantity (IDIQ) Section 8(a) contracts awarded by the Federal Telecommunications Service of the General Services Administration (GSA), Kansas City, found that **GSA should not have awarded, and SBA should not have accepted, the contracts into the Section 8(a) Program**. As of March 2, 1998, the OIG estimated that GSA could potentially place approximately $400 million in orders against the 157 contracts. During the audit, two additional offers were made to SBA's Washington District Office with a cumulative value not to exceed $6 million. After discussions with the auditor, those offers were not accepted into the 8(a) Program. The Acting Associate Administrator for Minority Enterprise Development generally agreed with the findings and recommendations.

Inspection Examines SBDC Performance Measurement

The OIG issued an inspection report that assesses performance measurement efforts in the Small Business Development Center (SBDC) program. Because the program is decentralized and involves negotiated agreements between SBA and the SBDCs, the inspection looked at performance measurement from the perspectives of both SBA and the SBDCs. To maximize the use of existing data sources, SBA has two options for evaluating the SBDC program's economic impact and customer satisfaction.

If SBA decides to continue to use the results of the national impact study sponsored by the SBDC Association, the OIG **recommended that SBA validate the study's methodology, arrange for it to be conducted annually, eliminate current direct reporting requirements, and require that a statistical sample of SBDC clients be surveyed for customer satisfaction.**

If SBA decides instead to collect the impact data and customer evaluations directly from the individual SBDCs, the OIG recommended that the Agency require only the data from the SBDCs that it plans to use for measuring program performance, provide guidelines to SBDCs on how information is to be collected to ensure data integrity, and revise the customer satisfaction questionnaire to ensure that it meets the feedback needs of both the Agency and the SBDCs.

Inspection Surveys Administrative Officers in Field Offices

The OIG conducted a survey of administrative officers and regional support staff on the effectiveness of communications between SBA headquarters and the field offices on administrative matters. The inspection found that **the respective roles of the Offices of Administration, Field Operations, and Chief Financial Officer need clarification;** that **certain offices should improve the timeliness and accuracy of their responses to queries from field personnel;** that field administrative personnel have developed an internal support network for obtaining answers to questions and keeping informed about issues and procedures affecting their work; and that there is a need for more training.

The OIG recommended that SBA clearly identify points of contact in headquarters who have the expertise, authority, and resources to respond to administrative inquiries from the field. It was also recommended that the designated points of contact be held accountable for responding in a prompt and effective manner. Finally, the OIG urged SBA to develop a structured training program for administrative officers and regional support staff.

Activities to Enhance Fraud Detection and Deterrence

Results of False Tax Return Cases Increase

Over the last 8 years, the OIG has received 398 allegations that false tax returns were submitted in support of SBA business or disaster loan applications. These fraud referrals now involve loan applications submitted to 51 SBA district offices, total $124 million, and include 1,262 individual subjects. To date, 126 individuals have been **indicted on criminal charges**: 114 have been **adjudicated guilty**, 3 indictments were dismissed, and 9 others have not yet gone to trial.

Affirmative Civil Enforcement Program

The OIG continues to produce results from its participation in the Department of Justice's Affirmative Civil Enforcement (ACE) program. This program, which is implemented by U.S. Attorney offices around the country, targets cases which might not be prosecuted criminally because of the minimal dollar amounts involved, absence of financial loss to the Government, or because other facts of the case might not support a criminal prosecution.

During the time that the OIG has been involved with the ACE program, the office has had a total of **107 successful cases** resulting in **$2,910,518 in civil penalties** and **$4,484,842 in recoveries** by SBA. These successes come from actions in 20 states (including, during this reporting period, the first ACE success in Virginia) and the Commonwealth of Puerto Rico. Individual ACE successes are reported in the program area chapters, as appropriate.

Results of California Loan Broker Investigation Multiply

The number of individuals charged with crimes in the wake of the investigation of an Inglewood, California, loan brokerage firm has more than doubled, to 13. Ten have entered guilty pleas, and the first three defendants have been sentenced. The case revolves around loan packages submitted to a now-defunct participating lender bank. The firm's portfolio at the bank totaled approximately 170 loans, originally valued at more than $60 million. During the last six months, a tax preparer was charged with and pled guilty to three counts of aiding and abetting the **making of false statements to a Federally-insured lender**. The man assisted principals of the loan brokerage firm by preparing fraudulent tax returns (some fictitious, others altered), fraudulent personal financial statements, fictitious profit and loss statements, and other false documentation for their clients. He admitted having known that the false documents would be included in application packages being submitted for SBA-guaranteed loans. The charges address the preparation of false documents in three loan application packages, which resulted in the approval of SBA-guaranteed loans totaling $2.5 million.

Five additional borrowers were charged with **making false statements to a Federally-insured lender**, four pled guilty to that charge, and three were sentenced. In addition, another borrower was charged with and pled guilty to **fraudulent receipt of money from a bank transaction**. All these charges related to the borrowers' SBA-guaranteed loans. These actions resulted from an extensive investigation by the OIG, conducted jointly with the FBI and the IRS, based on allegations from an anonymous complainant. Partially as a result of the default rate of these allegedly fraudulent loans, the Office of the Comptroller of the Currency closed the bank in April 1994.

Five Indicted for Conspiracy and Making False Statements in North Dakota Business School Fraud

Five individuals were indicted on nine counts, including **conspiracy** to defraud SBA, in a scheme to obtain a $122,900 disaster loan for a private business school in Grand Forks, North Dakota. The Red River flooded the school in April 1997. In addition to conspiracy, the indictment charged four of the defendants with **making false statements to SBA** regarding withholding taxes payable and computers purportedly purchased for the school. The school was closed by January 1998, and the borrower made no payments on the disaster loan it received from SBA.

Business Loan Program

SBA's small business loan programs serve one of the most important missions of the Agency: to ensure that Federal funds and resources are used to help finance qualified small enterprises. Under the **Section 7(a) Guaranteed Loan Program**, SBA guarantees loans to small businesses that are unable to obtain private financing. These loans must be of such merit, or be so secured, as to reasonably ensure repayment to the lending institution. No loan may be made unless the financial assistance is not otherwise available on reasonable terms from elsewhere in the credit market. Under the guarantee program, SBA agrees to purchase the guaranteed portion of the loan upon default by the small business. SBA's guarantee share of loans by private lenders averages about 75 percent.

More than 8,000 lenders have made at least one Section 7(a) loan in the past 5 years. Currently, approximately 42 percent of these loans are being made by participants in the Agency's **Certified Lender Program (CLP)** or its **Preferred Lender Program (PLP).**

Lenders who are heavily involved in the SBA guarantee program and meet the Agency's criteria can participate through the **CLP**. Over 1,000 participating lenders, approved for the **CLP** program, are permitted to assume greater authorities and responsibilities in processing, closing, servicing, and liquidating loans. As a result, SBA can process loan guarantee applications in three days, rather than the two weeks that it may take for a thorough analysis by Agency staff. About eight percent of all business loan guarantees are made through the **CLP** process.

As permitted by Section 5(b)(7) of the Small Business Act, SBA delegates even wider authority to preferred lenders, i.e., lenders who can commit the Agency to guarantee eligible business loans and decide the level of SBA participation. This program, with over 350 participants, reduces processing time on strong credit applications and uses the resources of SBA's best lenders to the maximum. About 34 percent of all business loan guarantees are made through the **PLP** process.

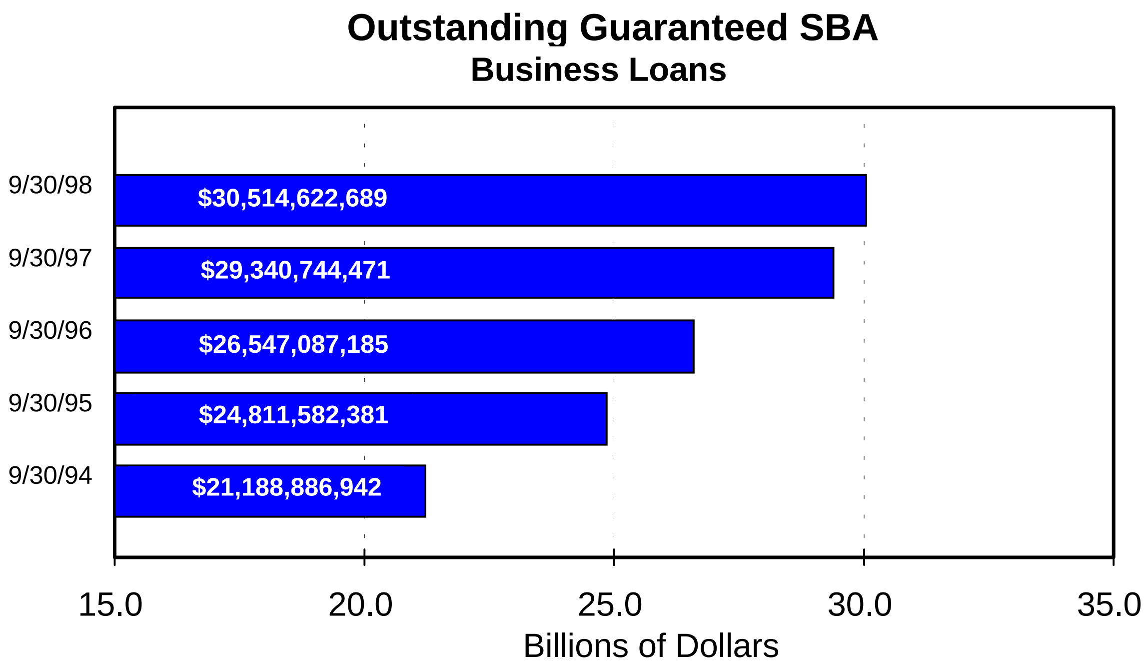
The **504 Loan Program** provides long-term, fixed-rate financing through certified development companies (CDCs) to small businesses to acquire real estate, machinery, and equipment for expansion of business or modernizing facilities. Typically, 504 loan proceeds are provided as follows: 50 percent by an unguaranteed first mortgage bank loan, 40 percent by an SBA-guaranteed debenture, and 10 percent by the small business customer. The maximum SBA debenture is $1 million.

With the creation of the Agency's Low Documentation (**LowDoc**) application process, lenders are now able to use their own internal loan application documents, plus a single page, two-sided

SBA form to apply for an SBA guarantee on a loan of $150,000 or less. The demand for this program continues to exceed 25 percent of all Section 7(a) loan approvals.

The **SBA*Express* Loan Program** allows lenders to use their own loan analyses, procedures and documentation to originate loans of $150,000 or less with a 50 percent SBA guarantee. Lenders can thus use their own application forms, internal credit memoranda, notes and documentation pertaining to loan collateral, servicing, and liquidation. This pilot program minimizes the use of Government mandated forms and procedures while reducing the cost of originating smaller, less complex SBA loans.

Summary of OIG Activity / *Business Loan Program*	
Audit Reports Issued	9
Audits Underway	6
Indictments Resulting from Investigations	19
Convictions Resulting from Investigations	23
Investigations Closed / Remaining Inventory	20 / 151
Investigations : Restitutions / Fines / Other Recoveries	$2,136,001 / $15,121 / $47,815
Investigations: Reductions to SBA's Financial Risk	$144,040
Investigations: Declination of Loans Due to Name Checks	$11,832,338
Investigations: Cases Referred to Other Agencies	4
Inspection Reports Issued	1
Inspections Underway	1
Reviews of Proposed Regulations	2
Reviews of Other Issuances	31



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Efforts to Improve SBA Program Management

Inspection Report Finds SBA*Express* Pilot Program Effective, but Identifies Need for Some Policy Clarification

The OIG issued an inspection report on SBA*Express*, a pilot program to test the concept of granting selected banks additional authority and autonomy in approving SBA-guaranteed loans of up to $150,000. The report found that the program appears to be **meeting its overall objectives** and is considered by lenders to be **highly effective in increasing the capital available to small businesses**. The OIG did find, however, that language governing certain SBA*Express* rules, regulations, and standard operating procedures leaves room for broad interpretation in two areas. First, it is unclear whether SBA considers credit scoring alone sufficient for loan underwriting analysis. Second, there is considerable ambiguity over whether promissory notes are required for SBA*Express* loans. The OIG recommended that SBA's Office of Financial Assistance (OFA) review the language governing each of these areas and clarify SBA policy on those issues. OFA agreed and subsequently revised the SBA*Express* operating procedures to address the use of credit scoring and promissory notes.

Agreement for Examinations of Small Business Lending Companies

Small Business Lending Companies (SBLCs) are non-depository lenders that enter into agreements with SBA to provide guaranteed loans to qualified small businesses. SBA is the only regulator of SBLCs and supervises them, while the OIG has authority under the Inspector General Act of 1978 to audit them. Presently, there are 14 active SBLCs that account for as much as 10 percent of SBA's FY 1997 loan volume and 20 percent of its dollar volume. Given the unprecedented growth in all SBA lending activities, the Agency has determined that each SBLC should be periodically examined to evaluate the safety and soundness of its operations and ensure it is in compliance with applicable laws and SBA regulations. Given limited Agency examination resources and limited OIG audit resources, the OIG supported the Agency's decision to execute an agreement with the Farm Credit Administration (FCA) for FCA to perform examinations of SBLCs.

Several Audits of Section 7(a) Business Loans Find Lender Non-Compliance with Required Procedures

Recent audits in Atlanta, Georgia; Buffalo, New York; Newark, New Jersey; Madison, Wisconsin; and Glendale, California, found that lenders did not comply with at least 1 of the 22 required procedures examined during the 5 audits. In total, 92 procedural errors were noted in 68 loans, out of 150 loans reviewed. The errors involved **financial data not verified with IRS data, misuse of loan proceeds, lack of joint payee checks and credit reports, lack of capital injection, ineligible purposes, incorrect size standards, adverse changes not reported to SBA, and no standby agreements.**

These audits were requested by the Acting Associate Administrator for Financial Assistance. Atlanta, Buffalo, Newark, Madison, and Glendale are five of eight areas randomly selected for review in the national audit, with a random sample of 30 loans drawn from all loans made in each district from March 1996 through June 1997. Lenders did not comply with at least one or more of the above requirements in 15 loans at Atlanta, 16 at Buffalo, 11 at Newark, 15 at Madison, and 11 at Glendale. The objective of the audit was to review lenders' compliance with 22 required procedures. Failure to follow these procedures increases the chance that ineligible or risky loans will be approved. After the eight individual district reports are completed, the OIG will summarize the findings in a national report. The majority of the loans with deficiencies were originated when SBA had limited or no oversight of the lenders' loan processing and disbursing. Of the 92 deficiencies identified in the five audits, 81 were processing or disbursing actions not normally reviewed by or reported to SBA under existing procedures.

