



Office of Inspector General U.S. Small Business Administration

December 2005 Update

Agency Management

Audit of SBA's Information System Controls for Fiscal Year (FY) 2005. On December 22, 2005, the OIG issued an audit report on SBA's Information System Controls for FY 2005. As part of their audit of SBA's financial statements, the OIG's external auditors reviewed general and application controls over SBA's information systems in accordance with the Federal Information System Controls Audit Manual (FISCAM) issued by the Government Accountability Office (GAO). Two issues reported in prior years' reports continued to be reportable conditions for SBA's FY 2005 financial statements.

- SBA's IT Security Program continued to lack sufficient resources to enable the Office of the Chief Information Officer (OCIO) to meet its responsibilities under the Clinger Cohen Act, the Federal Information Security Management Act (FISMA), and Office of Management and Budget (OMB) Circulars A-50, A-127, and A-130.
- The OCIO did not ensure that control weaknesses identified in certification and accreditation (C&A) reviews and audit reports were resolved in a timely manner, and that senior management was provided with information regarding progress toward implementing corrective actions in a timely manner.

Several new issues were also reported.

- SBA's IT Security Program did not ensure that all newly hired personnel completed IT security training before being granted access to SBA systems.

- SBA needed to centralize the administration of network accounts and assign responsibility for the review and removal of terminated employees or inactive accounts.
- SBA needed to document and retain reviews of Disaster Credit Management System (DCMS) database and application logs so that potential security violations could be investigated.
- SBA's needed to reduce the number of DCMS Super Users based upon the concept of least privilege.

The OIG made six recommendations to correct the identified deficiencies. The Acting Chief Information Officer (CIO) generally agreed with three findings and recommendations addressed to him. He did not agree with one recommendation. The Assistant Administrator for Disaster Assistance agreed with two findings and recommendations addressed to him.

Agency Completes Final Actions on Three Recommendations Made in Audit Report on

Consolidation of SBA Systems. The Agency reported that it has taken the following recommended actions: 1) designated the computerized hardware, firmware, and software supporting the Denver Finance Center's Data Service System as a general support system, and carried forward related risks reported in the C&A review; 2) performed a new C&A on the Washington Data Center (WDC) Application Services general support system; and 3) consolidated risks identified in the Sybase servers C&A with the new WDC Application Services general support system C&A. These actions considered guidance contained in the National Institutes of Standards and Technology (NIST) Special Publication 800-37, *Guide for the Security Certification and Accreditation of Federal Information Systems*. This completes three of the five open recommendations for this report.

Agency Completes Final Actions on Two Recommendations Made in the FY 2004 Financial Statements Audit Report. The Agency reported that it completed the following final actions: 1) developed new, and enhanced existing quality assurance procedures over financial management and reporting, and 2) assigned human resources and provided training to ensure that SBA's financial statements were accurate, complete, and in conformance with Federal accounting standards and principles. These improvements were specifically noted by the external auditor in the FY 2005 financial statement audit report. All recommendations from this report have now been completed.

Agency Completes Final Action on Recommendation Made in the FY 2004 Financial Statements Audit Management Letter. The Agency reported that the following action has been completed. The Agency enhanced its quality assurance procedures over the FY 2005 Performance and Accountability Report (PAR). Office of the Chief Financial Officer (OCFO) staff in Washington, DC and Denver, Colorado, reviewed the PAR and compared the financial and non-financial information to assure consistency with the final audited financial statements. Three other recommendations made in the audit report remain open.

Business Loan Programs

Audit of SBA Supplemental Terrorist Activity Relief (STAR) Loan Program. On December 23, 2005, the OIG issued an audit report on SBA's administration of the Supplemental Terrorist Activity Relief (STAR) loan program. The audit found that lender files for most of the STAR loans in the OIG's statistical sample did not contain sufficient information to demonstrate that borrowers were adversely affected by the September 11th terrorist attacks and their aftermath. As a result, eligibility could not be determined for 85 percent of the STAR loans reviewed.

Due to limited lender participation in the STAR loan program, SBA undertook efforts to promote the program by advising lenders that virtually any small business qualified and assuring them that SBA would not second guess their justifications. Although SBA established criteria for documenting STAR loan eligibility, the Agency did not establish specific

requirements to review or verify STAR justifications. Despite the documentation requirements, we found that most lenders did not include justifications that sufficiently showed the impact of the terrorist attacks on borrowers. Consequently, STAR loans may have gone to businesses that were not adversely impacted by the terrorist attacks of September 11th and their aftermath. Nevertheless, it appears that qualified borrowers were not precluded from receiving STAR loans due to a lack of funds because there was a surplus of budget authority available when the program expired.

