

# U.S. Small Business Administration Office of Inspector General

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## Semiannual Report to Congress Fall 2008



April 1, 2008 – September 30, 2008

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# Inspector General Act Statutory Reporting Requirements

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

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Section 4(a)(2)	Review of Legislation and Regulations	20
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	3-21
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Section 5(a)(4)	Matters Referred to Prosecutive Authorities	45-53
Sections 5(a)(5) and 6(b)(2)	Summary of Instances Where Information Was Refused	None
Section 5(a)(6)	Listing of OIG Reports	26
Section 5(a)(7)	Summary of Significant Audits & Other Reports	3-20
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Section 5(a)(10)	Summary of Reports From Prior Semiannual Reports Where No Management Decision Was Made	28
Section 5(a)(11)	Significant Revised Management Decisions	None
Section 5(a)(12)	Significant Management Decisions with Which the OIG Disagreed	None
Section 5(a)(13)	Information Described Under Section 05(b) of the Federal Financial Management Improvement Act of 1996	N/A



**U.S. SMALL BUSINESS ADMINISTRATION  
OFFICE OF INSPECTOR GENERAL  
WASHINGTON, D.C. 20416**

October 2008

I am pleased to present the U.S. Small Business Administration (SBA) Office of Inspector General (OIG) Fall 2008 Semiannual Report to Congress. This report provides a summary of the OIG's activities from April 1, 2008 through September 30, 2008.

First and foremost, the OIG recently bid farewell to Eric Thorson, SBA Inspector General since April 2006, who moved on to become the Inspector General for the Department of Treasury on August 11, 2008. During his tenure at the SBA OIG, Eric provided outstanding leadership of the office's efforts to promote economy, efficiency, and effectiveness, and detect and prevent fraud and abuse, in SBA's programs. In particular, coming to SBA shortly after the 2005 hurricanes had devastated the Gulf Coast region, Eric focused much of the OIG's efforts on providing effective oversight of SBA's response to these disasters. Eric will be greatly missed, and we wish him the best in his new position at Treasury.

During this reporting period, the OIG issued 9 reports with recommendations for improving Agency operations, reducing fraud and unnecessary losses in SBA programs, and recovering improper payments. The OIG achieved monetary recoveries and savings of almost \$128 million from disallowed costs agreed to by management, recommendations that funds be put to better use agreed to by management, court ordered and other investigative recoveries and fines, and loans/contracts not made as a result of investigations and name checks. In addition, OIG investigations lead to 33 indictments and 30 convictions of subjects who defrauded the Federal Government. With a staff of just over 100, the OIG continues to produce sizeable savings and important program improvements.

The OIG continues to concentrate on the most critical risks facing SBA. For example, the risk of financial losses due to limited oversight and controls over SBA's \$87 billion financial assistance portfolio of guaranteed and direct small business loans continues to be a major area of concern. This is especially true because, over the years, SBA has shifted from being an organization that processed loans to one that relies on program participants to originate and handle the loans. Currently, about 4,500 lenders participate in the Section 7(a) Loan Guaranty program—SBA's largest lending program and the principal vehicle for providing small businesses with access to credit that cannot be obtained elsewhere. Current events affecting the Nation's credit markets further highlight the need to provide effective oversight of these lenders. Recent audit reports, however, including one issued during this reporting period, continue to identify weaknesses in SBA's lender oversight efforts, and OIG investigations continue to identify significant fraud in the Agency's lending programs. Lastly, OIG reviews continue to find weaknesses in controls over companies participating in government contracting programs, as well as in SBA's administration of the Disaster Loan program.

I would like to thank SBA's leadership team for its continued cooperation and support. We look forward to working closely with the Agency during the upcoming Presidential Transition to continue to carry out the OIG's mission to fight waste, fraud, and abuse and promote greater government efficiency.

A handwritten signature in blue ink that reads "Peter L. McClintock".

Peter L. McClintock  
Acting Inspector General

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## Glossary of Abbreviations

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ANC	Alaska Native Corporation
ATF	Bureau of Alcohol, Tobacco, and Firearms
BOS	Business Opportunity Specialist
CID	Criminal Investigation Division
CIO	Office of Chief Information Officer
CPA	Certified Public Accountant
DCIS	Defense Criminal Investigative Service
DCMS	Disaster Credit Management System
DHS	Department of Homeland Security
DoD	Department of Defense
DOI	Department of Interior
DOJ	U.S. Department of Justice
EPA	Environmental Protection Agency
FBI	Federal Bureau of Investigation
FEMA	Federal Emergency Management Agency
GSA	General Services Administration
HUBZone	Historically Underutilized Business Zone
HUD	Department of Housing and Urban Development
ICE	Immigration and Customs Enforcement
IRS	Internal Revenue Service
LAS	Loan Accounting System
LLMS	Loan and Lender Monitoring System
LMAS	Loan Management and Accounting System
LSC	Loan Servicing Centers
NCIS	Naval Criminal Investigative Service
NGPC	National Guaranty Purchase Center
NICB	National Insurance Crime Bureau
ODA	Office of Disaster Assistance
OFA	Office of Financial Assistance
PDC	Disaster Assistance Processing and Disbursement Center
SBDC	Small Business Development Center
SBIC	Small Business Investment Company
SCORE	Service Corps of Retired Executives
SDB	Small Disadvantaged Business
SSA	Social Security Administration
USDA	U.S. Department of Agriculture
USPIS	U.S. Postal Inspection Service
USSS	U.S. Secret Service
VA	Department of Veteran's Affairs
WBC	Women's Business Centers

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# Overview of SBA and the OIG

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## The Small Business Administration

The mission of the Small Business Administration (SBA) under the Small Business Act, as amended, is to maintain and strengthen the Nation's economy by enabling the establishment and vitality of small businesses and assisting in the economic recovery of communities after disasters. The Agency's Fiscal Year (FY) 2008 – 2013 Strategic Plan has three programmatic strategic goals that broadly define what the Agency and its programs are trying to accomplish: "Expand America's ownership society, particularly in underserved markets"; "Provide timely financial assistance to homeowners, renters, nonprofit organizations and businesses affected by disaster"; and "Improve the economic environment for small business." A fourth strategic goal, "Ensure management and organizational excellence to increase responsiveness to customers, streamline processes, and improve compliance and controls," defines the responsibility of the Agency's executive leadership and support functions to help accomplish the programmatic goals.

SBA is organized around four key functional areas: financial assistance (e.g., loan programs); contracting assistance; technical assistance (e.g., entrepreneurial development); and disaster assistance. The Agency also represents small businesses through an independent advocate and an ombudsman. SBA headquarters is located in Washington, D.C., while its business products and services are delivered with the help of 10 regional offices, 68 district offices, 4 Disaster field offices, and a vast network of resource partners in all 50 States, the District of Columbia, Puerto Rico, American Samoa, the U.S. Virgin Islands, and Guam. As of September 30, 2008, SBA had 2,259 employees, including Office of Inspector General (OIG) personnel, but excluding a total of 3,288 disaster-funded employees for disaster loan making and disaster loan servicing.

## The Office of Inspector General

Pursuant to the Inspector General Act of 1978, as amended, the OIG adds value to SBA programs and operations by providing auditing, investigative, and other services to support and assist the Agency in achieving its mission. The OIG strives to identify significant issues and offer recommendations to correct or eliminate problems and fraudulent schemes that adversely impact the efficiency, effectiveness, or integrity of SBA's programs and operations.

The OIG has four divisions that perform the key functions described below.

- **The Auditing Division** performs financial, information technology and other mandated audits, program performance reviews, and internal control assessments, and oversees audits by contractors to promote the economical, efficient, and effective operation of SBA programs.
- **The Investigations Division** manages a program to detect and deter illegal and/or improper activities involving SBA programs, operations, and personnel. The criminal investigations staff carries out a full range of traditional law enforcement functions. The security operations staff ensures that all Agency employees have the appropriate background investigations and security clearances for their duties. They also conduct the name check program, which provides SBA officials with character-eligibility information on loan applicants and other potential program participants.