In six loans, borrowers made false statements concerning their criminal history. For three of the six loans, the criminal offenses were serious enough to have precluded financial assistance and were referred to the OIG's Investigations Division.

Recommendations were generally agreed to by the directors of the five district offices and the PLP processing center, except that the Buffalo District Director disagreed with two recommendations—one concerning credit reports before disbursement and one concerning actions to protect the Government's interest before default or purchase request. The PLP processing center agreed with the latter statement by the Buffalo District Director, further stating that SBA does not have a procedure to recommend denial of the guarantee prior to receipt of a purchase request from the lender. This issue is being negotiated currently between SBA's Office of Financial Assistance and the OIG.

Audit Finds Loan-Making Policy Change Increases Risk

An audit of Section 7(a) loan processing found that a revision of SBA loan-making policy **increased the risk of losses to SBA**. The change allowed lenders to waive the IRS verification requirement as a means to check the accuracy of financial information of an existing business being acquired.

In October 1994, SBA issued Policy Notice 9000-941 to require lenders to obtain IRS verification of financial information of business applicants prior to loan disbursement. When a loan was for the purchase of another existing business, the verification was obtained before that business was purchased. In December 1997, SBA revised SOP 50-10(4), Loan Processing, to waive the IRS verification requirement for the business to be purchased.

The report recommended that the Office of Financial Assistance revise the language of SOP 50-10(4) to require IRS verification of seller financial information for all loan applications except when the seller provides audited financial statements. The Acting Associate Administrator for Financial Assistance concurred with the recommendation and has already begun the modifications.

Lender's Failure to Follow SBA Requirements Results in $420,000 Loss

An audit of a defaulted SBA-guaranteed loan, made by an Arkansas lender, showed that the loan's **default was the result of the lender not following SBA requirements.** Specifically, the lender neither compared income tax information with the business' financial statements nor notified SBA of the significant discrepancy between the two records as required by the loan agreement, materially misrepresented (overstated) the value of the collateral, and did not perform a proper credit analysis of projected sales. SBA sustained a loss of about $420,000. The audit report recommended that SBA's Office of Financial Assistance recover from the lender the amount of the sustained loss. The Acting Associate Administrator for Financial Assistance agreed with the recommendation and has requested an opinion from Office of General Counsel concerning initiation of litigation to recover the guarantee purchase.

Lender Failed to Follow SBA Requirements and False Information Submitted by Borrowers

An audit of an SBA-guaranteed loan that defaulted within 12 months of origination found that the **lender did not comply with SBA's processing and disbursing requirements and that the borrower made false statements to obtain the loan**. In 1995, SBA guaranteed a $1 million loan to operate four retirement hotels in Florida. About half of the hotels' long-term debt was owed to the estate of the owner's father. SBA purchased the loan a year later with a balance of $908,043. After the loan was fully liquidated, SBA sustained a loss of approximately $189,400.

Before disbursing the loan, the lender failed to learn that the debt owed to the estate had been in default since October 1, 1992. One month after the loan guarantee was approved, the borrowers and the estate entered into a workout agreement, a fact that was not disclosed to SBA. The estate eventually foreclosed on the borrowers and took control of its operations and assets. SBA's ability to recover the full amount of the outstanding debt was adversely affected because the lender failed to execute a binding agreement with the estate not to pursue its debt. The lender also failed to notify SBA of the adverse change in the borrowers' financial condition as required by the loan agreement.

In addition, the borrower made several false statements during the application process, including failure to disclose the delinquent status of the debt to the estate, falsely affirming in writing that no material adverse changes had occurred in the borrower's financial condition, and concealment of prior criminal records. The audit report recommended that SBA's acting district director recover from the lender the loss plus accrued interest and remind the lender of its obligation to comply with the terms of the loan agreement and SBA regulations; the acting district director agreed with the recommendation.

Audit Report Finds Weaknesses in SBA's Ability to Adequately Monitor Small Business Lending Companies

Several Small Business Lending Companies (SBLCs) routinely did not submit required audited financial statements to SBA. SBLCs are non-depository lending institutions that are not subject to oversight by State and Federal bank regulators. SBA is solely responsible for supervising, examining, and regulating SBLCs. Audited financial statements are a key tool with which to monitor the financial stability of the SBLCs that participate in the program. For FY 1997, 9 of 14 SBLCs had submitted audited financial statements. The others either submitted consolidated financial statements of the parent company, unaudited financial statements, or portions thereof. The report recommended that the Acting Associate Administrator for Financial Assistance take steps to ensure that all SBLCs submit annual audited financial statements that include the information needed to monitor compliance with SBA capital requirements. The Acting Associate Administrator for Financial Assistance concurred with the recommendation and agreed to take action to ensure compliance with the requirement. As of April 1998, the Office of Financial Assistance had received audited financial statements from all 14 SBLCs.

Activities to Enhance Fraud Detection and Deterrence

Latest Results from Affirmative Civil Enforcement Program

Over this reporting period, the OIG's participation in the Department of Justice's Affirmative Civil Enforcement (ACE) program produced **three successful business loan cases**, resulting in **$125,159 in recoveries by SBA and $9,871 in civil penalties**. All three cases involved allegedly fraudulent representations to obtain loans; one of the loans, the application for which included false "copies" of tax returns, was stopped before funds were disbursed.

OIG Briefs Members of Lender Community

The investigations staff continued its practice of **making presentations to groups of participating lenders**. The Special Agent in Charge of the OIG's Los Angeles field office gave a presentation to 19 attendees at a meeting sponsored by SBA's Las Vegas District Office. The presentation highlighted the benefits to be gained from cooperation between participants (in the Section 7(a) and 504 programs, in this case) and the OIG in combating waste, fraud, and abuse in SBA's lending programs.

Florida Couple Pleads Guilty to Making False Statements and Concealing Collateral

A couple who owned a crafts and fashion manufacturer/wholesaler/import firm in Longwood, Florida, was indicted on one count each of **making a material false statement to SBA, making a false statement to SBA**, **making a false statement to influence a Federally-insured financial institution**, and **converting SBA collateral**. The company's vice president subsequently pled guilty to all four counts. His wife (the company's president) pled guilty to **making a false statement to SBA**; in return, the Government agreed to dismissal of the other charges against her. The company had obtained a $75,000 LowDoc SBA-guaranteed loan in March 1996. The couple admitted falsely stating, in the September 1995 SBA loan application, that neither had ever been involved in a bankruptcy; in fact, both had filed for bankruptcy in Canada in April 1995. The man also admitted submitting a forged Lessor's Agreement to the participating lender bank in support of the loan application. Furthermore, before filing for bankruptcy in the United States, he concealed inventory and equipment that was pledged as collateral for the loan. The OIG's investigation was initiated based on a referral from the participating lender bank.

New Jersey Businessman Pleads Guilty to Making False Statements

The owner of a waterbed company in West New York, New Jersey, was charged with and pled guilty to one count of **making material false statements** to SBA. He was sentenced to 6 months home confinement, 5 years probation, and $12,000 restitution. The man had failed to disclose in his 1995 application for an SBA-guaranteed loan that he had been arrested by the U.S. Customs Service in 1993 as he was departing for Colombia with $50,000 in unreported currency. He had pled guilty and was on probation for that offense at the time of his SBA loan application. He received a $30,000 LowDoc business loan through a participating non-bank lender. After the loan was disbursed he closed the business, defaulted on the loan, and disappeared. In 1997, he was located and arrested by SBA/OIG agents. The participating non-bank lender referred this matter for investigation.

Pennsylvania Corporate President Pleads Guilty to Making False Statements

The president of an automotive repair corporation in Philadelphia, Pennsylvania, was indicted on and pled guilty to three counts of **making material false statements to SBA.** He had applied for a $252,000 SBA-guaranteed loan in 1996 to buy a new building for his automobile repair business. As part of the loan application, the man submitted purported copies of his 1994-95 corporate tax returns, which the participating non-bank lender found to contain significant discrepancies when compared to information on file with the IRS. Each tax return claimed considerably more income than he had reported to the IRS. Also, in applying for the loan, he had failed to disclose his 1992 arrest for kidnapping and assault. The participating lender withdrew its loan commitment when the tax return discrepancies were discovered and referred the matter to the OIG for investigation.

Former Minnesota Lawman Indicted on Eight Fraud Counts

The former Chief Deputy Sheriff of Carver County, Minnesota, was indicted in Denver, Colorado, on three counts of **mail fraud,** two counts of **wire fraud,** two counts of **making a material false statement**, and one count of **bank fraud**. He had personally guaranteed a $100,000 SBA loan through a participating non-bank lender for a mail-handling franchise in Denver to be owned by his wife. A check disbursing $80,000 of the loan proceeds was issued for the purchase of this franchise. The OIG's investigation revealed, however, that the man forged an endorsement on the check and used the funds for his personal benefit, and that he submitted a falsified Personal Financial Statement in support of his personal guaranty. On his financial statement, the man allegedly failed to disclose several debts and overstated his income. During the time period when he was submitting the false loan documents, he had been arrested and was awaiting trial for allegedly misappropriating Drug Abuse Resistance Education funds in Carver County. He was ultimately convicted of these charges and is currently incarcerated in Federal prison. This investigation was initiated based on a referral from SBA's Denver District Office.

President of North Carolina Computer Consulting Firm Indicted for Making False Statements

The president of a Charlotte, North Carolina, computer consulting firm was indicted on one count each of aiding and abetting the **making of a material false statement in a loan application to a Federally-insured bank** and the **making of a false statement to influence SBA**. The man was charged with knowingly causing the submission of false documents, including a balance sheet that understated his firm's accounts payable by more than 55 percent. Based on this and other allegedly material representations regarding the firm's financial condition, the participating bank approved a $93,000 SBA-guaranteed term loan and a $75,000 SBA-guaranteed line of credit. The firm failed to repay any of the $128,145 that was disbursed to it. The OIG's investigation was based on a referral from SBA's Charlotte District Office.

Pennsylvania Emergency Vehicle Manufacturer Pleads Guilty to Misappropriation of SBA Collateral

The owner of a Luzerne County, Pennsylvania, manufacturer of ambulances, fire trucks, and paramedic units pled guilty to one misdemeanor count of **misappropriation of SBA collateral**. The OIG's investigation, based on a referral from SBA's Philadelphia District Office, had found that he knowingly disposed of property which was pledged as collateral to secure a $171,842 SBA-guaranteed loan. In the plea agreement, the man acknowledged that he fraudulently pledged as collateral a $55,842 ambulance that he also sold to a volunteer fire company without SBA's knowledge or permission. The loan is in liquidation, and the owner is in Chapter 11 bankruptcy.

Mississippi Trucking Accessories Business Owner Indicted for Misappropriation of Collateral and Bank Fraud

The owner of a trucking accessories business in Gulfport, Mississippi, was indicted on one count of **misappropriation of SBA collateral** and four counts of **bank fraud**. The man obtained a $100,000 LowDoc loan for the firm. The OIG's joint investigation with the FBI found that he removed, disposed of, and/or converted to his own use various items of business inventory that were pledged as collateral for the SBA-guaranteed loan. The owner filed for bankruptcy with SBA facing a loss of $79,705. The investigation also determined that he double-billed customer credit cards, issued checks to several banks without sufficient funds to cover them, forged signatures to cash checks, and deposited closed account checks, producing a total bank fraud loss of $49,077.

Missouri Music Retailer Pleads Guilty to Making False Statements

The former president of a Springfield, Missouri, retailer of musical instruments was charged with and pled guilty to **making false statements to SBA**. The man admitted misrepresenting on his SBA Application for Business Loan that certain outstanding company loans were current, when they were actually past due. The company received a $155,000 SBA-guaranteed bank loan in March 1995 but defaulted after only two payments. The OIG's joint investigation with the FBI was initiated based on a referral from SBA's Springfield, Branch Office.

Pennsylvania Video Store Owners Charged With Making False Statements

The owner of a video store in Erie, Pennsylvania, and his wife were charged with one count of **making false statements to SBA** by submitting altered tax returns. As part of the company's application for a $110,000 SBA-guaranteed loan, the owner submitted purported copies of the couple's personal Federal income tax returns for the years 1994-96. After the participating lender bank found that the "copy" of the 1996 tax return reflected a higher business income figure than had been filed with the IRS, the loan was canceled before any funds were disbursed. The OIG's investigation, based on a referral from SBA's Pittsburgh District Office, confirmed that the couple had submitted altered tax returns with the SBA loan application.

Pennsylvania Restaurateur Pleads Guilty to Making False Statement

The president of a Bethlehem, Pennsylvania, restaurant was charged with and pled guilty to **making a material false statement** to influence SBA to approve a $170,000 guaranteed loan to his business. When applying for the loan, the man provided the participating lender bank with a "copy" of his firm's 1994 income tax return which had been altered to show taxable income of $49,281. In reality, the business had sustained a loss of $161,998, as reported on the return filed with the IRS. No loan proceeds were disbursed; the loan application was withdrawn after SBA's tax verification program detected discrepancies. The case was based upon a referral from SBA's Philadelphia District Office.

Results of Previously Reported Investigations

➢ The number of individuals charged with crimes in the wake of the investigation of an Inglewood, California, loan brokerage firm has more than doubled, to 13. In addition, the number who have entered guilty pleas has grown to 10, and the first 3 defendants have been sentenced.

- The former owner of a gas station in Compton, California, pled guilty to one count of **making false statements to a Federally-insured lender.** He was sentenced to 15 months incarceration, 3 years supervised release, and $225,000 restitution (80 percent to SBA).

- The owner of a Manhattan Beach, California, gas station was sentenced to 5 months in a halfway house, 5 months home detention, 5 years supervised release, and $30,000 restitution. He previously pled guilty to one count of **making false statements to a Federally-insured lender.**

- The former owner of a Burbank, California, gas station was sentenced to 4 months home detention, 3 years supervised release, and $10,200 restitution. He previously pled guilty to one count of **making false statements to a Federally-insured lender.**

- The former owner of a gas station in San Bernardino, California, pled guilty to three counts of **making false statements to a Federally-insured lender** by submitting altered individual income tax returns for 1988-90 with her application for a $300,000 SBA-guaranteed loan.

- The owner of a car wash in Lomita, California, pled guilty to one count of **making a false statement to a Federally-insured lender** by submitting altered individual income tax returns for 1987-89 with his application for a $1,000,000 SBA-guaranteed loan.

- A Harbor City, California, tax preparer was charged with and pled guilty to three counts of aiding and abetting the **making of false statements to a Federally-insured lender**. The man assisted principals of the loan brokerage firm by preparing fraudulent tax returns (some fictitious, others altered), fraudulent personal financial statements, fictitious profit and loss statements, and other false documentation for their clients.

