



Office of Inspector General U.S. Small Business Administration

November 2008 Update

Agency Management

Audit of SBA's FY 2008 Financial Statements. On November 14, 2008, pursuant to the Chief Financial Officers Act of 1990, the *Independent Auditors' Report* and accompanying reports on internal control and compliance with laws and regulations were issued for the fiscal year ending September 30, 2008. The audit, which was performed by KPMG LLP under a contract with the OIG, found that SBA's consolidated financial statements presented fairly, in all material respects, the financial position of SBA as of and for the years ended September 30, 2008 and 2007. The financial statements also presented fairly, in all material respects, SBA's net costs, changes in net position, budgetary resources, and combined statements of budgetary resources for the years then ended. With respect to internal control over financial reporting, the independent auditors continued to report a significant deficiency related to information technology (IT) controls, but did not consider the deficiency to be a material weakness. KPMG noted that SBA made progress in several areas in its efforts to address prior year IT internal control deficiencies; however, despite these improvements, deficiencies continue to exist for security access controls, software program changes, and end-user computing. The Agency concurred with the independent auditor's findings and agreed to implement the recommendations.

Business Loan Programs

Results of Ongoing Investigation. The following cases are part of an ongoing investigation, being conducted jointly with the U.S. Secret Service (USSS), relating to a scheme in which a non-bank lender's former executive vice president and others not employed by the lender conspired to fraudulently qualify loan applicants for SBA-guaranteed loans.

- On November 13, 2008, the former executive vice president in charge of the lender's Troy, Michigan, office was sentenced to 120 months incarceration

and 2 years supervised release, and was ordered to pay restitution of \$30,000,000 to the lender, \$2,944,904 to a bank, and \$800,059 to SBA. He previously pled guilty to one count of conspiracy to defraud the SBA and one count of lying to a federal grand jury. The investigation determined that the former executive vice president and others conspired to fraudulently qualify loan applicants for SBA guaranteed loans, primarily for the purchase of gas stations. At least 89 fraudulent loans, totaling approximately \$85,000,000, were issued through the lender's office in Troy, Michigan. The projected loss to the SBA and its lenders was determined to be approximately \$34,000,000. To date, 36 individuals have been indicted or otherwise charged in this investigation. Seventeen individuals have been convicted and sentenced, and others await resolution of their cases.

- On November 5, 2008, a former employee of a Dearborn, Michigan, bank was sentenced to 9 months home confinement and 5 years probation. She previously pled guilty to a criminal information charging her with misapplication of bank funds for issuing a \$1,680,000 cashier's check based on a non-sufficient funds credit card check written by a bank customer. The investigation determined that the unfunded cashier's check was used by a Michigan man and his co-conspirators to close on the purchase of a Bloomfield, Michigan, house with the intent to promptly resell or "flip" the property to a straw buyer.

Business President Pleads Guilty. On October 31, 2008, the president of a slaughtering business located in San Angelo, Texas, pled guilty to four counts of wire fraud & aiding and abetting and two counts of making a false statement to a bank & aiding and abetting. Between 2002 and 2005, he received

\$1,236,500 in SBA-guaranteed loans and an additional \$1,812,000 in non-SBA loans. He used materially false and fraudulent representations and documents to convince numerous lenders that he had sufficient collateral and income to repay the amounts borrowed. The OIG is conducting this investigation jointly with the Federal Bureau of Investigation (FBI).

Disaster Loan Program

Louisiana Man Sentenced. On November 13, 2008, a resident of Metairie, Louisiana, was sentenced to 4 months in prison, 4 months home confinement, restitution to the SBA of \$69,100, and a \$400 special assessment fee. The investigation disclosed that he submitted fraudulent documents in order to secure a total of \$69,100 in SBA Disaster Loans. He transmitted facsimiles of altered building permits in order to induce SBA to release funds on a \$19,500 disaster home loan and a \$49,600 disaster business loan. The investigation revealed that the building permits were for work performed prior to Hurricane Katrina. In addition, he kept insurance proceeds assigned to the SBA and used loan proceeds to purchase a new home, car, and boat. This case was initiated based on an anonymous complaint through the OIG Hotline.

Government Contracting and Business Development

Maryland Man Sentenced. On November 10, 2008, a Maryland man was sentenced to 18 months in prison, 3 years supervised release, a \$400,000 fine, restitution of \$300,000 to a demolition and asbestos company (a Maryland corporation), and a \$200 special assessment fee. He previously pled guilty to one count of conspiracy to defraud the SBA and one count of money laundering conspiracy. In addition, on November 12, 2008, the Maryland corporation was sentenced to 3 years supervised release, a \$75,000 fine and a \$400 special assessment fee. The corporation previously pled guilty to one count of conspiracy to defraud the SBA. The man, a non-disadvantaged individual, conspired with the company and others to violate SBA requirements related to control and ownership of 8(a) firms by failing to disclose critical bonding, financial support, and control that he provided to the company and two other 8(a) firms.

The company, in order to maintain its 8(a) eligibility, concealed the fact that non-disadvantaged individuals exercised significant control over the contracts bid upon and the selection and payment of the company's subcontractors.

On November 6, 2008, the SBA's Office of Business Development suspended the company from further participation in the SBA 8(a) Business Development Program, and on November 14, 2008, SBA's Office of General Counsel suspended the company and its owner from participating in any federal procurement or non-procurement programs or activities. The OIG is conducting this investigation jointly with the Environment Protection Agency/Criminal Investigative Division, the Naval Criminal Investigative Service, the Internal Revenue Service/Criminal Investigative Division, and the FBI.

This monthly update is produced by the SBA OIG, Peter L. McClintock, Acting Inspector General.

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