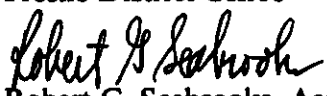




US SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
Washington, DC 20416

MEMORANDUM AUDIT REPORT
Issue Date: June 27, 2000
Report Number: 0-18

To: Antonio Valdez, District Director
Fresno District Office

From: 
Robert G. Seabrooks, Assistant Inspector General
for Auditing

Subject: Audit of an Early Defaulted Loan to
Volumetrics, Inc.

Attached is a copy of the subject audit report. The audit identified no instances of noncompliance by the lender or borrower that contributed to the early default. Should you or your staff have any questions, please contact Garry Duncan at 202-205-7732.

Attachment

cc: AA/Office of Financial Assistance
AA/Office of Field Operations

**AUDIT OF AN EARLY DEFAULTED LOAN TO
VOLUMETRICS, INC.**

AUDIT REPORT NO. 0-18

June 27, 2000

The finding in this report is the conclusion of the OIG's Auditing Division based on testing of the auditee's operations. The finding and recommendations are subject to review, management decision, and corrective action in accordance with existing Agency procedures for follow-up and resolution. This report may contain proprietary information subject to the provisions of 18 USC 1905 and must not be released to the public or another agency without permission of the Office of Inspector General.

BACKGROUND

The Small Business Administration (SBA) is authorized under section 7(a) of the Small Business Act to provide financial assistance to small businesses in the form of government guaranteed loans. SBA guaranteed loans are made by participating lenders under an agreement (SBA Form 750) to originate, service, and liquidate loans in accordance with Administration rules and regulations.

In April 1997 the Money Store Investment Corporation (lender) approved loan number [Ex. 4] to Volumetrics Inc. (borrower) under Preferred Lenders Program (PLP) procedures. The loan was made to refinance a note held by a second lender, [Ex. 4] and for the purchase of [Ex. 4] California. The borrower defaulted in [Ex. 4] [Ex. 4] and filed for bankruptcy in November of the same year. SBA paid \$781,623, including interest, to purchase the loan guarantee.

AUDIT SCOPE AND OBJECTIVE

This report provides the conclusions of an audit of the Volumetrics loan. The loan was judgmentally selected for review as part of the Office of Inspector General's ongoing program to audit SBA loans charged off or transferred to liquidation within 36 months of origination (early default).

The audit objective was to determine if the early loan default was caused by lender or borrower noncompliance with SBA's requirements. The SBA and lender loan files were reviewed and district office and lender personnel were interviewed. The borrower's financial and bankruptcy records were analyzed. The fieldwork was accomplished between July through September 1999. The audit was conducted in accordance with Government Auditing Standards.

RESULTS OF AUDIT

The audit showed that the loan was processed, closed, and disbursed in compliance with the loan agreement and SBA's requirements. Based on interviews and documentation in the loan file, we concluded the loan defaulted due to a lack of adequate sales volume that led to bankruptcy.

FOIA EX. 4