- A Los Angeles, California, plumbing contractor was charged with and pled guilty to one count of **making a false statement to a Federally-insured lender** by submitting altered individual income tax returns as part of his application for a $500,000 SBA-guaranteed loan.

- The owner of an oriental rug firm in Beverly Hills, California, was charged with and pled guilty to one count of **fraudulent receipt of money from a bank transaction** for falsely representing the purpose of his $1 million SBA-guaranteed loan.

- The former co-owner of a West Covina, California, gas station was charged with and pled guilty to one count of **making false statements to influence a Federally-insured lender** for submitting altered individual income tax returns with his application for a $1 million SBA-guaranteed loan.

A married couple, the former co-owners (with the man discussed in the preceding paragraph) of a West Covina, California, gas station, was indicted on four counts of **making false statements to influence a Federally-insured lender**. They allegedly submitted altered income tax returns with their application for a $1 million SBA-guaranteed loan.

- The former owner of a gas station in Fontana, California, was indicted on six counts of **making false statements to a Federally-insured lender** for allegedly submitting a false Source of Cash Injection letter, a false personal financial statement, a false SBA settlement sheet, and altered individual income tax returns with his application for a $1 million SBA-guaranteed loan.

This investigation focused on loans submitted to a California bank by the brokerage firm. The firm's portfolio at the bank totaled approximately 170 loans, originally valued at more than $60 million. Partially as a result of the default rate of these allegedly fraudulent loans, the Office of the Comptroller of the Currency closed the bank in April 1994. The investigation has focused on a sample of these loans and is continuing.

➢ The owner of a now-defunct tractor dealership in Shubuta, Mississippi, was convicted on one count of **making a material false statement** to obtain a $150,000 SBA-guaranteed loan. The trial jury found that he represented on a Schedule of Collateral (SBA Form 4, Schedule A) that he already owned, and would grant the participating lender bank a first security interest in, inventory worth $99,373 when, in fact, he had no such inventory.

➢ A co-owner of a school for automotive machinists in Houston, Texas, pled guilty to one count of **conspiracy** to make false statements to a Federally-insured financial institution. He was sentenced to 1 year probation, $25,000 restitution, and a $5,000 fine. He was also ordered to make monthly loan payments to SBA. As part of the plea agreement, the Government agreed to dismissal of all the other charges on which he and his wife/co-owner had been indicted.

➢ A trial jury found the former owner of a retail furniture store in Garden Grove, California, guilty on five counts of **making false statements to influence a Federally-insured financial institution**. The woman was the fifth individual convicted as a result of an extensive investigation of a southern California loan packager and his clients.

➢ A married couple who formerly owned a convenience store in San Antonio, Texas, was charged, in a superseding indictment, with **conspiracy** to defraud SBA. This new count was in addition to two previous counts of **making false statements** in their application to SBA for a $131,100 handicapped-assistance business loan with which the couple had originally been charged. They were charged with devising a scheme to conceal facts that, if known by SBA, would have resulted in the declination of their loan application.

➢ A business consultant in Menomonee Falls, Wisconsin, was sentenced to 4 months home confinement with electronic monitoring, 2 years probation, and $38,944 restitution. She previously pled guilty to one count of **making a material false statement** to SBA to obtain a $25,000 SBA-guaranteed loan.

➢ The OIG's investigation of a $155,000 SBA-guaranteed loan made for one grocery retailer to buy another has led to two recent results.

- The owner and president of a grocery retailer in Kennesaw, Georgia, was sentenced to 4 months incarceration, 4 months home detention, 1 year supervised release, and $133,000 restitution to SBA. He previously pled guilty to one count of **making a material false statement** in an SBA-related matter.

- The owner and chief executive officer of the firm which had brokered the sale of the second grocery retailer was convicted of one count of **conspiracy**, three counts of **making material false statements to SBA,** and three counts of **making false statements to a Federally-insured bank**. The man was found to have conspired with the purchaser and others to conceal the true purchase price from the participating lender bank and SBA.

➢ The former owner of a Seaside Heights, New Jersey, bar and restaurant was sentenced to 5 months imprisonment and 5 months of home confinement. He was also ordered to pay restitution in an amount not yet determined. The man had pled guilty to **making material false statements** in applying for, and accounting for the use of proceeds of, a $616,000 SBA-guaranteed loan to his business.

➢ A loan applicant on behalf of a Neodesha, Kansas, building materials manufacturer pled guilty to **making a material false statement** to SBA by signing an SBA loan agreement as president of the company. He was sentenced to 21 months imprisonment, 3 years supervised release, and $479,740 restitution.

➢ The former president and the former secretary (his wife) of a wood-pellet manufacturing company in Erie, Kansas, pled guilty to two counts and one count, respectively, of **making material false statements** to SBA regarding the company's application for a $147,650 SBA-guaranteed loan. As part of the plea agreements, the Government agreed to dismissal of all the other charges on which the couple had been indicted. The husband was sentenced to 4 months in a halfway house and 2 years supervised release, the first 4 months in home confinement; the wife was sentenced to 28 months probation, the first 4 months in home confinement. They were sentenced jointly to pay $97,874 restitution.

➢ The president of a Quincy, Massachusetts, wholesaler of specialty coffees and related items pled guilty to five counts of **making false statements on loan applications to a Federally-insured financial institution.**

- The president of a now-defunct waste-paper recycling company in Washington, D.C., was convicted on one count each of **making false statements in a loan application to a Federally-insured bank, making false statements to SBA,** and **perjury**.

Disaster Loan Program

Pursuant to Section 7(b) of the Small Business Act, as amended, SBA's disaster loans represent the primary form of direct loan Federal assistance for non-farm, private sector disaster losses. Moreover, the Disaster Loan Program is the only form of SBA assistance not limited to small businesses. Disaster loans from SBA also help homeowners, renters, businesses of all sizes, and non-profit organizations to rebuild. SBA's disaster loans are also a critical source of economic stimulation in disaster-ravaged communities, helping to energize employment and stabilize tax bases.

By providing disaster assistance in the form of loans which are repaid to the U.S. Treasury, the SBA program helps to defray Federal costs. When victims need to borrow to repair uninsured damages, the low interest rates and the long terms available from SBA make recovery more affordable. Because SBA tailors the repayment of each disaster loan to each borrower's capability, unnecessary interest subsidies paid by the taxpayers are avoided.

The need for SBA disaster loans is unpredictable. During FY 1998, SBA approved 30,154 loans. Since the inception of the program, SBA has approved more than 1,416,000 disaster loans valued at some $26 billion. As of the end of FY 1998, the SBA disaster loan portfolio included more than 277,000 loans worth over $6.9 billion.

SBA is authorized by law to make two types of disaster assistance loans: (1) physical disaster loans, which are a primary source of funding for permanent rebuilding and replacement of uninsured disaster damages to real and personal property homeowners, renters, businesses of all sizes, and non-profit organizations and (2) economic injury disaster loans which provide necessary working capital to small businesses until normal operations can be resumed after a physical disaster. SBA delivers its disaster loans through four specialized Disaster Assistance Area Offices located in Niagara Falls, New York (Area 1); Atlanta, Georgia (Area 2); Fort Worth, Texas (Area 3); and Sacramento, California (Area 4).

Summary of OIG Activity / *Disaster Loan Program*	
Audit Reports Issued	1
Audits Underway	2
Indictments Resulting from Investigations	15
Convictions Resulting from Investigations	5
Investigations Closed / Remaining Inventory	10 / 75
Investigations : Restitutions / Fines / Other Recoveries	$412,228 / $4,383 / $0
Investigations: Declination of Loans Due to Name Checks	$548,227
Reviews of Proposed Regulations	2
Reviews of Other Issuances	2

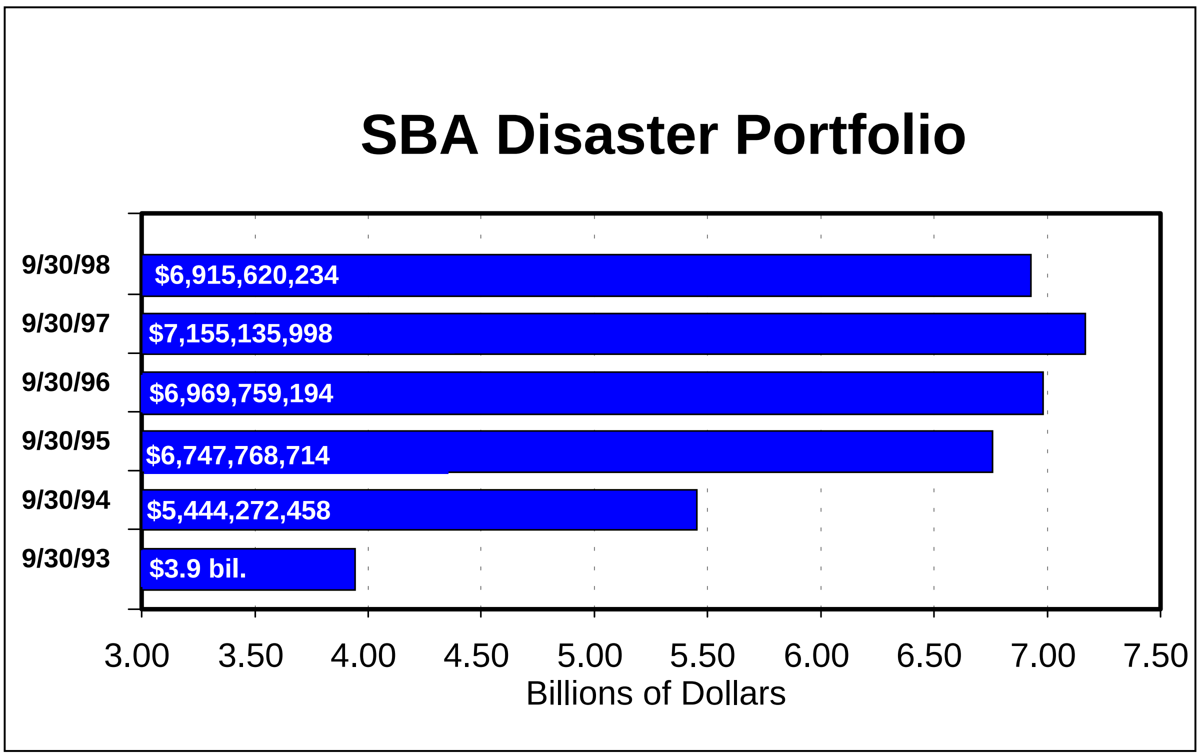

Figure 2

Efforts to Improve SBA Program Management

Audit of Declined Disaster Loans Finds Loan Decisions Consistent with Regulations

An audit of declined disaster loans found that decisions to decline loan applications were **generally consistent with regulations**. The audit was requested by the Associate Administrator for Disaster Assistance (AA/DA) to determine whether the decline rate was higher than necessary due to inappropriate eligibility decisions made by SBA disaster employees. A review of 97 declined applications identified only 1 for which the declination was questionable. The application was declined because the loan officer decided that the applicant's available cash was not sufficient to service the disaster loan. The audit also found that the Agency's decline rate could have been reduced if unqualified applicants were declined during the initial screening process. In the sample, immediate decline procedures were not used for 10 of 97 applications that did not meet minimum household income levels. This test is usually applied by the Federal Emergency Management Agency in the course of teleregistration. In addition to lowering the decline rate for accepted applications, the use of immediate decline procedures may save money and reduce loan officer workload. Applications accepted for processing, even if later declined, cost a minimum of $121 per application for disaster loss verification.

The audit recommended that the AA/DA summarily decline home loan applications at intake when applicants do not meet the minimum income test. The AA/DA agreed with this recommendation.

OIG Sends Report to Capitol Hill Outlining Disaster Oversight Accomplishments

In an effort to keep the Congress fully informed of critical issues, the OIG sent a report to its Congressional oversight and appropriations committees on May 29, 1998, outlining the **OIG's accomplishments in the area of disaster oversight** since 1994. Special no-year funding was made available to the OIG in that year to bolster its oversight efforts in this burgeoning, high-risk program area. Together with some additional funding in subsequent years, almost $4 million in total will have been spent on this initiative by the end of FY 1998. The letter outlined the following accomplishments:

- Issuance of 6 audit reports with significant recommendations concerning loan processing, disaster-funded loan servicing personnel, electronic disbursement of disaster loan funds, disaster loan origination and servicing, use of the Credit Alert Interactive Voice Response System, and disaster home loan processing.

- Initiation of 3 more audits concerning disaster loan approval rates, disaster home loan servicing, and early defaulted disaster loans.

- Closure of 92 investigations, with 92 indictments and 85 convictions.
- Dollar results totaling $15.6 million, for a return on investment of about $4.5 for every $1 spent.

Activities to Enhance Fraud

Detection and Deterrence

Southeastern Businessmen Indicted on Host of Charges Related to Sale of Airplane

A Valdosta, Georgia, businessman and the owner of a Miami, Florida, air charter and air cargo company were indicted on one count of **conspiracy**, two counts of **mail fraud**, and two counts of **making material false statements** to influence SBA to disburse a $288,500 disaster loan to the Florida firm. The amount of the loan was based on representations to SBA as to what it would cost the firm to replace an airplane destroyed by Hurricane Andrew. The Georgia businessman, who purportedly sold the Florida firm a replacement airplane, allegedly participated with the Florida man in a scheme to deceive SBA through the use of such falsified documents as a purchase contract and a bill of sale. They represented that the value of the aircraft was $290,000; however, the OIG’s investigation found it was only worth $46,000. The OIG initiated this investigation, which is continuing, based on a referral from the FBI.

California Physician Pleads Guilty to Making False Statements

A Beverly Hills, California, medical doctor who had received home and business disaster loans was indicted on and pled guilty to two counts of **making a false statement** to SBA. He claimed to have incurred both personal and real property damage at his residence following the 1994 Northridge earthquake, when in fact the property was a rental and the personal property damage was actually incurred by his tenant. Also, the doctor submitted an invoice that overstated the extent of real property damage incurred at the rental. The OIG conducted this investigation at the request of the U.S. Attorney's Office after a Medicare fraud investigation uncovered indications that the doctor may have made a false statement to obtain his SBA loans. He was indicted in February 1998 for allegedly overbilling Medicare by more than $216,000 and was freed on $250,000 bail. The U.S. Attorney's Office subsequently learned that, after he was advised that his second indictment (on the SBA violations) was imminent, the doctor withdrew $2.39 million from his savings account. In anticipation of his potential flight, a criminal complaint based on the SBA violations was issued, and he was arrested the same day. During a search incident to the arrest, the $2.39 million was seized as evidence of his intent to flee. His bail was revoked and he remains in custody pending sentencing.