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## Overview of SBA and the OIG

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- **The Counsel Division** provides legal and ethics advice to all OIG components, represents the OIG in litigation arising out of or affecting OIG operations, assists with the prosecution of civil enforcement matters, processes subpoenas, responds to Freedom of Information and Privacy Act requests, and reviews and comments on proposed Agency policies, regulations, legislation, and procedures.
- **The Management and Policy Division** provides business support (e.g., budget/financial management, human resources, information technology, and procurement) for the various OIG functions, coordinates the preparation of the Semiannual Report to Congress and the Report on SBA's Management Challenges, and develops OIG strategic and performance plans.

The OIG is headquartered in Washington, DC, and has field staff located in Atlanta, GA; Chicago, IL; Dallas/Fort Worth, TX; Detroit, MI; Denver, CO; Herndon, VA; Houston, TX; Kansas City, MO; Los Angeles, CA; Miami, FL; New Orleans, LA; New York, NY; Philadelphia, PA; Tacoma, WA; and Washington, DC. As of September 30, 2008, the OIG had 102 staff on board.

An organization chart for the OIG can be found in Appendix XI.

### OIG Work During this Reporting Period

During this reporting period, OIG activities focused on the two strategic goals in its FY 2006-2011 Strategic Plan: "Improving the economy, efficiency, and effectiveness of SBA programs and operations," and "Promoting and fostering integrity in SBA programs and operations." Using this framework, the OIG concentrated on critical risks facing SBA, including: risks of financial losses due to limited oversight and controls; risks to SBA's performance of its statutory mission to promote small business development and Government contracting; and risks associated with SBA's information technology and financial management systems and other internal operations.

The challenges and risks facing the Agency increased significantly with the devastation from the hurricanes that hit the Gulf Coast during 2005. The OIG has undertaken a series of reviews of the management of SBA's disaster assistance process, the loan application approval process, loan disbursement activities, use of proceeds, and SBA's loan processing system, known as the Disaster Credit Management System (DCMS). The OIG has also directed significant investigative efforts toward detecting and deterring fraud related to the SBA Disaster Loan program.

OIG efforts and accomplishments during the second half of FY 2008 are summarized in this report. Audit and other reports issued during this reporting period are listed in Appendix I. Investigative actions are summarized in Appendix X. Copies of OIG reports and other work products are available on the OIG's website at <http://www.sba.gov/ig/igreadingroom.html>.



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# Significant OIG Activities

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## Disaster Loans

The Disaster Loan program plays a vital role in the aftermath of disasters by providing long-term, low-interest loans to affected homeowners, renters, and businesses of all sizes. There are two types of disaster loans: (1) physical disaster loans for permanent rebuilding and replacement of uninsured disaster-damaged privately-owned real and/or personal property, and (2) economic injury disaster loans to provide necessary working capital to small businesses until normal operations resume after a disaster. Physical disaster loans are available to homeowners, renters, businesses of all sizes, and nonprofit organizations. The Disaster Loan program is particularly vulnerable to fraud and unnecessary losses because loan transactions are expedited in order to provide quick relief to disaster victims.

On August 29, 2005, Hurricane Katrina devastated the Gulf Coast regions of Louisiana, Mississippi, and Alabama. It was quickly followed by Hurricanes Rita and Wilma, creating further loss of lives and property in Florida and Texas. As of September 30, 2008, SBA had approved almost 120,000 disaster loans - totaling \$6.7 billion - in the aftermath of the Gulf Coast hurricanes, and had fully disbursed over 118,000 totaling \$6.4 billion. OIG audits continue to focus on loan origination, disbursement, repayment, servicing, and liquidation activities related to these loans, including whether: loan applications were processed in accordance with SBA procedures; uses of loan proceeds were verified before loans were fully disbursed; duplicate benefits were appropriately identified and recovered; and loan servicing and liquidation activities were appropriately staffed and effectively managed. Working in conjunction with the Hurricane Katrina Fraud Task Force, the OIG also continues to investigate allegations of unauthorized use of loan proceeds, overstatement of financial losses, material false statements in the application process, false/counterfeit supporting documentation, and false assertions regarding primary residency in affected areas at the time of the disaster.

Given the scope and magnitude of SBA's Gulf Coast hurricane disaster assistance efforts, as well as the more recent impact of the Midwest floods and Hurricanes Ike and Gustav during 2008, the OIG expects to focus heavily on the disaster assistance area for the foreseeable future.

### Disaster Loss Verification Process

An OIG audit of the Disaster Loss Verification Process determined that some loss verification reports did not accurately estimate the replacement value of damaged property, due to both overstatements and understatements of damages. *Of the 315,000 Gulf Coast hurricane loss verification reports completed as of July 2006, the OIG estimated that 16,272 overstated damages by at least \$367 million, and 6,709 understated damages by at least \$4 million.* Of the 315,000 Gulf Coast hurricane loss verification reports completed as of July 2006, the OIG estimated that 16,272 overstated damages by at least \$367 million, and 6,709 understated damages by at least \$4 million. This

occurred because loss verifiers: (1) incorrectly calculated the square footage of the damaged property; (2) were not properly trained; (3) did not always meet with borrowers on-site; and (4) did not enter all required data into DCMS, which calculates loss estimates.

Also, SBA's Office of Disaster Assistance (ODA) did not effectively monitor the quality of the loss verifications completed between October 1, 2005 and March 31, 2006, nor implement its required loss verification Quality Assurance Surveillance Plan.

*SBA's Office of Disaster Assistance did not effectively monitor the quality of the loss verifications.*

In addition, between October 2005 and March 2006, ODA spent

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## Significant OIG Activities

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\$10.3 million for 88,692 loss verifications on loan applications that were declined during pre-processing due to applicants' creditworthiness or lack of repayment ability.

### Early-Defaulted Gulf Coast Hurricane Disaster Loans

In response to the increasing number of defaulted Gulf Coast disaster loans, the OIG initiated an audit to determine whether loans that failed within 18 months of the due date of the first loan payment: (1) received adequate screening and credit evaluation during the application process; and (2) were serviced in accordance with loan provisions and regulations.

The OIG reviewed a statistical sample of 117 loan files from a universe of 4,985 loans that were at least 90 days delinquent or charged-off as of September 30, 2007. All but 4 of the 117 loans reviewed were either improperly originated or inadequately serviced. *Approximately 63 percent of the loans reviewed were approved even though the applicants lacked repayment ability or were not creditworthy, and 79 percent were inadequately serviced after becoming delinquent.* Approximately 63 percent of the loans reviewed were approved even though the applicants lacked repayment ability or were not creditworthy, and

79 percent were inadequately serviced after becoming delinquent. Projecting the sample results to the universe of early-defaulted loans, the OIG estimated that approximately 4,815 loans, totaling \$98.4 million, defaulted early due to loan origination or servicing issues. These deficiencies occurred because the ODA overstated income and/or understated debt when computing borrowers' repayment ability. In cases where borrowers' credit was found to be unsatisfactory, ODA did not provide adequate justification for applicants' existing unpaid debt, bankruptcies, or unpaid collections.

To ensure that applicant repayment ability and creditworthiness are adequately evaluated, the OIG recommended that ODA's training program re-emphasize that supervisory loans officers must thoroughly review applicant repayment ability to ensure accuracy and address all derogatory credit issues before loan approval. ODA concurred with this recommendation and has taken actions to enhance its training program for loan processing staff, has revised its procedures to review loan applications for both creditworthiness and repayment ability, and is conducting additional quality assurance reviews, as needed. The OIG did not make recommendations regarding loan servicing activities as the Agency addressed identified deficiencies during the audit. *...approximately 4,815 loans, totaling \$98.4 million, defaulted early due to loan origination or servicing issues.*

### Disaster Loan File Transfer and Servicing Delays

During the audit of early-defaulted loans discussed above, the OIG identified two areas of concern related to the transfer of files from the Disaster Assistance Processing and Disbursement Center (PDC) to Loan Servicing Centers (LSC). First, due to the inadequate and untimely collection and filing of loan documentation, the PDC had not transferred either paper or electronic collateral files for 25,352 fully disbursed loans, many of which had been fully disbursed for at least a year. Second, 5,325 loans that were transferred to the El Paso LSC without physical collateral files had not been serviced. *...the PDC had not transferred either paper or electronic collateral files for 25,352 fully disbursed loans... [and] ...5,325 loans that were transferred to the El Paso LSC without physical collateral files were not serviced.* Instead, they

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## Significant OIG Activities

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were held in suspense pending receipt of the physical collateral files. Because the loans were not properly serviced and collection activities were not initiated timely, an increase in loan defaults and loss to the Agency could ultimately occur.

