



Office of Inspector General U.S. Small Business Administration

October 2006 Update

Disaster Loan Program

Texas Resident Indicted for False Disaster Claim. On October 26, 2006, a Texas resident was indicted on one count of filing a false claim for Federal Emergency Management Agency (FEMA) benefits, claiming loss as a result of Hurricane Katrina. She falsely claimed to have resided in New Orleans, Louisiana, at the time Hurricane Katrina made landfall, when she was actually residing in the Houston, Texas area. As a result of this false claim, she received \$2,000 in cash benefits and a FEMA funded housing benefit in the form of rent and utility payments for an apartment. This false claim also caused her to be eligible for a Small Business Administration (SBA) loan and to receive a loan application. The indictment was a result of a joint proactive investigation involving members of the Department of Justice's Hurricane Katrina Fraud Task Force. The task force is targeting individuals who make false claims for government benefits relating to the 2005 Gulf Coast hurricanes and includes the SBA Office of the Inspector General (OIG); Department of Homeland Security OIG; Social Security Administration OIG; U.S. Postal Inspection Service; Department of Labor OIG; and Housing and Urban Development OIG.

Business Loan Programs

OIG Issues Report on Audit of SBA-Guarantied Loan. During an ongoing audit of the guaranty purchase process at SBA's National Guaranty Purchase Center, we identified a problematic loan to a truck accessory company. The loan authorization required the lender to document that the borrower used the loan proceeds for the purposes provided in the authorization. It also required the lender to complete SBA Form 1050, *Settlement Sheet*, for each disbursement and retain documentation supporting the disbursement of proceeds as authorized, such as joint payee checks or

evidence of deposit into controlled accounts. The lender disbursed the loan proceeds directly to the borrower, and when the loan defaulted, the lender was not able to provide adequate documentation to substantiate the use of \$358,071 in loan proceeds. The lender did not use joint payee checks or provide copies of paid receipts, vendor invoices, or other documentation to substantiate that proceeds were used to purchase inventory. The deficiency was not detected during the guaranty purchase process. As a result, SBA made a \$256,933 improper payment when it honored the guaranty. On October 23, 2006, the OIG issued a report in which we recommended that SBA seek recovery of the \$256,933 paid the lender when it purchased the guaranty. The lender and SBA's Office of Financial Assistance agreed with the finding and recommendation.

Texas Business Owner Debarred. On October 19, 2006, the owner of two restaurants in Austin, Texas, was barred from participating in Federal financial and non-financial assistance programs, representing participants in such programs, and participating in Federal procurement transactions, for a period of 3 years. This debarment was based on his previous guilty plea to 3 counts of bank fraud, 3 counts of submitting false statements to a financial institution, and 1 count of money laundering, for fraudulently obtaining two SBA-guarantied loans and a line of credit totaling \$1,078,500. He inflated personal property values and net worth in order to influence the financial institutions to approve the loans and line of credit. He then utilized financial proceeds from the loans for personal expenses. This case was referred by the OIG by the San Antonio District Office. The OIG conducted this joint investigation with the Federal Bureau of Investigation (FBI) and the Internal Revenue Service.

New Jersey Businessman Pleads Guilty. On October 12, 2006, the former secretary of a now-defunct seafood wholesaler in Newark, New Jersey, pled guilty to one count of misprision of a felony for assisting the company in obtaining an SBA-guarantied line of credit from an

SBA lender. The company obtained a letter of credit from the lender in order to enable it to purchase seafood in America to export to Asia. The terms of the financing required the company to purchase American products, if possible. The former secretary submitted five fraudulent invoices to the lender, purportedly from two American suppliers, inducing the lender to lend the company \$219,504 from the line of credit. The company paid back approximately \$75,885 and defaulted on the remaining balance of \$143,619. Two co-conspirators have also been charged in this case. The former secretary agreed to make full restitution as part of his plea agreement. This case was originally referred to the OIG by the New Jersey District Office.

Pennsylvania Business Manager Pleads Guilty. On October 3, 2006, the business manager of a now-defunct Philadelphia, Pennsylvania, supermarket store pled guilty to one count of wire fraud and aiding and abetting. He obtained a 75 percent SBA-guaranteed loan in the amount of \$993,000 from a lender to assist his business in purchasing another company that belonged to his mother. In support of the loan application, he provided forged power of attorney documents to improperly pledge collateral not belonging to him. He also submitted false documentation showing that he provided a \$250,000 cash injection into the business. The wire fraud count related to his knowledge that the SBA-guaranteed loan proceeds disbursed by the lender to its closing attorney were not being used to purchase the company as stated in the loan documents. The OIG conducted this joint investigation with the FBI.

Agency Completes Final Action on Recommendation Made in Audit of 504 Program Oversight (Report 3-10). The Agency reported that it completed the following final action. The Administrator approved a Standard Operating Procedure (SOP) for a risk-based review process of Certified Development Companies on September 28, 2006. All recommendations contained in the report have been completed.

Agency Completes Final Action on Recommendation Made in Audit of an SBA Guaranteed Loan (Report 4-29). The Agency reported that it completed the following final action. The Office of General Counsel (OGC) issued a legal opinion which concluded that SBA, absent fraud or new facts, could not legally pursue the lender for overpayment due to the previous

settlement by the SBA District Office. No recommendations contained in the report remain open.

Government Contracting and Business Development

Agency Completes Final Action on Recommendation Made in Audit Report - Concerns Related to a Company's Compliance With 8(a) Business Development Program Requirements (Report 06-27). The OIG recommended that the SBA District Director initiate termination proceedings and immediately suspend the company from the 8(a) program. The District Office investigated the company's performance on past 8(a) contracts and, as a result, decided to proceed with suspension and termination from the 8(a) program. No recommendations contained in the audit report remain open.

Agency Management

Agency Completes Final Action on Recommendation Made in Audit of SBA's Information Systems Controls for FY 2003 (Report 04-19). The Agency reported that it completed the following final action. The Office of the Chief Operating Officer conducted individual Business Impact Analyses on its 19 major information technology (IT) systems during FY 2006. The results of the analyses were summarized and a priority listing of IT systems in support of the Continuity of Operations Plan (COOP) were identified in a September 26, 2006, memorandum issued to SBA employees. Nine recommendations contained in the audit report remain open.

Agency Completes Final Action on Recommendation Made in Audit Report - Independent Evaluation of SBA's Security Program for FY 2004 (Report 05-02). The OIG recommended that the SBA's Chief Information Officer ensure that the system and program level SBA Plan of Action and Milestones (POA&M) tie or reconcile resources needed to correct system vulnerabilities to the SBA Capital Asset Plan and Exhibit 53. However, the Office of Management and Budget no longer requests that the OIG confirm that the POA&M reconciles to the Capital Asset Plan and Exhibit 53. No recommendations contained in the audit report remain open.

Statutory/Regulatory/Policy Reviews

In an 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 six Agency initiatives, including proposed legislation, Agency Standard Operating Procedures, and Agency notices containing directives to its employees.

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