Ohio Contractor Indicted for Grand Theft

The president of a Coal Grove, Ohio, concrete contractor was indicted on two felony counts, **grand theft by deception** and **grand theft**, in the Lawrence County, Ohio, Court of Common Pleas. The firm had obtained disaster loans totaling $60,300 for damage resulting from a February 1997 flood. The OIG’s joint investigation with the Coal Grove Police Department disclosed that, between November 1997 and January 1998, the firm's owner requested and obtained $27,700 of additional disaster loan proceeds by falsely stating that he had a water well damaged beyond repair by the flooding and that consequently he was paying excessive utility bills. The investigation earlier found that he had illegally obtained more than $5,000 worth of water from the Village of Coal Grove without its consent. He had allegedly constructed a series of water pipes and valves to bypass the water meter owned by the Village of Coal Grove. When questioned about how a concrete contractor could go without using any village water for more than a year, the man reportedly explained that he had been getting water from the well (which he had told SBA had been damaged beyond repair a year earlier).

Los Angeles Resident Indicted for Making False Statements

A resident of Los Angeles, California, was indicted on 11 counts of **making material false statements to SBA** and other Federal agencies and 3 counts of **making false statements to a Federally-insured financial institution**. The OIG's joint investigation with the IRS revealed that the woman submitted fictitious Federal tax returns and altered and forged IRS tax transcripts in support of applications for loans, including a $153,000 disaster home loan approved by SBA following the Northridge earthquake. The OIG initiated the investigation based on a referral from SBA's Disaster Assistance Area 4 Office, which detected discrepancies associated with the tax verification documents she submitted after the first $25,000 was disbursed. Subsequent investigation determined that she had submitted similar fictitious tax returns to obtain a loan guaranteed by the Department of Housing and Urban Development and to obtain a home mortgage from a Federally-insured lender.

Illinois Construction Company Owner Indicted for Making False Statements

The president and owner of a construction company in Moline, Illinois, was indicted on four counts of **making material false statements** in connection with a $151,000 SBA physical damage disaster loan made to an Orion, Illinois, campground after the Midwest flood of 1993. The man allegedly caused the omission of his name (he was an officer of the company which owned the campground and had a controlling interest in it) on the loan application question asking for the names of the applicant's managers and officers, so as to avoid having to disclose that he had been convicted of and imprisoned for fraud and was still on supervised release. After the loan was approved but before SBA had disbursed any funds, a construction agreement was submitted outlining the terms under which the construction company would replace and repair the campground's disaster-damaged property. The OIG's investigation determined that he caused that document to be falsified in order for the construction company to realize $70,000 more in profit. Also, according to the indictment, he falsely represented that the loan proceeds would be used solely to rehabilitate and replace disaster damage suffered by the campground, and then used disaster loan proceeds to pay off its pre-existing debt, an ineligible use. This investigation was initiated based on a referral from SBA's Disaster Assistance Area 4 Office.

California Loan Packager Pleads Guilty to Making False Statement

A Los Angeles, California, loan packager was charged with and pled guilty to one count of **making a false statement to influence a Federally-insured lending institution**. The OIG's investigation of the packager, conducted jointly with the U.S. Secret Service, was initiated based on information developed during the investigation of a fashion retailer whose sentencing is described below on page 27. The investigation showed that the packager provided the taxable income figures, submitted with altered Federal tax returns, that qualified that borrower for an SBA-guaranteed bank loan and two disaster loans. The borrower subsequently defaulted on all three of his SBA loans, which resulted in a loss to SBA of $160,000. Pursuant to the packager's plea agreement, however, she was only charged with the $83,000 loss attributable to his SBA-guaranteed loan.

Five Indicted for Conspiracy and Making False Statements in North Dakota Business School Fraud

Five individuals were indicted on nine counts, including **conspiracy** to defraud SBA, in a scheme to obtain a $122,900 disaster loan for a private business school in Grand Forks, North Dakota. The female defendant, who at the time owned five other private business schools, was operating and in the process of purchasing the subject school (although that transaction was never completed) when the Red River flooded it in April 1997. Another defendant, who was then her husband, was employed as her data processing manager and an instructor and was the corporate secretary for certain corporations she owned. A third defendant was the controller for certain corporations. A fourth defendant was her brother and the director of the subject school. The fifth defendant was a salesman for a computer store in Fargo. In addition to conspiracy, the indictment charged the couple and the third and fourth defendants with **making false statements to SBA** regarding withholding taxes payable and computers purportedly purchased for the subject school. The subject school and all the schools actually owned by the female defendant were closed by January 1998, and the borrower made no payments on the disaster loan it received from SBA. The investigation leading to this indictment was a joint effort by the SBA/OIG, the U.S. Department of Education's OIG, and the IRS Criminal Investigations Division. It was initiated based on a referral from SBA's Disaster Assistance Area 3 Office through SBA's Fargo District Office.

California Model Agency Owner Indicted for Making False Statements and Bank Fraud

The owner of a model and talent agency in Los Angeles, California, was indicted on seven counts of **making material false statements to SBA.** He obtained a $42,700 disaster loan for his business following the 1992 civil unrest. He also was approved for a $50,700 disaster home loan following the 1994 Northridge earthquake, but only $35,000 was disbursed before SBA received a Notice of Foreclosure on the property. The OIG's investigation, initiated based on information provided by SBA's Disaster Assistance Area 4 Office, found that the talent agency was not looted during the civil unrest as the owner had claimed on his disaster loan application. In addition, he allegedly provided SBA with false invoices for inventory he claimed to have purchased to replace the inventory he claimed had been stolen at gunpoint during the civil unrest and for repair work to his property which he knew was soon to be lost due to foreclosure.

The investigation also revealed that he allegedly submitted copies of altered tax returns to obtain approval of his disaster home loan application. Based on subsequent investigation by the OIG, the businessman was indicted on four counts of **bank fraud**. The bank fraud investigation was initiated after it was discovered that he allegedly had misused a portion of the proceeds of his disaster home loan to purchase real property.

The investigation also revealed that he had applied for a $315,000 residential loan, allegedly falsely representing that he did not have an ownership interest in real property within the 3-year period prior to the date of the loan application. The investigation further revealed that he allegedly provided a fictitious W-2 Wage & Tax Statement Form to obtain approval of the loan. In addition, the businessman obtained a $25,000 Title I property improvement loan, administered and guaranteed by the U.S. Department of Housing and Urban Development (HUD). The investigation showed that he failed to disclose on his application for the Title I loan his indebtedness to SBA for his disaster loans and provided altered tax returns to obtain approval of the loan. This portion of the investigation was conducted jointly with HUD's OIG.

Results of Previously Reported Investigations

➢ The former owner of a Los Angeles, California, lighting company was sentenced to 27 months imprisonment, 3 years supervised release, and $4,033 in fines. He previously pled guilty to one count of **making false statements to SBA** and one count of **making a false statement on a bankruptcy petition**.

➢ The owner of a Los Angeles, California, mini-market pled guilty to one count of **making false statements** to SBA. He was sentenced to 4 months home confinement, 5 years probation, and $22,500 restitution.

➢ A Culver City, California, resident was sentenced to 5 months incarceration, 5 months in a halfway house, and $22,037 restitution to SBA. He previously pled guilty to one count of **making material false statements** to SBA and one count of **misuse of a Social Security number**.

➢ A resident of Surf City, North Carolina, was sentenced to 1 year incarceration, 3 years supervised release, $6,300 restitution, and a $100 special assessment. He previously pled guilty to one count of **stealing Federal property.**

➢ The owner of a nurse registry in Los Angeles, California was sentenced to 15 months incarceration, 5 years supervised probation, and restitution of $161,691 to SBA and of $50,000 to a southern California bank. He previously pled guilty to one count of **filing a false claim** with SBA and one count of **making a false statement to a Federally-insured lender**.

➢ The owner of an arcade game distributor in Roanoke, Virginia, pled guilty to one count of **making false statements** to SBA. He was sentenced to the 72 days he had been incarcerated since his arrest, 5 years probation, $104,700 restitution, and a $50 special assessment.

➢ A husband and wife who owned an auto parts franchise in New Hebron, Mississippi, were sentenced. The husband was sentenced to 18 months incarceration and 3 years supervised release; the wife was sentenced to 6 months home confinement and 3 years supervised release. In addition, they were sentenced jointly to pay $157,736 restitution. They previously pled guilty to one count of **conspiracy** to defraud the Government.

➢ The former co-owner of a fashion retailer in Los Angeles, California, was sentenced to 3 years probation and $25,000 restitution to SBA. He previously pled guilty to one count of **making a material false statement to SBA.**

➢ A Decatur, Georgia, school teacher who had applied for a $23,000 disaster loan for losses to four rental units she owned on St. Croix, U.S. Virgin Islands, was sentenced to 2 years probation and a $100 special assessment. She was previously found guilty on two counts of **making false statements to SBA** by providing altered “copies” of tax returns for the years 1993-94 with the loan application she submitted following Hurricane Marilyn.

Small Business Investment Companies

The primary purpose of the Small Business Investment Company Program is to provide a source of long-term debt and equity capital to new or expanding small businesses. **Small Business Investment Companies (SBICs)** are independently-owned and managed, profit-making investment companies licensed by SBA to finance small businesses through long-term loans and investments in their equity securities. SBICs often also provide management assistance to the companies they finance.

The role of SBA is to (a) determine which SBICs to license, (b) oversee and regulate those licensees, and (c) arrange for Government-guaranteed financing from private sources to add to their capital. Such financing, termed "leverage," is provided through either debentures or participating securities issued by the SBIC. The participating security was created by the Small Business Equity Enhancement Act of 1992 to serve the needs of SBICs investing principally in equity securities, which do not generate sufficient income to cover the interest on debenture leverage. They represent a limited partnership interest in the SBIC, whereby SBA advances the cost of the leverage until profits have been generated from the SBIC's investments. In consideration, SBA participates in approximately 10 percent of the SBIC's profits. The Agency arranges periodic public offerings of trust certificates backed by pools of SBIC debentures or participating securities. SBA guarantees the payment of principal and interest on the trust certificates.

As of the end of FY 1998, there were 321 licensed and active SBICs, with a total capitalization of $9.0 billion (private capital of $6.3 billion and committed leverage of $2.7 billion). Included are 75 Specialized SBICs (SSBICs) which were licensed under Section 301(d) of the Small Business Investment (SBI) Act to invest only in small businesses owned and managed by socially or economically disadvantaged persons. (Section 301(d) was repealed in 1996, but existing SSBICs were "grandfathered" and continue to operate as before.) At the end of FY 1998 there were 128 SBICs in liquidation owing SBA approximately $198 million. While the

SBIC program level in FY 1998 was $1.16 billion, the FY 1999 program level is projected to be $1.5 billion, signaling a continuing expansion of the program.

The SBI Act generally requires that all SBICs licensed by SBA be examined every two years to ensure licensee compliance with law and Agency regulations. The Small Business Credit and Business Opportunity Enhancement Act of 1992 transferred the responsibility for examining SBICs from the OIG to the Agency effective October 1, 1992. While SBA's Investment Division is now responsible for these examinations, the OIG continues to have authority to audit the SBIC program pursuant to its responsibility to oversee all Agency programs and activities.

Summary of OIG Activity / *Small Business Investment Companies*	
Indictments Resulting from Investigations	1
Investigations Closed / Remaining Inventory	1 / 12
Investigations: Restitutions / Fines / Other Recoveries	$0 / $162,550 / $0

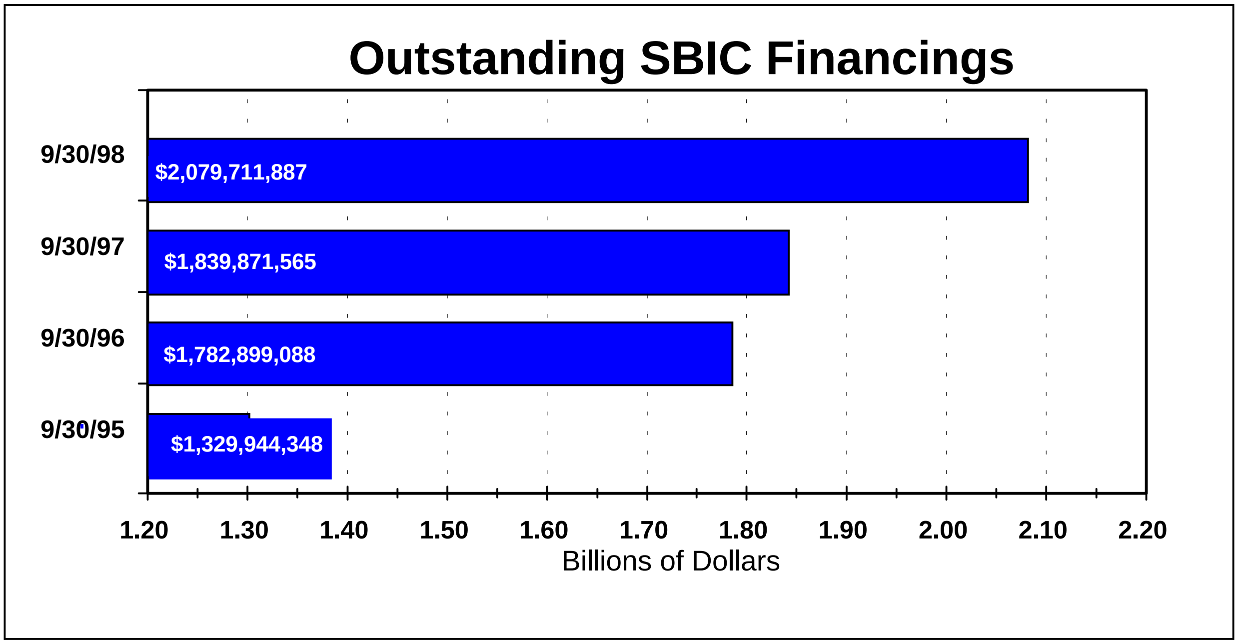

Figure 3

Activities to Enhance Fraud Detection and Deterrence

Florida Financial Consultant Charged with Fraud

A West Palm Beach, Florida, man who was a consultant to the officers of a now-failed small business investment company (SBIC) in New York City was arrested based on a subsequently unsealed indictment charging him with one count of **financial institution fraud**. Between February 1991 and May 1992 the man, without SBA's approval, allegedly acquired control over the day-to-day operations of the SBIC, a financial institution licensed by SBA, and executed a scheme to defraud it. The indictment charges that his scheme involved misappropriating and embezzling funds and other assets intended for or belonging to the SBIC and guaranteed by SBA. In furtherance of the alleged scheme, he opened accounts at three banks in a corporate name deceptively similar to the name of the SBIC. The man allegedly controlled the deceptively named entity and its various accounts and deposited checks made payable to the SBIC into the bogus accounts and converted the proceeds. Over $1 million was allegedly misappropriated in this fashion. In May 1992 the SBIC failed and was placed in receivership. SBA, honoring its guaranty, was obligated to pay $4.7 million to the bank that issued the Federally-guaranteed debentures. The OIG's joint investigation with the FBI was based on a referral from SBA's Office of General Counsel.