The OIG recommended that the Associate Administrator for Disaster Assistance: (1) transfer all electronic loan files held by the PDC to the appropriate LSC for timely servicing and collection activities once loans are fully disbursed; (2) revise current policy to identify specific time requirements for the transfer of physical electronic files from the PDC to the LSCs; and (3) adopt current servicing standards used by the El Paso and Birmingham LSCs for loans that have not been transferred from the PDC. The

*Because the loans were not properly serviced and collection activities were not initiated timely, an increase in loan defaults and loss to the Agency could ultimately occur.*

report also recommended that the Director, Office of Financial Assistance: (1) direct the El Paso LSC to automatically assign all loans to a servicing team upon receipt of electronic loan files from the PDC and complete servicing of the 5,325 unassigned loan files; and (2) revise current policy to include specific time requirements for collection actions on delinquent loans.

The ODA implemented the OIG's recommendations by adopting an alternative method for servicing the loans and revised its procedures and processes accordingly. The OIG agreed that adoption of these new procedures, to include specific time requirements for loan file transfers, should remedy the deficiencies that were noted in the audit. Additionally, during the audit, when the OIG brought the findings to the attention of the Office of Financial Assistance (OFA), that office implemented the OIG's recommendations to ensure that loans are automatically assigned to a servicing team when electronic loan files are received. It also substantially reduced the number of loans that needed servicing.

### **Hurricane Katrina Fraud Task Force Continues to Fight Gulf Coast Fraud**

The OIG, along with other law enforcement organizations participating in the interagency Hurricane Katrina Fraud Task Force, made 45 arrests and obtained 57 indictments and 51 convictions from the task force's inception through September 30, 2008. The OIG anticipates more allegations of fraud and potential loss to SBA as repayments for disaster loans come due. The following are examples of OIG cases related to the Gulf Coast hurricanes.

- A certified public accountant (CPA) employed by an unethical businessman knowingly made false statements to several Louisiana lenders to influence them to approve four loans totaling approximately \$2.9 million. The CPA impersonated an SBA employee and falsely represented that SBA disaster loans had been approved and committed for local businesses. Due to investigative efforts, only \$5,000 of the \$2.9 million was disbursed. The CPA was sentenced to 10 years in prison, 5 years supervised release, and restitution of over \$505,000 for making false statements relating to loan and credit applications. The businessman pled guilty to making false statements and is awaiting sentencing. This case was referred by the Department of Homeland Security (DHS). The OIG conducted this investigation jointly with the U.S. Secret Service (USSS).
- A Louisiana pastor was sentenced to 17 months in prison, 36 months of supervised release, nearly \$35,000 in restitution, and a \$100 special assessment after having pled guilty to mail fraud. He misused his position to apply for a \$252,000 SBA physical disaster loan and a \$35,000 Bush-Clinton Katrina Fund grant to supposedly rebuild his church. The pastor caused SBA to wire transfer

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## Significant OIG Activities

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\$10,000, which he intended to use for his own benefit, to a bank account that he controlled. He also caused the \$35,000 grant to be sent to his home address and used for his personal benefit. The pastor further admitted receiving \$13,000 in furniture company kickbacks for falsely claiming that the company delivered items to the church. This investigation is being conducted jointly with the Federal Bureau of Investigation (FBI).

- The operator of a Texas seafood company was indicted for making false statements in connection with his SBA disaster loan application, in which he claimed that the business had a Louisiana location that sustained an estimated \$2.8 million in Hurricane Rita-related damage. He allegedly submitted a false commercial lease agreement to show that the seafood company occupied real property in Louisiana during the hurricane. The man also allegedly submitted an invoice to SBA that falsely showed more than \$1.9 million in hurricane-related repair expenses. The OIG conducted this investigation jointly with the Bureau of Alcohol, Tobacco, and Firearms and the DHS OIG.
- A Mississippi man allegedly made false statements on his claims for Hurricane Katrina disaster benefits by indicating that his primary residence was in an area affected by the storm when it was not. He received over \$179,000 from SBA and over \$14,000 from the Federal Emergency Management Agency (FEMA). He also applied for a Mississippi Development Authority Homeowner Assistance Program Grant, which was suspended pending the investigation's results. The man has been indicted for making false claims and false statements, theft of government funds, fraud involving an SBA loan, wire fraud, and mail fraud. The OIG conducted this investigation jointly with the DHS OIG, the Department of Housing and Urban Development (HUD) OIG, and the Mississippi State Auditor's Office.

### Legal Actions Continue in the Aftermath of 9/11 Disaster Loan Fraud

SBA disbursed over \$1.1 billion in disaster assistance loans in response to the terrorist attacks on September 11, 2001. As with other disasters, the need to disburse funds quickly created opportunities for dishonest applicants to commit fraud. The OIG has investigated and obtained prosecution of numerous parties who took advantage of this national tragedy. For example, the former president and owner of a firm that sold Hyundai motor vehicles and parts to the United Nations was sentenced to 12 months and 1 day in prison, 60 months probation, and nearly \$647,000 in restitution to SBA. In the wake of the terrorist attacks, he applied for and received an SBA disaster loan of nearly \$647,000 for his firm. He then received a series of two-party checks from SBA that were to be used to pay off creditors. Instead, he forged endorsements on several checks and deposited them into the firm's account. He also conspired with a Florida man to obstruct the investigation. The Florida man pled guilty and is awaiting sentencing. The OIG investigated this case jointly with the U.S. Postal Inspection Service (USPIS) based on a referral by former employees of the firm.

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# Significant OIG Activities

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## Small Business Access to Capital

SBA has a financial assistance portfolio of guaranteed and direct small business loans and financings of more than \$87 billion. The Section 7(a) Loan Guaranty program is SBA's largest lending program and the principal vehicle for providing small businesses with access to credit that cannot be obtained elsewhere. This program is vulnerable to fraud and unnecessary losses because it relies on numerous third parties (e.g., borrowers, loan agents, and lenders) to complete loan transactions. Approximately 80 percent of loans guaranteed annually by SBA are made by lenders to whom SBA has delegated loan-making authority. Additionally, SBA has centralized many loan functions and reduced the number of staff performing these functions. Since 2001, SBA's regular staffing has decreased by about 25 percent while the Agency's total loan portfolio has increased by almost 75 percent. As SBA has placed more responsibility and independence on its lenders, the need for OIG oversight has increased significantly. Recent audit reports, including one issued during this reporting period that is discussed below, have identified weaknesses in SBA's lender oversight efforts.

Another financial assistance program, the Small Business Investment Company (SBIC) program, was established in 1958 to stimulate and supplement the flow of private equity capital and long-term debt to small business concerns using private venture capital firms and SBA-guaranteed funding. In addition, small and emerging contractors who cannot obtain surety bonds through regular commercial channels can apply for SBA bonding assistance under the Surety Bond Guarantee program.

### Legal Actions Continue to Result from Ongoing Investigation

In 2007, SBA OIG and USSS agents arrested 18 individuals for their involvement in a scheme in which a lender's former executive vice president and others conspired to fraudulently qualify loan applicants for SBA-guaranteed loans across several Midwestern states. This investigation has gone on to identify 91 fraudulent loans totaling about \$85 million and, thus far, has resulted in the indictment of 45 individuals.

Four of those indicted are now international fugitives. Because of this investigation, the lender agreed to repay SBA for some loan guaranties and cancel other guaranties. SBA recoveries from the lender, cost savings from the withdrawal of guaranties, and court-ordered restitution total approximately \$22.8 million thus far. The investigation is continuing, with more indictments expected. The following cases are part of this ongoing joint investigation with the USSS.