The report included three recommendations to ensure that proper controls are implemented to improve any future special 7(a) loan programs designed to provide nationwide relief to victims of disasters. Four additional recommendations related to the Agency's procedures for handling purchase requests on STAR loans. SBA agreed with all of the recommendations, but took exception to some of the specific conclusions in the report.

Former Owner of Market Sentenced. The former owner of a market located in Castaic, California, was sentenced on November 28, 2005, to 12 months and one day in prison, a \$10,000 fine, restitution of \$197,000, and five years supervised probation following his release from prison. After his indictment in June 2000, he became a fugitive and was apprehended in 2002, in Las Vegas, Nevada. Pursuant to a plea agreement, he subsequently pled guilty to two counts of making false statements to a federally insured financial institution. The original investigation, which was conducted jointly with the Federal Bureau of Investigation (FBI), disclosed that the individual submitted altered Federal income tax returns to a bank as part of his loan application for an SBA-guaranteed loan in the amount of \$1 million. Subsequent investigation disclosed that he also submitted altered Federal income tax returns to another bank in order to obtain a home loan in the amount of \$580,000. Neither of the tax returns submitted to the financial institutions matched the tax returns filed with the Internal Revenue Service.

President of a Pager and Telephone Service Convicted. On December 8, 2005, the president of a pager and cellular telephone retailer in Memphis, Tennessee, was convicted by a jury on one count of bank fraud and one count of aiding and abetting. The SBA borrower was convicted for having induced a Tennessee bank and SBA to fund a \$100,000 SBA-guaranteed loan by submitting documents that inaccurately represented the

selling price of the business and the value of the equipment to be purchased. The seller then refunded to the defendant the difference between the actual price of the business and the reported price. This case was based on a referral from SBA's Tennessee District Office.

Officers of a Gas Station and Convenience Store Indicted. The president and secretary of a gas station and convenience store in Detroit, Michigan, were charged on December 20, 2005, in a superseding indictment, with making false statements to SBA and its lender. The indictment alleges that the two falsely represented that they had made an equity injection of \$130,000, in order to obtain a \$1,175,000 SBA-guaranteed loan. The president was indicted on October 6, 2005, for falsely claiming to be a U.S. citizen. The OIG is conducting this continuing investigation jointly with the Department of Homeland Security, Immigration and Customs Enforcement.

Loan Broker Sentenced. On December 15, 2005, a loan broker who recruited borrowers in Houston, Texas, was sentenced to 41 months incarceration, 3 years probation, and ordered to pay \$8,884,253 restitution, jointly and severally, with four other co-conspirators. The loan broker was previously charged in an 11-count indictment with bank fraud, conspiracy to commit bank fraud, and money laundering. He was found guilty of all charges during a jury trial in March 2005. The investigation involved a conspiracy to falsely obtain nine SBA-guaranteed loans totaling, \$9,500,000, for convenience stores. SBA's guaranteed portion was \$6,566,233. This case was referred by an SBA lender. The OIG is conducting this continuing investigation jointly with the FBI.

Former Day Care Owners Debarred. On December 8, 2005, SBA's Associate Administrator for Lender Oversight debarred two former owners and officers of a day care center in Missouri from participating in Federal programs or procurement transactions for a period of 3 years. These debarments were based on the results of an OIG investigation which determined that the two individuals falsified their required equity injection of \$75,000 in order to obtain a \$311,000 SBA-guaranteed loan. This investigation was initiated based on a referral from SBA's Kansas City District Office.

Agency Completes Final Action on Remaining Recommendation in Defaulted Franchise Loans Report. The OIG's report found that potential borrowers and lenders could be misled by information on SBA's website which suggested that franchise borrowers performed better than non-franchise borrowers. The Agency reported that it removed references from the SBA website regarding better performance by franchise loans. This completes all of the open recommendations from this report.

Statutory/Regulatory/Policy Reviews

In effort to proactively identify and correct potential Agency inefficiency and management problems at the onset of policy and regulatory development, the OIG reviewed, cleared, and/or provided comments, as appropriate, on 4 Agency initiatives, including proposed legislation, Agency Standard Operating Procedures, and Agency notices containing directives to its employees.

This monthly update is produced by the SBA OIG,
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The OIG has established an e-mail address (oig@sba.gov) that we encourage the public to use to communicate with our office. We welcome your comments concerning this update or other OIG publications. To obtain copies of these documents please contact:

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