Results of Previously Reported Investigations

- An officer and director of a specialized small business investment company (SSBIC) in Farmington Hills, Michigan, was ordered, jointly with another SSBIC officer, to pay $325,000 to the Government. The two men had each pled guilty to misdemeanor counts of **misapplying funds of a financial institution** and **failing to file a required Currency Transaction Report**. (The other SSBIC officer was sentenced earlier.)

- The former owner of a restaurant in La Mesa, California, was convicted of two counts of **bank fraud** and acquitted of a third **bank fraud** count. He was convicted on two counts of fraudulently obtaining loans from two southern California financial institutions. He was acquitted on the count involving a $465,000 loan from a now-defunct SSBIC.

Surety Bond Guarantees

Small and emerging contractors who cannot get surety bonds through regular commercial channels can apply for SBA bonding assistance under the **Surety Bond Guarantee Program.** Under this program, SBA guarantees a portion of the losses sustained by a surety company as a result of the issuance of a bid, payment, and/or performance bond to a small business concern.

Businesses in the construction and service industries can meet the SBA's size eligibility standards if their average annual receipts (including those of their affiliates) for the last three fiscal years do not exceed $5 million. A contract bond is generally eligible for SBA guarantee if the bond is covered by the Contract Bonds section of the Current Manual of Rules, Procedures and Classifications of the Surety Association of America; required by the invitation to bid or by the contract; and executed by a surety company that is determined by SBA to be eligible to participate in the program and certified acceptable by the Department of the Treasury.

The **Preferred Surety Bond (PSB)** program allows selected sureties to issue, monitor, and service surety bonds without SBA's prior approval. SBA accomplishes two primary objectives through this program: (1) expanding the number of sureties participating in the surety bond guarantee program, and (2) increasing bonding availability to business concerns that would otherwise not be able to obtain bonding in the standard marketplace. Title II of P. L. 100-590 also requires an annual audit of each surety participating in this program.

SBA can guarantee bonds for contracts with a face value of up to $1.25 million. In FY 1998, SBA contingent liability for new final bond guarantees, including those issued under the PSB program, was $414 million. The appropriated guarantee authority level for FY 1998 surety bond guarantees was $1.672 billion; in FY 1999, it is expected to be $1.672 billion.

Summary of OIG Activity / *Surety Bond Guarantees*	
Audit Reports Issued	4
Audits Underway	4
Investigations Closed / Remaining Inventory	0 / 3
Investigations: Declinations Due to Name Checks	4
Reviews of Other Issuances	1

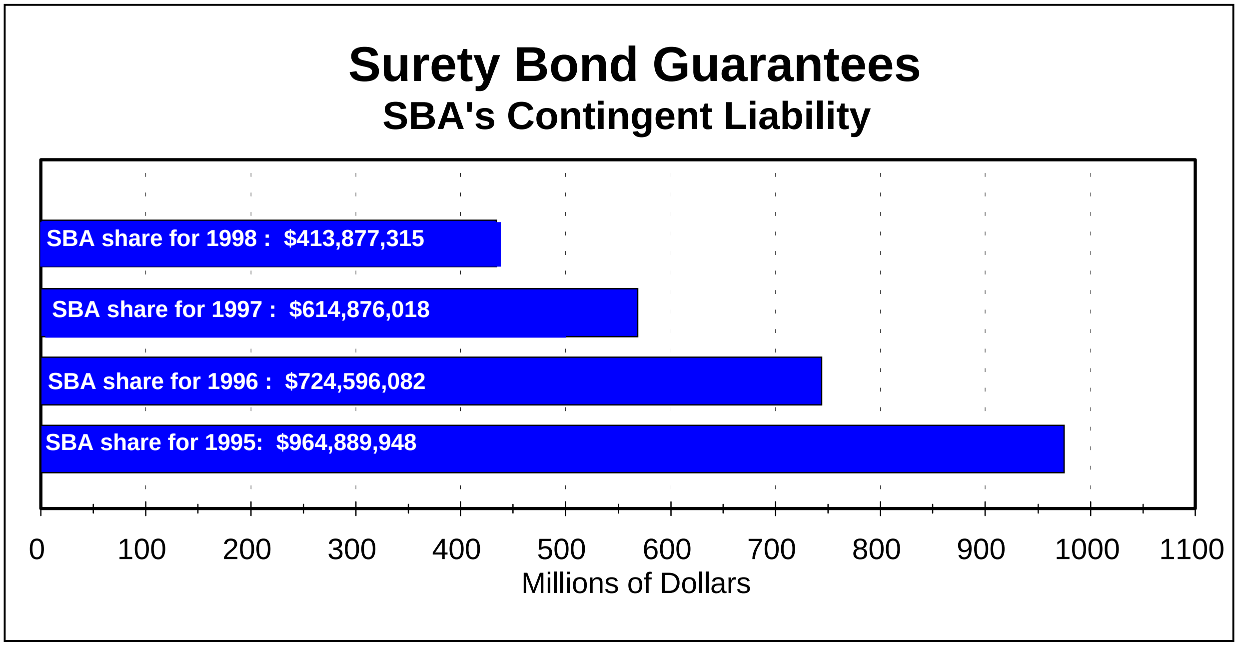

Figure 4

Efforts to Improve SBA Program Management

Audit of Surety Bond Guarantees Finds Inappropriate Fee Refunds Caused by Conversion to New System

An audit of 48 bonds showed that in FY 97, 19 bonds had inappropriate fee refunds totaling $99,330. The **inappropriate refunds occurred because of system conversion problems, data entry errors related to conversion to a new computer system, and lack of controls for preventing and detecting data entry errors.**

The data entry errors that caused inappropriate refunds included duplicate recording of fee collections, creation of duplicate bond records, entry of incorrect premium amounts, cancellation of the wrong bonds, and a duplicate cancellation. The Surety Bond Guarantees (SBG) system did not have edit checks to ensure correct surety premium amounts were entered, and there were no warning flags to identify cancellation dates that were an unreasonable period of time after bond approval dates. The SBG system did not have controls to detect refund errors such as reports to identify abnormal conditions.

The audit recommended that the Associate Administrator, Office of Surety Guarantees (AA/SG) recover the $87,325 still due SBA out of the inappropriate fee refunds of $99,330. Other audit recommendations included developing data entry edit checks for the SBG system and developing reports to identify bonds with negative liability accounts balances or unreasonable fee revenues. The AA/SG stated that many of the inappropriate fee refunds cited occurred shortly after the conversion to the new computer system. As those problems have been identified, SBG and the Office of Chief

Information Officer have made changes to correct them. The AA/SG, however, agreed with the recommendations and has taken further steps to ensure that fee refunds are valid and fee discrepancies are promptly reconciled.

Audits of Three Preferred Surety Bond Companies Found Inappropriate Bond Guarantees and Claims

The OIG issued three contract audits of claims submitted to SBA by surety companies in Calabasas, California; Philadelphia, Pennsylvania; and Seattle, Washington. The audits were requested and funded by the AA/SG. The audits found that the **sureties did not always comply with SBA's policies and procedures for underwriting; claimed unallowable expenses; and calculated fees accurately, but did not remit them to SBA in a timely manner.** pecifically, the sureties issued bonds after work had commenced, issued bonds after the principal had defaulted on prior bond, failed to obtain a general indemnity agreement, issued bonds for a single project that exceeded the statutory limit, misallocated a loss between two bonds, did not maintain all required documentation, and did not remit recoveries and surety fees to SBA in a timely manner. The audits identified inappropriate claims of $687,639, inappropriately obtained SBA bond guarantees of $934,967, and unremitted fees of $274,724.

The reports recommended that the AA/SG seek reimbursement on ineligible bonds, deny payment on any future claims on the remaining ineligible bonds, direct the sureties to revise policies and procedures, and obtain surety fees owed to SBA. The AA/SG concurred with the finding and recommendations on two of the three audits. The AA/SG generally agreed with the findings and recommendations of the third audit, but stated that the recommendations may require legal interpretation prior to implementation.

Government Contracting

SBA provides assistance to small businesses in obtaining a fair share of Federal Government contracting opportunities. SBA also works with each department or agency to establish procurement goals for contracting with small, small-disadvantaged, and women-owned businesses. The Agency's Government contracting programs include **Prime Contracts, Subcontracting Assistance, Certificate of Competency, Natural Resources Sales Assistance,** and the **Procurement Marketing Access Network (PRO-Net).**

The goals of the **Prime Contract Program** are to increase small business opportunities in the Federal acquisition process and to expand full and open competition to effect savings to the Federal Government. Supporting initiatives are carried out by traditional and breakout procurement center representatives assigned to major Federal acquisition activities.

The **Subcontracting Assistance Program** promotes the optimal use of small businesses by the Government’s large prime contractors. This program objective is carried out by commercial market representatives who monitor the procurement activities of the large prime contractors.

The **Certificate of Competency (COC) Program** provides an appeal process to ensure that small business concerns, especially those new to the Federal procurement market, are given a fair opportunity to compete for and win Government contracts. If a small business is the lowest bidder on a contract but is found to be non-responsible in its ability to fulfill the contract’s requirements, it can appeal to SBA. After reviewing a firm's capabilities, SBA can issue a COC that requires the contracting officer to award the contract to that business.

Natural Resources Sales Assistance helps small businesses obtain a fair share of Federal property offered for sale or disposal, with a focus on sales of Federal timber, royalty oil, coal leases, and other mineral leases.

PRO-Net is SBA's Internet-based inventory of U.S. small businesses that are interested in Federal procurement opportunities, either directly with the Government or with prime contractors. Federal agencies and large prime contractors both use PRO-Net as a resource in identifying small businesses for procurement opportunities. Small businesses use this interactive mechanism to market their products and services.

Summary of OIG Activity / *Government Contracting*	
Investigations Closed / Remaining Inventory	0 / 4
Reviews of Proposed Regulations	4
Reviews of Other Issuances	5

Efforts to Improve SBA Program Management

Final HUBZone Regulations Reviewed

The OIG reviewed and commented on a draft of the final regulations implementing the new HUBZone program established by Title VI of the Small Business Reauthorization Act of 1997, P. L. 105-135, enacted December 2, 1997. The HUBZone program provides Federal contracting assistance to small businesses located in "historically underutilized business zones (HUBZones)."

The OIG recommended several changes to reduce potential program abuse or inefficiencies, including strengthening the "non-manufacturing" rule to preclude HUBZone companies from making minor modifications to non-HUBZone manufactured products and then selling the product as a HUBZone product; eliminating the double price evaluation preferences for small and disadvantaged businesses located in HUBZones; and requiring the HUBZone companies to retain documents for six years rather than the proposed four years so as to preserve evidence and not interfere with prosecution or litigation under various criminal and civil statutes of limitations.

The Agency changed the final regulations to incorporate a significant number of the OIG's recommendations prior to their publication.

Small and Disadvantaged Business (SDB) Regulations Reviewed

The OIG reviewed a draft of proposed final amendments to 13 CFR Part 124, governing the SDB program, and provided numerous comments to the Agency for its consideration in developing new regulations. The OIG's comments focused on such issues as determinations of disadvantaged status, character determination and tax verification as part of SDB certification, limits on the number of joint ventures, qualification standards and tenure rights of private certifiers, certifier fees, self-certification, the presumption of eligibility of former Section 8(a) firms for SDB certification, and protests of SDB status.

Minority Enterprise Development

Section 7(j)(10) of the Small Business Act established the **Minority Small Business and Capital Ownership Development Program** for the purpose of promoting greater access to the free enterprise system for socially and economically disadvantaged individuals. Under the Act, SBA provides business development assistance to small business concerns that are at least 51 percent unconditionally owned, controlled, and managed by one or more socially and economically disadvantaged individuals and also meet other program eligibility requirements. Such companies may participate in the program for a maximum of nine years and must enhance their competitiveness during this period so as to prepare for commercial sector competition upon graduation from the program.

One of the business development tools available to participant firms is access to Federal contracting opportunities authorized by **Section 8(a)** of the Small Business Act. Under the Section 8(a) program, SBA contracts with other Government agencies to provide goods and services and subcontracts the performance of these contracts to program participants. As of September 30, 1998, based on preliminary data pending the final Federal Procurement Data System report, there were 4,941 approved program participants. In FY 1998, active Section 8(a) program participants received 4,276 contracts and 22,036 modifications with an aggregate value of $5.2 billion. Generally, Section 8(a) contracts with estimated values, including all options, of more than $5 million (manufacturing) or $3 million (all other industries) must be competed among eligible Section 8(a) program participants. The vast majority of the contracts awarded under the program, however, have estimated values below these two thresholds and are awarded on a sole-source basis.

Under the **Section 7(j) Management and Technical Assistance Program**, which is housed in the Office of Minority Enterprise Development, SBA provides specialized training, professional consultant assistance, and executive development to certified Section 8(a) firms, socially and economically disadvantaged individuals whose firms are not participants in the Section 8(a) program, low-income individuals, and small businesses located in areas of low income or high unemployment.

There are over $9 billion in Section 8(a) subcontracts currently outstanding and subject to OIG audit, inspection, and investigation oversight activities. These contracts are reflected in other Government agencies' portfolios; therefore, their values are <u>not</u> included in the OIG's $35 billion audit, inspection, and investigation universe.

Summary of OIG Activity / *Minority Enterprise Development*	
Audit Reports Issued	2
Investigations Closed / Remaining Inventory	1 / 21
Investigations: Declinations Due to Name Checks	4
Investigations: Cases Referred to Other Agencies	1
Review of Proposed Regulations	1
Reviews of Other Issuances	13

Efforts to Improve SBA Program Management

Audit Finds Ineligible 8(a) Sole Source IDIQ Contracts Awarded Under GSA's Federal Acquisition Services for Information Technology (FAST) Program

A limited review of 157 sole source Indefinite Delivery/Indefinite Quantity (IDIQ) Section 8(a) contracts awarded by the Federal Telecommunications Service of the General Services Administration, Kansas City, found that GSA should not have awarded, and SBA should not have accepted, the contracts into the Section 8(a) Program. Specifically, **the contracts did not meet Federal Acquisition Regulation requirements for IDIQ contracts, did not comply with SBA's regulations that 8(a) contracts have a requirement, and may have provided a loophole whereby procuring offices could circumvent the competitive requirement by dividing one requirement into multiple contracts**. As of March 2, 1998, the OIG estimated that GSA could potentially place approximately $400 million in orders against the 157 contracts. During the audit, two additional offers were made to SBA's Washington District Office with a cumulative value not to exceed $6 million. After discussions with the auditor, those offers were not accepted into the 8(a) Program.