*...the lender agreed to repay SBA for some loan guaranties and cancel other guaranties.*

- The former president of a Detroit, Michigan, gas station was sentenced to 36 months probation and ordered to pay—along with his brother, the former president of another gas station—\$958,000 in restitution to an SBA lender. The investigation found that they conspired with others to fraudulently qualify the second brother for a \$990,000 SBA-guaranteed loan used to purchase a gas station and convenience store from the first brother. The object was to refinance delinquent debts owed by the first brother's financially-troubled gas station by using proceeds from the loan made to the "straw buyer" (i.e., the second brother's gas station). The conspiracy used a false sales agreement, an inflated purchase price, and a bogus down payment.

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## Significant OIG Activities

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- Two individuals were indicted for conspiracy, conspiracy to commit wire fraud, false statements, and aiding and abetting on twelve SBA loans. The first individual allegedly acted as a broker and recruited “straw buyers” to falsely obtain SBA-guaranteed loans. The second, an escrow agent who later became the owner of a title company, allegedly conducted the loan closings and falsified information on settlement statements regarding loan disbursements and equity injections. The fraudulent loan proceeds were then wire transferred from the lender’s account to the title company’s account.

### Dishonest Loan Agents Continue to Harm SBA Loan Programs

A loan agent is paid by a prospective borrower or a lender to prepare documentation for an SBA loan application and/or refer the borrower to a lender (or vice versa). Reputable loan agents connect small businesses to sources of capital, but dishonest agents have perpetrated frauds involving hundreds of millions of dollars in loans. Loans associated with such fraud often default for nonpayment. The OIG has numerous criminal investigations of suspected loan agent fraud underway throughout the country.

*...dishonest loan agents have perpetrated frauds involving hundreds of millions of dollars in loans.*

...the attorney conspired with the borrower to submit forged documents, and false cash injection documentation.

In one case, a suspended New Jersey attorney acting as a loan broker helped a businessman obtain an SBA-guaranteed loan to supposedly purchase a supermarket owned by the businessman’s mother. The attorney knew that there was no sale of a business, but in exchange for a ten percent fee he submitted false documents to obtain the loan. He and the businessman provided forged documents to pledge collateral not belonging to the businessman and falsified a \$250,000 cash injection. The suspended attorney also directed an accounting business owner to prepare a fraudulent tax record to make the businessman’s company appear stronger than it actually was. He illegally received about \$80,000 of his fee from the loan proceeds and laundered that fee by having it sent to the accounting business owner. The suspended attorney was sentenced to 30 months in jail, 3 years supervised release, and restitution of \$993,000 (to be paid jointly with the businessman who was previously sentenced). The owner of the accounting business was sentenced to 3 years probation, a \$3,000 fine, and \$40,000 in restitution. The OIG conducted this investigation jointly with the FBI.

*...the attorney conspired with the borrower to submit forged documents, and false cash injection documentation.*

### Various Tactics Are Used to Defraud SBA’s Loan Guaranty Programs

Criminals use a wide variety of methods to fraudulently obtain—or induce others to obtain—SBA-guaranteed loans. These methods include: submitting fraudulent documents; making fictitious asset claims; manipulating property values; and failing to disclose debts, prior criminal records, and other SBA-backed loans. Borrowers may also use loan proceeds contrary to the terms of the loans. These activities increase the likelihood of financial loss to SBA and its lenders.

The following examples demonstrate how people fraudulently acquire SBA loans.

- Two individuals from the Washington, DC area committed extensive mortgage fraud involving two residential properties, resulting in losses to lending institutions of over \$3.6 million. The properties

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## Significant OIG Activities

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were sold or refinanced despite liens and judgments, including a judgment related to a defaulted SBA loan. Whenever a property was sold or refinanced, they created bogus documents to dismiss the encumbrances and then diverted the loan proceeds for personal use. One of the individuals also made

*Two individuals committed extensive mortgage fraud involving two residential properties, resulting in losses to lending institutions of over \$3.6 million.*

\$3,926,000 in joint and several restitution, after previously pleading guilty to mail fraud and making false oaths. The other individual was sentenced to 16 months in prison, 3 years supervised release, and is jointly and severally responsible for up to \$650,614 of the restitution ordered. The OIG conducted this investigation jointly with the FBI, the USPIS, and the USSS.

- A mother and her son conspired to defraud two banks and SBA of \$550,000 by submitting false purchase orders for supplies, equipment, and other manufacturing expenses from “shell” businesses they created prior to submitting SBA loan applications. After the loans were approved, the banks issued disbursement checks payable to the shell vendors. The mother and son deposited the funds into bank accounts opened for the shell businesses and funneled the money to an offshore bank account in St. Kitts. The U.S. Attorney’s Office and the U.S. Department of Justice (DOJ) froze a bank account in 2002, and during this reporting period the St. Kitts government wired over \$149,000 from the account to the U.S. Treasury Forfeiture Fund. The mother and son fled to Greece to avoid prosecution and remain fugitives. The OIG conducted this investigation jointly with the Internal Revenue Service (IRS) Criminal Investigation Division (CID).
- A computer services company and a Montana bank attempted to circumvent SBA regulations regarding refinancing bank debt. Originally, SBA’s Montana District Office declined the company’s request through the bank for a \$1.8 million line of credit because existing bank debt cannot be refinanced with an SBA loan. However, the bank then submitted a new application to an SBA loan processing center requesting a \$1.8 million loan to purchase equipment and software for the company. The bank did not reveal the earlier loan request, and the new loan was approved. Moreover, the bank and the company submitted a false settlement sheet showing that loan proceeds were used for equipment and software when they were actually used to repay company debts owed to the bank. The bank agreed to settle the U.S. Attorney’s civil litigation and to waive any claim to SBA’s \$999,900 loan guaranty and the guaranty loan fee rebate of nearly \$35,000. The bank was also required to pay over \$15,000 to the DOJ.

### False Claims of Citizenship Continue in SBA Loan Programs

A number of dishonest loan applicants, sometimes with the help of corrupt loan agents, falsely claim U.S. citizenship when applying for SBA-guaranteed loans. Such loans often default quickly, with millions of dollars cumulatively at risk. Even small loans to such borrowers can deprive honest applicants (i.e., citizens as well as non-citizens legally residing in the U.S.) access to SBA-backed credit.

For example, a Chicago-area business owner submitted a Section 504 loan application for \$594,000 for his interstate trucking firm. Although he claimed to be a U.S. citizen, an investigation revealed that he was in the U.S. illegally. When SBA requested evidence of naturalization, he presented a counterfeit certificate of naturalization and offered a \$5,000 cash bribe to an SBA official. During this reporting

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## Significant OIG Activities

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period, he was sentenced to 24 months in prison, 2 years supervised release, and a \$7,500 fine pursuant to a previous plea agreement. The OIG conducted this joint investigation with DHS/Immigration and Customs Enforcement (ICE). The SBA Illinois District Office provided significant cooperation.

*...he presented a counterfeit certificate of naturalization and offered a \$5,000 cash bribe to an SBA official.*

### Identity Theft Involving Foreign Nationals

One of the fastest-growing crimes is identity theft for monetary gain. The following examples show how SBA loan programs are being exploited by identity thieves from other countries.

- Three foreign nationals were indicted for bank fraud, and two of them were also indicted for conspiracy to commit bank fraud. They allegedly belonged to an organized group that obtained credit cards and loans by using false identities, documents, and businesses. Thirty SBAExpress loans, totaling approximately \$1.2 million, have been identified as having been obtained by this group, and a large percentage of these loans are in default. The OIG conducted this investigation jointly with the USPIS.
- A man was indicted in California for bank fraud, mail fraud, aggravated identity theft, and forgery and false use of a passport. One count of criminal forfeiture was also filed, thus making any property derived from his scheme subject to forfeiture upon conviction. The individual was allegedly involved in a sophisticated foreign identity theft fraud ring in which he served as an interpreter. He allegedly used a forged U.S. passport to fraudulently obtain a SBAExpress loan and a home equity line of credit, resulting in losses of approximately \$1.5 million. The OIG conducted this investigation jointly with the FBI, ICE, USPIS, and the Social Security Administration OIG.