The report recommended that the Acting Associate Administrator for Minority Enterprise Development (AA/MED) identify any other inappropriately awarded sole source 8(a) IDIQ contracts and develop an agreement with GSA to ensure that no additional orders are placed against such contracts and no options are exercised.

Auditors also recommended that SBA not accept the two additional GSA offerings for sole source 8(a) IDIQ contracts made during the audit. The Acting AA/MED agreed with the majority of the audit's recommendations.

Audit Recommends Improved Criteria for 8(a) Manufacturing Contracts

The OIG completed a Section 8(a) audit of four National Oceanic and Atmospheric Administration contracts classified as manufacturing contracts under Standard Industrial Classification (SIC) code 3571 (Electronic Computers). The audit was conducted to determine if SBA applied the criteria in Title 13, Code of Federal Regulations (CFR) Part 121, Section 406, in determining whether the four contractors were qualified to provide the computer workstations and related equipment as the manufacturers, because the equipment supplied bore the trademarks and logos of large computer manufacturing companies. The audit found that **SBA had not applied the manufacturing criteria**. Further, even if SBA had applied the criteria, the regulations allow for subjective judgments when assessing whether a contractor is a manufacturer, and SBA had not provided any interpretative guidance for applying the regulatory requirements. As a result, SBA manufacturing regulations may have been applied inconsistently or not at all, and there was no assurance that SBA was developing and assisting small business manufacturers as intended by the Section 8(a) program. For example, the audit found that large businesses supplying the basic computer system received the majority of contract funds.

The report recommended that the Associate Deputy Administrator for Government Contracting and Minority Enterprise Development (ADA for GC/MED) provide definitive guidance and definitions to evaluate the manufacturing criteria. The ADA for GC/MED agreed with the recommendation and plans to solicit comments from the business community, particularly businesses in the computer industry.

Proposed Section 8(a) Regulations Reviewed

The OIG reviewed and commented on a draft of proposed final amendments to 13 CFR Parts 121, 124, and 134 that would amend both eligibility requirements for and contractual assistance provisions within the Section 8(a) Business Development (8(a) BD) program. While the OIG endorsed the efforts to streamline the operations of the program and clarify the eligibility requirements, it raised a number of substantive concerns, including the criteria for determining economic disadvantage; the potential for possible abuse by allowing SBA to accept a SIC code for a Section 8(a) firm that is not necessarily the most reasonable; the need for clarification in determining when a company should be graduated; and the need for further criteria for granting a waiver of the sole source ceiling in "the best interests of the Government."

SBA provides assistance to small business owners, managers, and prospective owners through a variety of counseling and training programs housed under its Office of Entrepreneurial Development.

SBA established the **Small Business Development Center** (**SBDC**) program to make management assistance and counseling widely available. SBDCs offer "one-stop" assistance to small businesses by providing a wide variety of information and guidance in easily accessible locations. The program is a partnership between the private sector; the educational community; and Federal, State, and local governments. There are SBDCs in all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, and Guam, with approximately 1,000 subcenters or service locations located at chambers of commerce, economic development corporations, or in downtown storefronts. In FY 1997, SBDCs provided counseling and training to over 605,700 clients.

The **Service Corps of Retired Executives** (**SCORE**) is another of the valuable business development resource partners of SBA. Composed of approximately 12,400 volunteers working in over 700 sites, SCORE provides counseling and training to current or prospective business persons. In addition, this year SCORE began providing assistance by e-mail from their website (www.score.org). On-site sessions are free to the public, and formal training is provided at a low cost. Over 349,000 clients were assisted in FY 1998.

The vast majority of SBA business development and education activities in the areas of training, counseling, and the provision of management information materials occur through outreach efforts with external organizations. Cosponsorship arrangements, authorized under the Small Business Act, play a key part in this process. The Act gives SBA the authority to cosponsor training and counseling activities for small business concerns with non-profit entities and/or with other Federal Government agencies. In addition, the Act authorizes the Agency to cosponsor training, but not counseling, with for-profit concerns.

Business Information Centers (BICs) provide business owners with access to computers, software, databases, and other resources to assist them in starting and expanding their businesses. All BICs have at least one on-site counselor. Centers can address the varied business start-up and growth issues encountered by small business owners and provide access to computer applications and the internet. There are currently 52 BICs in operation.

The **Women's Business Center (WBC)** program provides training and counseling specifically tailored to the needs of the vastly underserved market of women entrepreneurs. This program includes 34 currently funded sites and 35 additional graduated sites that touch nearly every state in the Union. One of the currently funded sites is a virtual WBC (www.onlinewbc.org) that has had more than 1,500,000 hits, representing 100 countries, in just 9 months.

SBA' s 15 **One-Stop Capital Shops (OSCS)** provide centralized access to the full range of a community's small business resources, including entrepreneurial development, access to capital, and procurement of government contracts. The program cuts across and combines a variety of SBA's technical assistance resources. Clients can access small business information resources (through the BIC), receive counseling (from SCORE volunteers) and training (from a local SBDC chapter), learn to develop a business plan or mend damaged credit (from non-governmental resource partners), as well as apply for financing (traditionally with microloan intermediaries). A OSCS is a partnership between the Federal Government, led by SBA, and a local community designed to offer small business assistance from a single, easy to access, retail location.

Beginning in 1997, SBA began an aggressive **Welfare to Work (W2W)** initiative that cuts across SBA's technical assistance programs to increase small business access to hiring new employees. In 1998, using a combination of the SBA toll free number (1-800 U ASK SBA), the SBA webpage (www.sba.gov/welfare) and a local contact in over 70 district-based offices, the SBA W2W initiative works to inform business on the benefits of welfare to work programs and connects them to local contacts. SBDCs, SCORE, and the WBC programs have targeted training and resources to aid the W2W initiative and find effective business solutions involving welfare to work.

Summary of OIG Activity / *Entrepreneurial Development*	
Inspection Reports Issued	1
Reviews of Other Issuances	2

Efforts to Improve SBA Program Management

Inspection Examines SBDC Performance Measurement

The OIG issued an inspection report that assesses performance measurement efforts in the Small Business Development Center (SBDC) program. Because the program is decentralized and involves negotiated agreements between SBA and the SBDCs, the OIG looked at performance measurement from the perspectives of both SBA and the SBDCs. The inspection examined SBA's efforts to gather performance data, the initiatives of the individual SBDCs to track economic impact and customer satisfaction, and outside studies contracted by SBDCs to measure outcomes, including the SBDC Association's national impact study. **The findings provide guidance to SBA and the SBDCs on ways to improve current performance measurement to fulfill internal management needs and**

Government Performance and Results Act requirements.

The review of methods used by SBDCs for reporting on economic impact and customer satisfaction revealed significant inconsistencies not only among the 57 SBDCs, but also within their individual networks of sub-centers. These differences create data integrity problems, and aggregating the impact data for national reporting becomes virtually impossible. The report suggests “best practices” that would promote consistency and ensure that the SBDCs adhere to sound data collection principles.

To maximize the use of existing data sources, SBA has two options for evaluating the SBDC program’s economic impact and customer satisfaction. If SBA decides to continue to use the results of the national impact study sponsored by the SBDC Association, the OIG recommended that SBA (1) validate the study’s methodology and arrange for it to be conducted annually, (2) eliminate current requirements for SBDCs to report impact data directly to SBA, (3) discontinue the existing method of collecting client satisfaction evaluations, and (4) require that a statistical sample of all SBDC clients be sent the customer satisfaction portion of the Association’s national impact survey.

SBA’s second option for evaluating SBDC performance is to aggregate the impact data itself and begin collecting the customer evaluations directly from the individual SBDCs. If SBA chooses this option, the OIG recommended that it (1) require only the data from the SBDCs that it plans to use for measuring program performance, (2) provide guidelines to SBDCs, in consultation with the Association, on how information is to be collected to ensure data integrity, and (3) revise the customer satisfaction questionnaire to ensure that it meets the feedback needs of both the Agency and the SBDCs.

Agency Management and Financial Activities

Agency Management and Financial Activities include SBA's administration of the loan programs, as well as the full range of its internal administration and financial management operations. OIG audit, investigative, and inspection activities assist SBA managers by reviewing their operations for efficiency and effectiveness. The audits of SBA's financial statements, as required by the Chief Financial Officers Act, review the Agency's cash management and integrity assurance activities.

SBA's management and financial activities are supported by the Agency's $716.1 million in operating funds, partially provided by FY 1998 appropriations enacted in P.L. 105-119. Of the $716.1 million available, which includes carry-overs and estimated recoveries, $254.2 million funds Salaries and Expenses, $25 million is for Disaster loan servicing, and $82.7 million is for Disaster loan making. In addition, $275.2 million is available for Business Loans, $23.2 million for Disaster loans, and $3.5 million for the Surety Bond Guarantee program.

Summary of OIG Activity / *Agency Management and Financial*	
Audit Reports Issued	1
Audits Underway	3
Indictments Resulting from Investigations	2
Convictions Resulting from Investigations	3
Investigations Closed / Remaining Inventory	6 / 11
Investigations: Restitutions / Fines / Other Recoveries	$64,929 / $250 / $0
Inspection Reports Issued	1
Inspections Underway	2
Reviews of Proposed Legislation	2
Reviews of Proposed Regulations	3
Reviews of Standard Operating Procedures	11
Reviews of Other Issuances	56

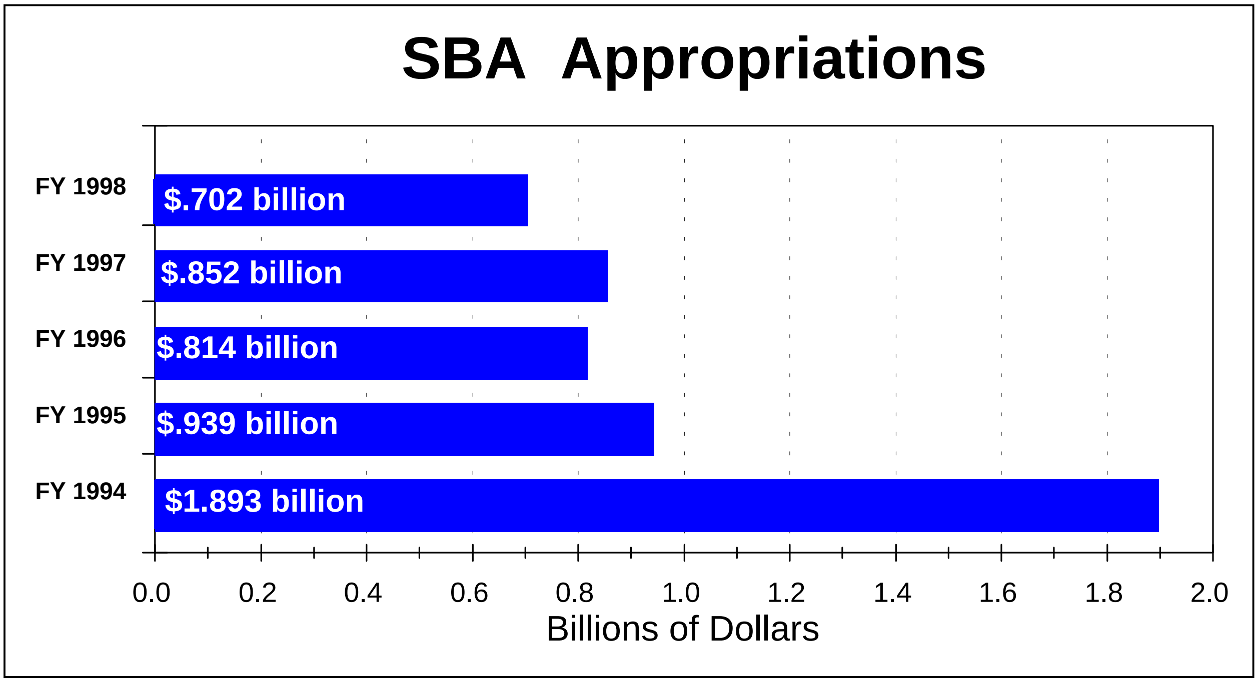

Figure 6

Efforts to Improve SBA Program Management

Inspection Surveys Administrative Officers in Field Offices

The OIG conducted a survey of administrative officers and regional support staff on the effectiveness of communications between SBA headquarters and the field offices on administrative matters. The objective was to determine whether communications problems, including any confusion regarding lines of authority, might be preventing field staff from understanding SBA procedures clearly or from obtaining timely and accurate responses to inquiries to headquarters on administrative matters. **The inspection found that the respective roles of the Offices of Administration, Field Operations, and Chief Financial Officer needed clarification; that some offices should improve the timeliness and accuracy of their responses to queries from field personnel**; that field administrative personnel have developed an internal support network for obtaining answers to questions and keeping informed about issues and procedures affecting their work; and that there is a need for more training.

The OIG recommended that SBA clearly identify points of contact in headquarters who have the expertise, authority, and resources to respond to administrative inquiries from the field. The points of contact could be designated for each of the three headquarters offices or the role could be centralized in one or two positions representing all administrative functions. The OIG also recommended that the designated points of contact be held accountable for responding in a prompt and effective manner. Finally, SBA was urged to develop a structured training program for administrative officers and regional support staff.

Government Waste, Fraud, and Error Reduction Act of 1998 Reviewed

The OIG reviewed two drafts of H.R. 4243, The Government Waste, Fraud, and Error Reduction Act of 1998, which proposes to **reduce waste, fraud, and error in Government programs by improving Federal agency management and debt collection practices, Federal payment systems, and Federal Benefit programs.** The OIG recommended that systems for electronic payments or travel reservations be sufficiently secure to deter fraud, contractors be required to perform background checks on all individuals who would perform debt collection services, and a mechanism be established to allow Federal agencies to obtain information about delinquent debtors from other Federal agencies in a timely manner.

The OIG further recommended that the circumstances or criteria be specified under which the head of a Federal agency could waive the general prohibition against providing a benefit to a delinquent debtor, and that authorization be included to retain a share of all forfeited assets pertaining to high value non-tax debts to support agency law enforcement efforts. The OIG urged that a provision requiring agencies to sell each loan within six months of the loan disbursement be structured so that future efforts to prosecute all types of criminal activity pertaining to those loans would not be hindered. Expansion of the definition of "federal benefit" to ensure that persons with a delinquent outstanding debt would not be eligible for business disaster loans, rental housing assistance, grants, and participation in Federal programs such as the Section 8(a) minority set-aside program was also recommended.

The OIG supported the Administration's plan to seek amendments to modify or delete the provisions that would require OIGs to review all compromises of debt over $1 million and to rate the performance of the agency head in seeking debt collection. The OIG also supported the provisions authorizing tests to improve the verification of applicants' eligibility for Federal benefit and credit programs.

Internal Control Weaknesses in SBA Accounting System

Internal control issues were identified in the management letter for the **audit of SBA's 1997 financial statements**, issued May 20, 1998, by the OIG. SBA officials agreed with the findings and recommendations and, in some instances, had already initiated corrective action. The findings in the management letter were not material enough to require inclusion in the auditors' report on the financial statements. Most of the issues concerned reconciliation problems in cash balance with Treasury, SBIC loan balances, SBDC grant expenditures, and payroll. The management letter also discussed weaknesses in valuation of foreclosed property, deficiencies in documentation, and receipt procedures by Collateral Agent Cashiers.

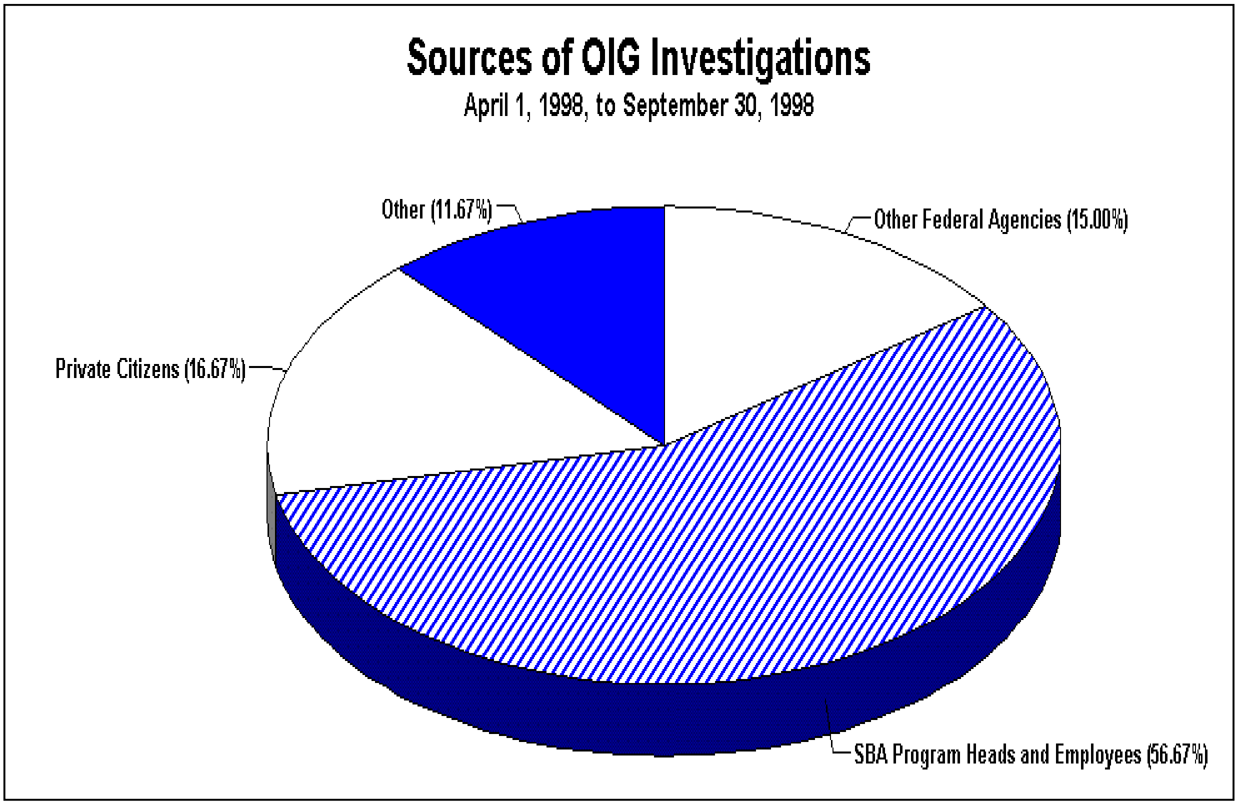

Figure 7

Activities to Enhance Fraud Detection and Deterrence

OIG Conducts Employee Awareness Briefings

In addition to investigating complaints of waste, fraud, and abuse involving SBA programs, the OIG's Investigations Division staff presented five **integrity awareness briefings** to a total of 118 **Agency employees**. The involvement and cooperation of all SBA employees in combating waste, fraud, and abuse is critical to an effective OIG investigations program and to the Agency's overall productivity and efficiency.

During the reporting period, employee contributions to the OIG mission were significant. As Figure 7 shows, nearly 57 percent of all investigative referrals originated from within the Agency in the form of referrals either from program heads or from 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.

SBA's Phoenix District Director Found Guilty of Conspiracy and Bribery

A trial jury found the District Director of SBA's Phoenix District Office guilty on one count of **conspiracy** and two counts of **bribery**. The FBI had conducted an extensive investigation that found the Director and an associate conspired to solicit bribes from a Section 8(a) contractor in a Phoenix suburb. The pair received two $2,500 payments. Following the Director's May 1997 indictment, the OIG was asked to provide assistance in his prosecution by the U.S. Attorney's Office for the District of Arizona.

SBA Job Applicant Sentenced for Making Fraudulent Demand for Wages

A man who had applied for employment with SBA's Office of Financial Operations, Denver, Colorado, was charged with and pled guilty to one misdemeanor count of **making a fraudulent demand** for wages by making false statements in the application he submitted to SBA. He was sentenced to one year probation and a $100 fine. The OIG's investigation determined that, in applying for a Financial Specialist position, the man had failed to disclose five occasions on which he had been arrested and/or imprisoned. In addition, he falsely stated that he had received two Bachelor of Science degrees and a Master's degree and that he was a Certified Public Accountant. He also represented that he had not been fired from a job, when in fact he had been fired by another Government agency for submitting a falsified job application. The OIG initiated the investigation based on a referral from SBA's Office of Human Resources. In the fall of 1997, after the OIG's initial inquiries confirmed that certain statements in his application were false, SBA withdrew the job offer previously made.

Results of Previously Reported Investigations

- A former SBA employee from Van Nuys, California, was sentenced to 15 months imprisonment, 5 years probation, $64,929 restitution to SBA, and a $150 special assessment. He previously pled guilty to two counts of **theft of Government property**.

Organization, Resources, and Management Initiatives

The dual missions of the Office of Inspector General are to help improve management in the Agency and to detect and deter fraud in SBA's programs. Mission goals and objectives are accomplished through the provision of audit, investigation, and inspection and evaluation oversight of the Agency's portfolio, programs, and supporting operations. This chapter provides an overview of the OIG's organizational structure and its personnel and financial resources; it also summarizes key internal management initiatives designed to use available resources as effectively as possible.

Summary of OIG Activity / *Org. Resources & Mgmt. Initiatives*	
Reviews of Proposed Legislation	1

Organization

The SBA/OIG is organized into four divisions as follows:

- Auditing Division
- Investigations Division
- Inspection and Evaluation Division
- Management and Legal Counsel Division

The Auditing and Investigations Divisions each administer their field activities through field offices and resident offices around the country. The Auditing Division has offices located in Atlanta, Chicago, Dallas, Los Angeles, and Washington. The Investigations Division has offices in those cities as well as in Denver, Houston, Kansas City, New York, Philadelphia, San Francisco, Seattle, and Syracuse. The Investigations Division's Office of Security Operations is located in Washington, D.C. Both the Inspection and Evaluation Division and the Management and Legal Counsel Division operate out of Washington, D.C. A current OIG organization chart can be found on the following page.

Resources

In FY 1998, the OIG operated with a funding level of $10 million and an authorized personnel ceiling of 112 full-time equivalent (FTE) positions. At this dollar level, however, the OIG has only been able to fund an average FTE level of 99. While this level of funding represents a modest increase from the number of dollars appropriated in FY 1997, it provides only a **minimal level of oversight** to SBA

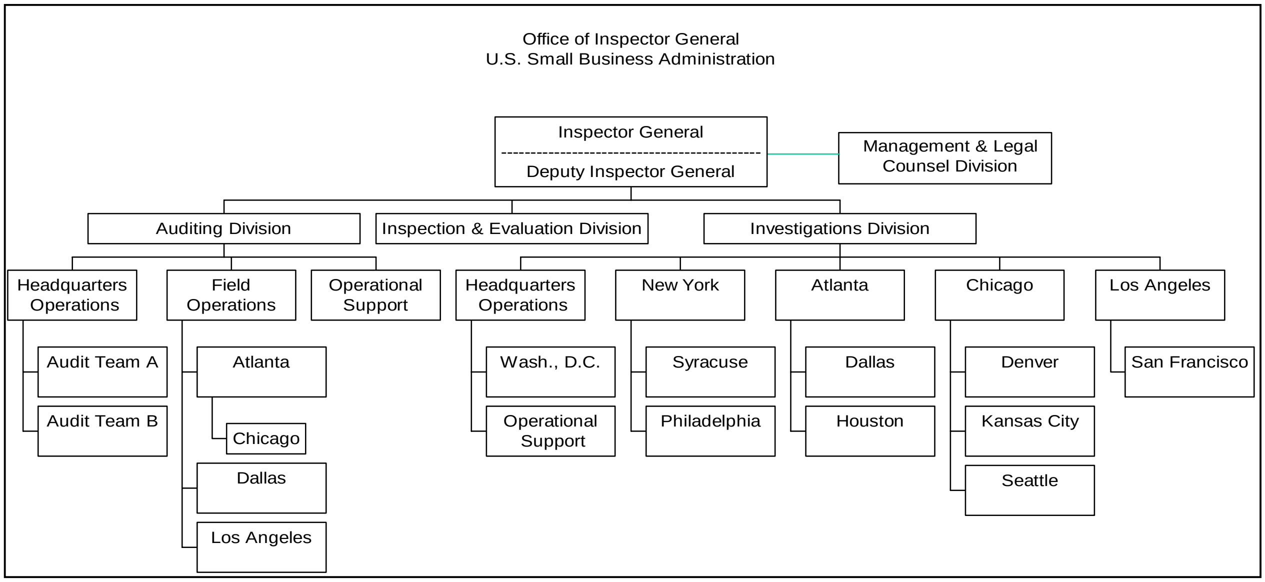

Figure 8

programs and program dollars at risk. Congressionally mandated law enforcement availability pay, annual cost of living increases, and various locality pay adjustments are still not fully funded by the OIG's authorized spending levels.

In FY 1994, the OIG received $3 million in supplemental "no year" disaster funds to be used for activities related to the Agency's expanding disaster assistance program; these funds will remain available until expended. At this time the OIG projects that these no year funds will be completely expended by the middle of FY 1999.

In addition, in both the FY 1997 and 1998 appropriations, the Congress directed the Agency to transfer $500,000 from its disaster assistance account to the OIG for disaster program oversight. With the no year funds and the appropriated funds, the OIG employed 14.7 FTE in FY 1998 for disaster program oversight.

The relatively static level of resources over the past five years remains troubling. As depicted in both Figures 1 and 2 (pages 8 and 20, respectively), the dynamics of the Agency's portfolio, and the concomitant demand for oversight, would suggest that the OIG's resources be increased to ensure an adequate level of program oversight. While the increase in resources from FY 1997 to FY 1998 ($9 million to $10 million) has been helpful, it did not allow the OIG to "catch up" to its expenses after years of chronic underfunding, and still does not allow the OIG to fully address SBA's portfolio and programs. The OIG continues to experience difficulty in carrying out its mandate to provide meaningful oversight of the Agency's programs and supporting activities and to safeguard the Government's investment in SBA's extensive credit programs. As is apparent from the accompanying narrative, some SBA programs received only modest oversight, while others virtually went without oversight.

As the table on page 50 illustrates, the business and disaster loan programs consume most of direct investigation and auditing time - - 85 and 71 percent, respectively. Because these two programs represent the greatest risk of financial loss to the taxpayer, the OIG has made a conscious decision to devote a substantial amount of its limited resources to these programs. As the table also illustrates, however, this results in only minimal or no audit and investigative coverage of other program areas.

For FY 1999, the Congress has appropriated $10.8 million for the OIG and directed a transfer of $500,000 to the OIG for disaster assistance oversight from the Agency's disaster loan account. In addition, the OIG expects to be funded by SBA for 6 FTE for oversight of the Small and Disadvantaged Business program.

Management Initiatives

IG Act Amendments of 1998 Reviewed

In celebration of the 20th anniversary of the Inspector General Act of 1978, the OIG took a look back over the last 20 years and a look into the future to determine what, if any, changes should be recommended to make OIGs more effective in their mission to combat fraud, waste, and abuse. As part of this review, the OIG drafted proposed revisions to the Inspector General Act of 1978 (IG Act). In addition, the OIG reviewed a draft of S. 2167, The Inspector General Act Amendments of 1998. In general, the OIG concurred with the language of this bill; however, the OIG submitted comments on numerous issues and provided recommendations based on the OIG's own proposed revisions of the IG Act. The OIG comments focused on such issues as term appointments and removal only for cause as means to enhance an IG's independence, changing from a semiannual to an annual reporting requirement, consolidating smaller OIGs with larger ones, and providing full law enforcement authority to all establishment OIGs.

The OIG recommended an amendment to provide explicit statutory authority for an Inspection and Evaluation Division as a means of clarifying the important role OIGs play in evaluating program performance to determine whether Administration and Congressional objectives are being attained. The OIG also recommended expanding IG subpoena authority to include the authority to compel testimony to enhance an OIG's ability to successfully pursue civil and administrative remedies, authorizing IGs to submit their budget requests directly to the Congress, and amending the Paperwork Reduction Act (PRA) to exempt OIG surveys from the PRA notice and approval requirements so OIGs can conduct timely reviews of agency performance.

GPRA Implementation at SBA

The OIG is focusing considerable attention on the Government Performance and Results Act (GPRA) and is actively assisting the Agency in its implementation. An Inspection and Evaluation staff member spent the last year on detail at the National Academy of Public Administration assisting in the establishment of a consortium of Federal agencies interested in the effective implementation of GPRA. She continues to organize discussion forums for the consortium on GPRA and other performance-based management initiatives.

In addition to representing the OIG on SBA's GPRA Team, she also serves on an ad hoc interagency group that sponsors a series of dialogues on GPRA issues of common interest to Inspectors General and Chief Financial Officers. The OIG further provides assistance to the Federal Credit Policy Working Group in its efforts to seek common performance measures for Federal credit programs.