### Borrowers Continue to Use False Equity Injection

Equity (or capital) injection is the borrower's own financial stake in a business. If a borrower personally has something at risk, the business is less likely to default on a loan. Accordingly, SBA requires borrowers to inject money into projects financed by guaranteed loans. However, to circumvent this requirement, borrowers continue to falsify the amount or source of such injections, as demonstrated by the following examples.

- The owner of a now-defunct California airplane parts business pled guilty to wire fraud in connection with false statements he made to a lender and SBA in order to obtain a \$999,000 SBA-guaranteed loan to purchase a company from a second man. The owner failed to disclose that he had borrowed the \$125,000 cash injection from an associate of the second man. The loan defaulted and SBA purchased its guaranty at a cost of over \$708,000. This case was based on a referral by the U.S. Attorney's Office in Boise, Idaho. The OIG conducted this investigation jointly with the FBI.
- A woman conspired with others to defraud SBA by: (1) falsely claiming to be the 100 percent owner of a business; (2) overstating her financial status; (3) alleging that the source of a \$250,000 equity injection was a gift from an uncle; (4) making misrepresentations on the management resume; and (5) obtaining an \$825,000 SBA-guaranteed loan—in her name only—for her brother-in-law, who was in fact the owner and intended operator of the business. She was sentenced in Michigan to 3 months incarceration and a \$5,000 fine. The OIG conducted this investigation jointly with the USSS.



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## Significant OIG Activities

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### Fraud Against Surety Bond Program Ends in Guilty Plea

The president of a now defunct Washington State construction company pled guilty to making false statements on a loan application and to SBA. The president: falsely stated that he had paid subcontractors and suppliers; falsely claimed to the surety company that his firm was out of funds when he really had diverted approximately \$87,000 to personal use; made false statements about a mortgage loan; and falsely stated to SBA that he had not defaulted on prior bonds. The firm had obtained SBA-guaranteed surety bonds to perform public works contracts and SBA suffered a loss of over \$500,000 due to the firm's defaults. This matter was referred to the OIG by the National Insurance Crime Bureau (NICB). The OIG conducted this investigation jointly with the FBI and the NICB.

### Oversight of SBA Supervised Lenders

During this reporting period, the OIG issued a report on a review of four other SBA-supervised lenders. Although SBA determined the lenders posed a higher risk of financial loss than other 7(a) lenders, it did not take sufficient enforcement actions to mitigate this increased risk. Specifically, the lenders were consistently rated as high-risk, had actual loan purchase rates exceeding those of other large lenders, were reported as having recurring performance and compliance issues during onsite examinations, and, in the case of at least two of the lenders, consistently did not meet performance benchmarks established by SBA. As of September 2007, SBA had incurred a cumulative net loss from the four lenders of \$329 million, and between September 2005 and September 2007 purchased over \$239 million in guaranties from the lenders.

The OIG determined that SBA continued to renew and expand delegated authorities, allowing the lenders to make loans without prior SBA approval. Although SBA met with lender management and reduced

*...SBA continued to renew and expand delegated authorities, allowing the lenders to make loans without prior SBA approval.*

delegated lending authority periods when renewals were granted, it did not take progressively more stringent enforcement actions when lender performance did not improve or, in some cases,

deteriorated. SBA did not take adequate risk mitigation measures because: (1) there was a conflict between SBA's lender advocacy and oversight roles, which impacted SBA's treatment of lenders; (2) SBA lacked clear policies describing the circumstances under which enforcement actions would be taken; and (3) loan production goals made it difficult to maintain a proper balance between SBA's lender advocacy and oversight roles.

The OIG also identified weaknesses that further impacted SBA's supervision of the lenders, including untimely reviews of purchased loans at the National Guaranty Purchase Center (NGPC) in Herndon, Virginia, poorly timed and scoped on-site examinations, inconsistent implementation of corrective action plans, and SBA's inability to notify lenders of high risk loans identified by SBA's Loan and Lender Monitoring System (LLMS) for remediation.

To strengthen SBA's oversight of its supervised lenders, the OIG made seven recommendations that addressed establishing oversight and enforcement criteria and risk mitigation goals, improving onsite examinations, sharing of high risk loan information with lenders, and staffing of the NGPC.

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## Significant OIG Activities

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### Six SBA Guaranteed Loans Improperly Charged Off

As part of an ongoing review of loan liquidation activities at the NGPC, the OIG identified six loans that were improperly charged off when full denial of the guaranties should have been pursued due to material lender non-compliance with SBA requirements. The deficiencies included: (1) non-disclosure of contaminated property; (2) inadequate evidence of equity injection; (3) inadequate evidence of IRS tax verifications; (4) inadequate appraisals; (5) questionable repayment ability; (6) inappropriate broker fees; (7) unreported adverse events; (8) unsecured collateral; and (9) unapproved and insufficient offers in compromise. While all but one of the six loans received a complete purchase review and all six received a comprehensive charge-off review, the deficiencies were not identified or adequately resolved by SBA. As a result, the OIG recommended that approximately \$1.2 million of improper payments be recovered from the lenders.

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## Significant OIG Activities

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### Small Business Development, Contracting, Education, and Training

Through its government contracting programs, SBA works to maximize opportunities for small, woman and minority-owned and other disadvantaged businesses to obtain Federal contract awards. These programs include, among others, the Historically Underutilized Business Zone (HUBZone) Empowerment Contracting program and the Small Disadvantaged Business (SDB) Certification program. SBA also negotiates with other Federal agencies to establish procurement goals for contracting with small, disadvantaged, women-owned, service-disabled-veteran-owned, and HUBZone businesses. The current government-wide goal is for small businesses to receive 23 percent of the total value of prime contracts awarded each fiscal year.

To help small disadvantaged businesses gain access to Federal and private procurement markets, SBA's Section 8(a) Business Development program offers a broad range of business development support, such as mentoring, procurement assistance, business counseling, training, financial assistance, surety bonding and other management and technical assistance. SBA also provides assistance to existing and prospective small businesses through a variety of counseling and training services offered by partner organizations. Among these are Small Business Development Centers (SBDCs), the Service Corps of Retired Executives (SCORE), and Women's Business Centers (WBCs). Most of these are grant programs that require effective and efficient management, outreach, and service delivery.

#### Improper Acceptance of Company Into the 8(a) Program

An OIG review of a company's acceptance into the 8(a) program and a subsequent contract award to the company for training services found that SBA granted 8(a) certification without ensuring that the company met all of the Agency's requirements. With approximately 4 months in business, the company had the least amount of experience of any of the firms accepted into the 8(a) program during the 2-year timeframe reviewed. In addition, the company's only completed contract was just 11 days in duration and outside the primary industry for which it was approved.

*...SBA granted 8(a) certification without ensuring that the company met all of the Agency's requirements for acceptance into the 8(a) program.*

In making its decision to accept the company into the 8(a) program, SBA relied heavily on contracts the company claimed to have with the U.S. Department of Agriculture (USDA). A more thorough examination would have disclosed that the company did not have the claimed contracts or the related income. The company's owner also falsely certified that he was not a Federal employee. However, a review of USDA personnel records showed that the owner was a Federal employee at the time of application. Records of bank deposits submitted to evidence the contracts with USDA were redacted by the owner to disguise that the deposits were for his Federal salary.

Finally, SBA awarded the company a sole source contract without assessing its ability to comply with SBA regulations limiting subcontracting by 8(a) firms. At the time of award, the company only had two employees and informed the Agency that it planned to rely heavily on the subcontractors who had provided training under the previous contract.