Direct Investigation Time by Program Area
April 1, 1998 to September 30, 1998

Program Area	Direct Time %	**Number of Investigations**	
		Closed	In Progress
Business Loans	56%	20	151
Disaster Loans	29%	10	75
SBIC	4%	1	12
Surety Bond Guarantees	1%	0	3
Government Contracting	1%	0	4
Minority Enterprise Development	5%	1	21
Economic Development	*	0	0
Agency Management and Financial	4%	6	11
Total	100%	38	277

Direct Auditing Time by Program Area
April 1, 1998 to September 30, 1998

Program Area	Direct Time %	**Number of Audits**	
		Issued	In Progress
Business Loans	44%	9	6
Disaster Loans	27%	1	2
SBIC	*	0	0
Surety Bond Guarantees	17%	4	4
Government Contracting	*	0	0
Minority Enterprise Development	5%	2	0
Economic Development	1%	0	0
Agency Management and Financial	6%	1	3
Total	100%	17	15

* less than ½ percent

Profile of Operating Results

April 1, 1998 to September 30, 1998

Audit Activities		**Totals**
A.	Reports Issued	17
B.	Audit Recommendations Issued	85
C.	Dollar Value of Costs Questioned	$1,265,098
D.	Dollar Value of Recommendations that Funds Be Put to Better Use	$12,546,236

Audit Follow-Up Activities

A.	Audit Recommendations Closed	59
B.	Disallowed Costs Agreed to by Management	$393,386
C.	Dollar Value of Recommendations That Funds Be Put to Better Use Agreed to by Management	$2,943,296
D.	Unresolved Audit Recommendations	76
E.	Dollar Value of Unresolved Audit Recommendations	$21,945,079

Inspection Activities

A.	Reports Issued	3

Legislation/Regulation/SOP/Other Reviews

A.	Legislation Reviewed	3
B.	Regulations Reviewed	11
C.	Standard Operating Procedures Reviewed	11
D.	Other Issuances Reviewed*	110

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

Status of Investigations as of September 30, 1998

A.	Total Cases	315
B.	Closed Cases	38
C.	Pending Cases	23
D.	Open Cases	254
E.	Subjects Under Investigation	1033

Summary of Indictments and Convictions

A.	Indictments from OIG Cases	37
B.	Convictions from OIG Cases	31

Summary of Recoveries and Reductions of Risk

A.	Potential Recoveries and Fines as a Result of OIG Investigations	$2,843,277
B.	Reductions of Financial Risk as a Result of OIG Investigations	$144,040
C.	Reductions of Financial Risk as a Result of the Name Check Program	$12,380,565

Total: $15,367,882

SBA Personnel Actions Taken as a Result of Investigations

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

Program Actions Taken as a Result of Investigations

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

Summary of OIG Fraud Line Operation

A.	Total Fraud Line Calls/Letters	665
B.	Total Calls/Letters Referred to Offices Outside the OIG	30
C.	Total Calls/Letters Referred to Investigations Division for Evaluation	635

Investigations Activities - Referral Program

A. Cases Referred to FBI 4
B. Referred to Other Agencies (Excluding FBI) 1
C. Indictments from Referrals 0
D. Convictions from Referrals.. 1
E. Potential Recoveries and Fines as a Result of Referral Program $0
F. Reductions of Financial Risk as a Result of Referral Program $0

Office of Inspector General
Actual Personnel on Board as of September 30, 1998

A. Immediate Office	2
B. Auditing Division	41
Professional	36
Support	5
C. Investigations Division	51
Professional	42
Support	9
D. Inspection and Evaluation Division	8
Professional	7
Support	1
E. Management and Legal Counsel Division	8
Professional	6
Support	2
OIG Total	110

FY 1998 Productivity Statistics
Second Six Months

Office-Wide Dollar Accomplishments	**Totals**
A. Potential Investigative Recoveries and Fines	$2,843,277
B. Management Avoidances as Result of Investigations and Name Checks	$12,524,605
C. Disallowed Costs Agreed to by Management	$393,386
D. Recommendations that Funds Be Put to Better Use Agreed to by Management	$2,943,296
Total	$18,704,564

Auditing Division Activities

A. Reports Issued	17
B. Disallowed Costs Agreed to by Management	$393,386
C. Recommendation that Funds Be Put to Better Use Agreed to by Management	$2,943,296

Inspection and Evaluation Division Activities

A. Reports Issued	3

Investigations Division Activities

A. Cases Closed	38
B. Indictments	37
C. Convictions	31
D. Potential Investigative Recoveries and Fines	$2,843,277
E. Management Avoidances	$12,524,605
- Investigation Cases	$144,040
- Name Check Program	$12,380,565

FY 1998 Productivity Statistics
Full Year

Office-Wide Dollar Accomplishments	**Totals**
A. Potential Investigative Recoveries and Fines	$7,707,167
B. Management Avoidances as Result of Investigations and Name Checks	$25,827,235
C. Disallowed Costs Agreed to by Management	$1,449,206
D. Recommendations that Funds Be Put to Better Use Agreed to by Management	$2,955,296
Total	$37,938,904

Auditing Division Activities

A. Reports Issued	28
B. Disallowed Costs Agreed to by Management	$1,449,206
C. Recommendation that Funds Be Put to Better Use Agreed to by Management	$2,955,296

Inspection and Evaluation Division Activities

A. Reports Issued	5

Investigations Division Activities

A. Cases Closed	92
B. Indictments	81
C. Convictions	58
D. Potential Investigative Recoveries and Fines	$7,707,167
E. Management Avoidances	$25,827,235
- Investigation Cases	$289,640
- Name Check Program	$25,537,595

Statutory Reporting Requirements

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

Source		Pages
Section 4(a)(2)	Review of Legislation and Regulations	6 - 45
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	6 - 45
Section 5(a)(2)	Recommendations with Respect to Significant Problems, Abuses, and Deficiencies	6 - 45
Section 5(a)(3)	Prior Significant Recommendations Not Yet Implemented	65
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	6 - 45
Section 5(a)(5) and 6(b)(2)	Summary of Instances Where Information Was Refused	None
Section 5(a)(6)	Listing of Audit Reports	59
Section 5(a)(7)	Summary of Significant Audits	6 - 45
Section 5(a)(8)	Audit Reports Containing Questioned Costs	61
Section 5(a)(9)	Audit Reports Recommending that Funds Be Put to Better Use	62
Section 5(a)(10)	Summary of Reports Where No Management Decision Was Made	64
Section 5(a)(11)	Significant Revised Management Decisions	None
Section 5(a)(12)	Significant Management Decisions with Which OIG Disagreed	None

Table of Appendices

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APPENDIX I

Audit Reports Issued

April 1, 1998, to September 30, 1998

TITLE	NUMBER	ISSUE DATE	QUESTIONED COSTS	FUNDS FOR BETTER USE
Business Loans				
SBLC Financial Statements	87S001013	4/28/98		
7(a) Loan Processing – Atlanta DO	87F019014	5/13/98		$2,227,909
7(a) Loan Processing – Buffalo DO	87F021018	7/8/98		$ 625,465
Emergent Business Capital	87F013020	7/13/98	$189,400	
IRS Verification Requirements	87F018021	7/13/98		
7(a) Loan Processing – New Jersey DO	88F003019	7/13/98		$ 549,250
7(a) Loan Processing – Madison DO	87F020022	7/22/98		$1,260,576
Arkansas Capital Corporation	86F008023	7/31/98		$ 420,000
7(a) Loan Processing – Los Angeles DO	88F002028	9/30/98		$ 528,150
Program sub-total:	9 audits		$189,400	$5,611,350
Disaster Loans				
Declined Disaster Loans	86F005016	6/3/98	$0	$0
Program sub-total:	1 audit		$0	$0
Surety Bond Guarantees				
AMWEST Surety Insurance Company	88H003012	4/23/98	$ 502,700	$ 934,886
Reliance Surety Company	88H07024	9/29/98	$ 10,156	
SBG Fee Refunds	88H004027	9/30/98	$ 87,325	
Safeco/First National Surety	88H009026	9/30/98	$ 475,517	
Program sub-total:	4 audits		$1,075,698	$ 934,886

Minority Enterprise Development				
GSA Kansas City 8(A) Sole Source IDIQ Contracts	88H006025	9/29/98		$6,000,000
NOAA Computer Contracts	87H002017	6/18/98		
Program sub-total:	2 audits		$0	$6,000,000
Agency Management and Financial Activities				
SBA's FY '97 Financial Statements – Management Letter	87H008015	5/20/98		
Program sub-total:	1 audit		$0	$0

TOTALS (all programs)	**Reports: 17**		**$1,265,098**	**$12,546,236**

APPENDIX II - Part A
Audit Reports with Questioned Costs
April 1, 1998, to September 30, 1998

		REPORTS	RECs**	COSTS***	
				QUESTIONED	UNSUPPORTED
A.	For which no management decision had been made by March 31, 1998	3	4	$2,235,264*	$781,461
B.	Which were issued during the period	5	11	$1,265,098	$109,314
	Subtotals (A + B)	8	15	$3,500,362	$890,775
C.	For which a management decision was made during the reporting period	1	6	$502,700	$109,314
	(i) Disallowed costs		5	$393,386	$0
	(a) Due SBA			$393,386	$0
	(b) Due program participant			$0	$0
	(ii) Costs not disallowed	1	1	$0	$109,314
D.	For which no management decision had been made by September 30, 1998	7	9	$2,997,662	$781,461

* Beginning balance corrected to reflect prior period adjustment.
** Recommendations.
*** Questioned costs are those which are found to be improper, whereas unsupported costs may be proper but lack documentation.

APPENDIX II - Part B

Audit Reports with Recommendations that Funds Be Put to Better Use
October 1, 1998, to March 31, 1998

		REPORTS	RECs*	RECOMMENDED FUNDS FOR BETTER USE
A.	For which no management decision had been made by September 30, 1998	14	29	$18,947,417
B.	Which were issued during the period	2	2	$270,458
	Subtotals (A + B)	16	31	$19,217,875
C.	For which a management decision was made during the reporting period	7	11	$2,020,500
	(I) Recommendations agreed to by SBA management	6	6	$1,848,428***
	(ii) Recommendations not agreed to by SBA management	2	2	$331,250
D.	For which no management decision had been made by March 31, 1999	11**	20	$17,197,375

* Recommendations.

** The recommendations resolved did not address all the recommendations within the reports where they appeared.

*** Management agreed to $159,178 more than recommended

APPENDIX II - Part C
Audits Reports with Non-Monetary Recommendations
April 1, 1998, to September 30, 1998

		REPORTS	RECOMMENDATIONS
A.	For which no management decision had been made by March 31, 1998	13	39
B.	Which were issued during the period	8	28
	Subtotals (A + B)	26	67
C.	For which a management decision was made (for at least one recommendation in the report) during the reporting period	16	41
D.	For which no management decision (for at least one recommendation in the report) had been made by September 30, 1998	14**	26

* Beginning balance corrected to reflect prior period adjustment
**The recommendations resolved did not address all the recommendations within the reports where they appeared.

APPENDIX II - Part D
Audit Reports with Overdue Management Decisions
September 30, 1998

Auditee	Report Number	Date Issue	Status
Business Loan Center	65F002019	9/20/96	One of five recommendations under negotiation with Office of Financial Assistance
LowDoc Loan Program	65E002022	9/30/96	Two of five recommendations under negotiation with Office of Financial Assistance
Grant Proposal, WVHTCF	77H001014	4/25/97	Under review by Office of Procurement and Grants Management. OPGM waiting DCAA report
Defaulted Loan, Eastside Bank	77F002016	6/30/97	Under review by District Office
LowDoc Loan Program – Atlanta	77F006017	7/7/97	Recommendations continue under review by the District Office
LowDoc Loan Program – Santa Ana DO	77F009020	7/8/97	Two recommendations remain under review by District Office
LowDoc Loan Program – Dallas	77F008022	7/31/97	Three of five recommendations under negotiation with District Office
Business Loan Guarantee Purchases	75H011026	9/30/97	Three of seven recommendations under negotiation
First National Bank of Coffee County	87F006001	10/31/97	Two recommendations under review by District Office
The LowDoc Loan Program Summary	87F005002	11/24/97	Two recommendations under review by the Office of Financial Assistance
Loan Liquidation	85F003009	2/27/98	One recommendation under review by the Office of Financial Assistance

APPENDIX II – Part E
Significant Audit Reports Described in Prior Semiannual Reports Without Final Action as of September 30, 1998

REPORT NUMBER	TITLE	DATE ISSUED	DATE OF MANAGEMENT DECISION ON RECOMMEN-DATION	FINAL ACTION TARGET FOR IMPLE-MENTATION
5-3-H-004-006	SBA Loan Servicing and Debt Collection Activities	3/31/95	4/30/95	9/30/98
5-3-E-010-021	8(a) Competitive Mix	9/29/95	3/29/96	3/29/97
6-6-H-002-011	GeoDemographics, Ltd.	3/29/96	9/30/96	4/01/98
65F002019	Business Loan Center	9/20/96	*	*
6-5-E-001-021	Basic Ordering Agreements	9/25/96	2/10/97	9/25/97
6-5-E-002-022	Low Documentation Loan Program	9/30/96	3/31/97	6/30/97
6-6-H-003-023	Virginia SBDC	9/30/96	5/12/97	1/1/98
7-4-E-001-009	Early Default of Guaranteed Loans	2/18/97	10/14/97	12/31/97
7-7-H-001-011	Grant Closeout Procedures	3/26/97	10/20/97	10/20/98
7-6-H-006-015	FY 1996 Financial Statements	4/29/97	9/30/97	4/30/98
7-7-S-918-018	User Technology Associates Inc.	6/06/97	3/26/98	6/05/98
7-7-F-002016	Defaulted Loan, Eastside Bank	6/30/97	*	*
7-5-F-002-019	CAIVRS	7/07/97	9/30/97	12/31/97
7-7-F-006-017	LowDoc Program – Atlanta DO	7/7/97	*	*
7-7-F-009020	LowDoc Loan Program – Santa Ana DO	7/8/97	*	*
7-7-F-007-021	LowDoc Loan Program – Washington DO	7/18/97	11/06/97	12/31/97
7-7-F-008-022	LowDoc Loan Program – Dallas DO	7/31/97	*	*
7-6-F-003-023	Approval of Disaster Home Loans	9/04/97	3/17/98	9/30/98
7-5-H-011-026	Business Loan Guarantee Purchases	9/30/97	*	*

8-7-F-006-001	First National Bank of Coffee County, GA	10/31/97	*	*
8-F-005-002	The LowDoc Loan Program Summary Report	11/24/97	*	*
8-5-F-003-009	Loan Liquidation	2/27/98	*	*
8-7-H-008-010	SBA's FY 1997 Financial Statements	2/28/97	6/5/98	2/28/99
8-7-H-003-011	Disbursement Processing – C&W Schedules	3/11/98	7/16/98	9/30/98

* A management decision has not been made on all recommendations in the audit report.