The OIG recommended that SBA: (1) immediately suspend the company from the 8(a) program and initiate termination proceedings; (2) initiate proceedings to debar the company; (3) initiate termination

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## Significant OIG Activities

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proceedings on the company training contract as soon as practicable; (4) establish additional guidelines on when it is appropriate to waive the 2-years in business rule, and strengthen controls for ensuring that applicant firms granted 8(a) certification have adequate records of performance to succeed in the program; (5) take appropriate action to address the breach of access controls over the 8(a) and SDB Certification System committed by the San Francisco Division of Program Certification and Eligibility, and reinforce the importance of adhering to the Agency's policy on maintaining password integrity; (6) review a sample of other 8(a) certifications made by the San Francisco Division of Program Certification and Eligibility since June 2006, with a focus on those that involved a waiver of the 2-years in business rule, to ensure that they were properly made; and (7) require an assessment of contractor ability to comply with subcontracting limitations at time of contract award, and require sufficient labor cost detail be obtained to properly evaluate continued compliance.

As a result of this audit, the SBA suspended the company from the 8(a) program and initiated termination proceedings. The Agency is also taking steps to address the remainder of the OIG's recommendations.

### Review of Company's Compliance with Small Business Laws

In response to a request from the House Committee on Oversight and Government Reform, which was referred to the OIG by the Agency, the OIG conducted a review to determine whether a company that was providing security services for various agencies in Iraq and its affiliated companies complied with Federal small business laws. The review found that from FY 2005 to FY 2007, the company or an affiliate thereof obtained 39 contracts that were set aside for small businesses even though the bidder may not have qualified as a small business under the contracts. The SBA OIG referred these contracts to the OIGs at the Departments of Defense (DoD) and Veterans Affairs (VA) to determine whether the contracts were awarded based upon misrepresentations.

*...from FY 2005 to FY 2007, the company or an affiliate obtained 39 contracts that were set aside for small businesses even though the bidder may not have qualified as a small business under the contract.*

A review of statements made by an affiliate of the company to SBA for a 2006 size determination raised questions about SBA's conclusion that the affiliate was a small business. The key issue was whether personnel hired by the company to provide security services for various agencies in Iraq and elsewhere were employees of the company (which would have meant that the protested firm was not a small business) or independent contractors. The OIG found that SBA: (1) did not adequately explain its reasons for concluding that the security personnel on the contract were independent contractors; (2) did not follow up on or attempt to reconcile conflicting information in its files that the total number of employees—even excluding the security personnel hired under federal contracts—exceeded the applicable size standard; (3) apparently did not consider certain contractual terms that appear to be inconsistent with its conclusion that the company had little knowledge of the activities of the security personnel performing the contract and exercised little supervision over these personnel once they were deployed; and (4) did not appear to have considered information that the company was the employer of the security personnel for purposes of the Defense Base Act. As data made it appear likely that the company and its affiliates would bid on future small business set-aside contracts, the OIG noted that SBA may want to examine its size decision to confirm whether it made the proper finding and determine whether it is appropriate for affiliates to continue receiving small business set aside contracts. However, SBA has taken no action in response to this report.

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## Significant OIG Activities

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### Non-Native Managers Secured Millions of Dollars from 8(a) Firms Owned by Alaska Native Corporations through Unapproved Agreements

An OIG audit identified two Alaska Native Corporation (ANC)-owned 8(a) participants that repeatedly violated the terms and conditions of their Participation Agreements with SBA by failing to obtain approval for management and other agreements that eventually enriched their non-native managers. The non-Alaska native managers were able to secure over \$23 million in 8(a) contract revenues through these agreements over a 3-year period. One ANC also misrepresented its ownership structure and knowingly provided false information to SBA. The other repeatedly failed to comply with SBA's requests for full disclosure of its business structure.

*...non-Alaska native managers were able to secure over \$23 million in 8(a) contract revenues...*

*...the Agency has initiated action to suspend and terminate the two ANC-owned firms from the 8(a) program.*

Violating any one clause of the 8(a) Participation Agreement, such as failing to obtain pre-approval of business agreements or submitting false information, is cause for termination from the 8(a) program. Because the two ANC-owned firms repeatedly violated their Participation Agreements, the OIG recommended that SBA immediately suspend them from the 8(a) program and initiate termination proceedings. The OIG also recommended that SBA establish additional procedures to require disclosure of business agreements in annual updates and closer review of participant financial statements to identify relationships that could affect participant size and eligibility. Finally, the OIG recommended that SBA review other 8(a) firms owned by the two ANC's for compliance and affiliation issues. As a result of the audit, the Agency has initiated action to suspend and terminate the two ANC-owned firms from the 8(a) program.

### Section 8(a) Program Fraud Results in Major Penalties

Six people were sentenced in Texas after pleading guilty to bribery, kickbacks, and disclosure of bid information. The six were involved in a scheme to ensure that a certified 8(a) firm located in San Antonio received numerous multi-million dollar DoD contracts. Those sentenced included a coordinator/project officer at the military base who received 7 years imprisonment and 3 years supervised release, a civilian contracting officer who received 7 years imprisonment and 3 years supervised release, and the son of the civilian contracting officer who received 5 years and 6 months imprisonment and 3 years supervised release. In addition, the owner of the 8(a) firm was sentenced to 5 years and 2 months imprisonment and 3 years supervised release, and a contractor consultant employed by the 8(a) firm was sentenced to 7 years imprisonment and 3 years supervised release. These five individuals were ordered to pay restitution of \$2.7 million jointly and severally. A contract employee received 5 years imprisonment and 3 years supervised release and is jointly and severally liable for up to \$265,560 of the restitution ordered to be paid by the other 5 defendants. This case resulted from an FBI task force's investigation of 8(a) firms that act as "pass-through" companies for other firms that actually do the work on contracts. The SBA OIG conducted this investigation jointly with the FBI, IRS, the U.S. Army CID, General Services Administration OIG, Department of Interior OIG, and the Defense Criminal Investigative Service (DCIS).

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## Significant OIG Activities

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### Company Owner and Co-Conspirators Defraud 8(a) Program

To maintain his company's 8(a) eligibility, the owner of a Maryland environmental services company failed to disclose that non-disadvantaged individuals were providing critical financial support and control over the company. The company participated in the 8(a) program from April 1999 until the summer of 2007, based on the owner's qualification as a disadvantaged individual. The non-disadvantaged individuals received approximately \$900,000 more in bonuses and salaries than the company's owner between 2002 and 2004. The owner pled guilty to conspiracy to defraud SBA, and two non-disadvantaged co-conspirators pled guilty to the same charge. One of the co-conspirators also pled guilty to a money laundering conspiracy. Both non-disadvantaged individuals conspired to hide their actual financial support, control, and ownership of this company as well as one other company. The OIG conducted this investigation jointly with the Environmental Protection Agency CID, the Naval Criminal Investigative Service, the FBI, and the IRS CID.

*...the Agency has initiated action to suspend and terminate the two ANC-owned firms from the 8(a) program.*

over the company. The company participated in the 8(a) program from April 1999 until the summer of 2007, based on the owner's qualification as a disadvantaged individual. The non-disadvantaged individuals received approximately \$900,000 more in bonuses and salaries

### HUBZone Business Consultant Convicted

A business consultant to a Kentucky architectural services company was found guilty of making false statements to SBA. In order to influence SBA to certify the firm as a HUBZone business, the consultant submitted, on behalf of the company, two HUBZone applications with false statements about the company's address and the number of employees living in the HUBZone. The company subsequently received a HUBZone set-aside contract for over \$1 million for construction of a courthouse. The OIG conducted this investigation jointly with the DCIS.

*...the consultant submitted two HUBZone applications with false statements about the company's address and the number of employees living in the HUBZone...*

### Legislation Requires Approval of SBDC Surveys

In December 2004, Congress amended Section 21(a)(7) of the Small Business Act to restrict the disclosure of information regarding individuals or small businesses that have received assistance from an SBDC, and further restricts the Agency's use of such information. The provision also requires the Agency to issue regulations regarding disclosures of such information for use in conducting financial audits or SBDC client surveys. To date, however, SBA has not issued these regulations. In addition, paragraph 21(a)(7)(C)(iii) states that, until the issuance of such regulations, any client survey and the use of such information shall be approved by the Inspector General, who shall include such approval in the OIG's Semiannual Report to Congress. The Agency reported that there were no SBDC surveys requiring OIG approval during this reporting period.

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# Significant OIG Activities

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## Agency Management

### Planning for the Loan Management and Accounting System Modernization and Development Effort

The OIG reviewed SBA's planning for its Planning for the Loan Management and Accounting System (LMAS) modernization and development effort. This effort was initiated in November 2005 to modernize SBA's mainframe-based Loan Accounting System (LAS) and make it independent from the mainframe, which is inflexible, presents security risks, and is based on obsolete technology. The review disclosed that, despite the urgency of addressing LAS security vulnerabilities, SBA was unable to replace the system prior to the expiration of the mainframe contract in February 2007, causing it to renew costly contracts for mainframe and application support services for another 5 years. These services are expected to cost approximately \$6 million per year. Also, by delaying its mainframe migration, SBA is not adhering to Federal guidance that requires timely remediation of information security risks. The OIG also found that SBA lacked both an enterprise-wide and project-level quality assurance function to ensure that LMAS adheres to quality standards, and an approved quality plan for the project to establish the standards and procedures to ensure adherence to requirements of the Office of the Chief Information Officer (CIO).

*...SBA was unable to replace the system prior to the expiration of the mainframe contract in February 2007, causing it to renew costly contracts for mainframe and application support services for another 5 years.*

### All But One Overdue Management Decisions Were Addressed

The Inspector General Act requires Federal agencies to make decisions on all audit findings and recommendations within 6 months of report issuance. Agency officials may agree, disagree, or propose alternative actions to the recommendations. In an attempt to reduce the number of overdue management decisions, the OIG revised its reporting process by requesting that the Agency transmit decisions on audit recommendations at the same time that it provides management comments to the draft report. During this reporting period, management decisions were made for 35, or 81 percent, of the 43 recommendations that were issued. In addition, only one overdue management decision from prior reporting periods remained at year end.

### SBA Gift Authority

Section 4(g)(2) of the Small Business Act, as amended, provides that any gift, devise, or bequest of cash accepted by the Administrator under Section 4(g) shall be held in a separate account and shall be subject to semiannual audits by the Inspector General, who shall report his findings to Congress. According to the information provided by SBA's Office of Strategic Alliances, SBA did not accept any cash gifts during this semiannual reporting period.

### Cosponsorships and Fee-Based Administration Sponsored Events

Section 4(h) of the Small Business Act, as amended, requires the OIG to report to Congress on a semi-annual basis regarding the Agency's use of its authority in connection with cosponsorships and fee-based Administration-sponsored events. SBA's Office of Strategic Alliances provided information to the OIG related to cosponsorships, including the names, dates, and locations of the cosponsored events, and the

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## **Significant OIG Activities**

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names of the cosponsors. This information was not verified by the OIG. As shown in Appendix IX, between April 1, 2008 and September 30, 2008, there were 62 cosponsored events.



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# Significant OIG Activities

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## Other Significant OIG Activities

### Character Screening Reduces Potential Program Fraud

Participants in SBA programs involving business loans, disaster assistance loans, Section 8(a) certifications, surety bond guarantees, SBICs, and certified development companies must meet Agency character standards. To help ensure that this occurs, the OIG's Office of Security Operations utilizes name checks and, where appropriate, fingerprint checks to determine criminal background information. During this reporting period, the OIG processed 1,372 external name check requests for these programs.

The OIG also refers applicants who appear ineligible because of character issues to program officials for adjudication. The referrals are based on data from the OIG's on-line connection with the FBI. As a result

*As a result of OIG referrals during this reporting period, SBA business loan program managers declined 48 applications totaling nearly \$19.5 million, and disaster loan program officials declined 9 applications totaling almost \$1.9 million.*

of OIG referrals during this reporting period, SBA business loan program managers declined 48 applications totaling nearly \$19.5 million, and disaster loan program officials declined 9 applications totaling nearly \$1.9 million. In addition the Section 8(a)

program declined ten applications for admission and the Surety Bond Guaranty program declined one application for admission.

Also during this reporting period, the OIG also initiated 158 background investigations and issued 34 security clearances for Agency employees and contractors. In addition, the OIG adjudicated 108 background investigative reports and coordinated with the ODA to adjudicate 49 derogatory background investigation reports. Finally, the OIG processed 1,001 internal name check requests for Agency activities such as success stories, "Small Business Person of the Year" nominees, and disaster assistance new hires.

### OIG Promotes Debarment and Administrative Enforcement Actions

The OIG has aggressively promoted debarments by SBA as deterrence against parties that have engaged in fraud or have otherwise exhibited such a lack of business integrity that it is in the public interest to exclude them from receiving government contracts and other Federal benefits. The OIG regularly identifies candidates for debarment, and submits detailed recommendations with supporting documents to facilitate the efforts of SBA debarment officials. During this reporting period, the OIG submitted 12 debarment recommendations to the Agency. Debarment statistics for the reporting period are in the Statistical Highlights section later in this Report.

*During this reporting period, the OIG submitted 12 debarment recommendations to the Agency.*

Recently, the OIG has made a number of recommendations for debarment based upon fraudulent conduct in SBA business loan programs. As part of a long-term OIG investigation, numerous individuals have been identified as submitting falsified proof of equity injections, making false claims of U.S. citizenship, and submitting false financial information in order to obtain SBA-guaranteed loans. As of the close of the reporting period, the Agency was considering several of these recommendations.

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## Significant OIG Activities

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The OIG has also recommended that SBA develop better procedures for taking administrative enforcement actions against loan agents and packagers that commit fraud or other wrongdoing. Past OIG investigations have identified loan agent fraud involving hundreds of millions of dollars of SBA loans. SBA's regulations at 13 C.F.R. Part 103 authorize the Agency to suspend or revoke a loan agent's privilege to conduct business with SBA. The regulations discuss the types of activities considered to be "good cause" for suspending or revoking an agent, but are silent on what procedures must be followed in order to undertake a revocation or suspension action. To help deter fraud by loan agents and packagers, the OIG has recommended that the Agency issue regulations identifying the procedures that are to be used for these types of administrative enforcement actions.

### **OIG Reviews of Proposed Agency Regulations and Initiatives Lead to Improved Program Controls**

As part of its oversight of Agency programs and operations, the OIG reviews and provides comments on a large number of SBA-proposed regulations, agency operating procedures and notices, public-use forms, agency reorganizations, and other initiatives to determine whether the Agency is implementing adequate controls to limit waste, fraud, abuse and/or inefficiencies. Frequently, the OIG identifies material weaknesses and works with the Agency to make revisions that promote greater efficiency and effectiveness in the proposed action. During the reporting period, the OIG reviewed 67 proposed actions and submitted comments on 31 of these initiatives. The OIG also provided comments on 6 legislative proposals.

During this reporting period, the OIG identified significant concerns and, through agency adoption of OIG recommendations, prompted more robust controls in and enhancements to a wide variety of agency directives. For example, the OIG reviewed and commented on material weaknesses in proposed regulatory changes to the HUBZone, SDB, and 8(a) Business Development programs. The OIG comments focused on improving regulatory controls over these programs to promote accountability among, and prevent fraud and abuse by, program participants, and to establish clearer eligibility requirements. As another example, the OIG provided extensive comments to help improve noted deficiencies with various regulatory proposals that are part of the Agency's wholesale revision of its size standards. Additionally, the OIG worked with the Office of Capital Access on a proposal to revise SBA's rural lender pilot initiative to promote underwriting based upon the borrower's ability to repay the loans, rather than just on credit scores. As a final example, the OIG worked extensively with SBA's ODA and Business Development Office on the development of electronic application systems to see that effective controls were implemented to limit applicant fraud.

*...the OIG identified significant concerns and, through Agency adoption of OIG recommendations, prompted more robust controls in and enhancements of a wide variety of Agency directives.*

### **OIG Fraud Awareness Briefings**

During this reporting period, the OIG conducted seven fraud awareness presentations for approximately 300 representatives of lending institutions, federal and local agencies, and law enforcement organizations. Topics included loan agent and lender fraud, as well as fraud indicators in SBA's loan, 8(a), government contracting, and surety bond programs. The OIG also gave a presentation on fraud in the small and disadvantaged contracting programs at the DOJ National Procurement Fraud Conference in Richmond, Virginia.

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## Significant OIG Activities

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### OIG Legislative Efforts

During the reporting period, the OIG was involved in several activities to develop legislative amendments to help deter waste, fraud and abuse. The OIG developed a series of legislative proposals to change provisions in the Small Business Act to increase penalties for fraud in SBA programs and to help SBA develop adequate processes to track loan agent involvement in SBA-guaranteed loans. In addition, the OIG participated on the Legislation Committee of the President's Council on Integrity and Efficiency, working with that Committee in discussions with congressional staff-members on legislation affecting the IG community, and on the Legislation Committee of the DOJ National Procurement Fraud Task Force, working on legislative proposals to enhance the investigation and prosecution of procurement fraud. On the latter Committee, the OIG was instrumental in developing proposals to enhance pursuit of fraud under the Program Fraud Civil Remedies Act, which were included in a white paper that the Committee issued in June 2008.

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# Statistical Highlights

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## 6-Month Productivity Statistics April 1, 2008 through September 30, 2008

### Summary of Office-Wide Dollar Accomplishments

### Totals

A. Potential Investigative Recoveries and Fines .....	\$21,353,864
B. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$7,131,300
C. Loans Not Made as a Result of Name Checks .....	\$21,349,351
D. Disallowed Costs Agreed to by Management .....	\$373,258
E. Recommendations that Funds Be Put to Better Use Agreed to by Management .....	\$77,500,000
<b>Total.....</b>	<b>\$127,707,773</b>

### Efficiency and Effectiveness Activities Related to Audits and Other Reports

A. Reports Issued .....	9
B. Recommendations Issued .....	43
C. Dollar Value of Costs Questioned.....	\$1,216,003
D. Dollar Value of Recommendations that Funds Be Put to Better Use .....	\$79,300,000
E. Collections as a Result of Questioned Costs .....	\$0

### Audit and Report Follow-up Activities

A. Recommendations for which Management Decisions were made During the Reporting Period .....	72
B. Disallowed Costs Agreed to by Management .....	\$373,258
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management .....	\$77,500,000
D. Recommendations without a Management Decision at End of Reporting Period .....	9

### Legislation/Regulations/Standard Operating Procedures (SOPs)/Other Reviews

A. Legislation, Regulations, Standard Operating Procedures, and Other Issuances ** Reviewed .....	73
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\*\* This category includes policy notices, procedural notices, action memoranda, and other Agency initiatives, which frequently involve the implementation of new programs and policies.

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# Statistical Highlights

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## 6-Month Productivity Statistics April 1, 2008 through September 30, 2008

### Indictments, Convictions, and Case Activity

A. Indictments from OIG Cases .....	33
B. Convictions from OIG Cases.....	30
C. Cases Opened .....	31
D. Cases Closed.....	30

### Investigations Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations .....	\$21,353,864
B. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$7,131,300
C. Loans Not Approved as a Result of the Name Check Program .....	\$21,349,351
<b>Total.....</b>	<b>\$49,834,515</b>

### SBA Personnel Actions Taken as a Result of Investigations

A. Dismissals.....	0
B. Resignations/Retirements .....	0
C. Suspensions .....	1
D. Reprimands.....	0
E. Other .....	1

### Program Actions Taken as a Result of Investigations

A. Debarments Recommended to the Agency .....	12
B. Debarments Pending at the Agency .....	1
C. Proposed Debarments Issued by the Agency .....	8
D. Final Debarments Issued by the Agency .....	11
E. Proposed Debarments Declined by the Agency .....	2

### OIG Hotline Operation Activities

A. Total Fraud Line Complaints.....	48
B. Total Complaints Referred to Investigations Division .....	31
C. Total Complaints Referred to SBA or Other Federal Investigative Agencies.....	8
D. Total Complaints Referred to Other Entities.....	9
E. Total Complaints Needing No Action.....	0

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# Statistical Highlights

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## Full Year Productivity Statistics October 1, 2007 through September 30, 2008

### Summary of Office-Wide Dollar Accomplishments

### Totals

A. Potential Investigative Recoveries and Fines .....	\$40,119,854
B. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$9,751,039
C. Loans Not Made as a Result of Name Checks .....	\$38,121,995
D. Disallowed Costs Agreed to by Management .....	\$5,424,934
E. Recommendations that Funds Be Put to Better Use Agreed to by Management .....	\$77,793,823
<b>Total</b> .....	<b>\$171,211,645</b>

### Efficiency and Effectiveness Activities Related to Audits and Other Reports

A. Reports Issued .....	20
B. Recommendations Issued .....	105
C. Dollar Value of Costs Questioned.....	\$5,533,003
D. Dollar Value of Recommendations that Funds Be Put to Better Use .....	\$117,000,000
E. Collections as a Result of Questioned Costs .....	\$450,818

### Audit and Report Follow-up Activities

A. Recommendations for which Management Decisions were made During the Reporting Period .....	125
B. Disallowed Costs Agreed to by Management .....	\$5,424,934
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management .....	\$77,793,823
D. Recommendations without a Management Decision at End of Reporting Period .....	9

### Legislation/Regulations/Standard Operating Procedures (SOPs)/Other Reviews

A. Legislation, Regulations, Standard Operating Procedures, and Other Issuances ** Reviewed .....	140
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\*\* This category includes policy notices, procedural notices, action memoranda, and other Agency initiatives, which frequently involve the implementation of new programs and policies.

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# Statistical Highlights

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## Full Year Productivity Statistics October 1, 2007 through September 30, 2008

### Indictments, Convictions, and Case Activity

A. Indictments from OIG Cases .....	76
B. Convictions from OIG Cases.....	59
C. Cases Opened .....	80
D. Cases Closed.....	58

### Investigations Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations .....	\$40,119,854
B. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$9,751,039
C. Loans Not Approved as a Result of the Name Check Program.....	\$38,121,995
<b>Total.....</b>	<b>\$87,992,888</b>

### SBA Personnel Actions Taken as a Result of Investigations

A. Dismissals.....	1
B. Resignations/Retirements .....	2
C. Suspensions .....	1
D. Reprimands.....	0
E. Other.....	1

### Program Actions Taken as a Result of Investigations

A. Debarments Recommended to the Agency .....	20
B. Debarments Pending at the Agency .....	14
C. Proposed Debarments Issued by the Agency .....	13
D. Final Debarments Issued by the Agency .....	19
E. Proposed Debarments Declined by the Agency .....	6

### OIG Hotline Operation Activities

A. Total Fraud Line Complaints.....	133
B. Total Complaints Referred to Investigations Division .....	54
C. Total Complaints Referred to SBA or Other Federal Investigative Agencies.....	15
D. Total Complaints Referred to Other Entities.....	31
E. Total Complaints Needing No Action .....	33

# Appendices

## Appendix I OIG Reports Issued April 1, 2008 through September 30, 2008

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
<i>Disaster Loans</i>				
Disaster Loss Verification Process	8-15	06/20/2008	\$0	\$10,300,000
Audit of the Disaster Loan File Transfer and Servicing Delays	8-17	07/18/2008	\$0	\$0
Early-Defaulted Gulf Coast Disaster Hurricane Loans	8-19	09/12/2008	\$0	\$69,000,000
<b>Program Subtotal</b>	<b>3</b>		<b>\$0</b>	<b>\$79,300,000</b>
<i>Small Business Access to Capital</i>				
Oversight of SBA Supervised Lenders	8-12	05/09/2008	\$0	\$0
Audit of Six SBA Guarantied Loans	8-18	09/12/2008	\$1,216,003	\$0
<b>Program Subtotal</b>	<b>2</b>		<b>\$1,216,003</b>	<b>\$0</b>
<i>Small Business Development, Contracting, Education, and Training</i>				
Acceptance of VBP Group Into the 8(a) Program and Subsequent Contract Award by SBA	8-16	07/18/2008	\$0	\$0
Review of Blackwater Compliance with Small Business Laws As Requested by Cong. Waxman		07/25/2008	\$0	\$0
Non-Native Managers Secured Millions of Dollars from 8(a) Firms Owned by Alaska Native Corporations through Unapproved Agreements that Jeopardized the Firms' Program Eligibility	8-14	08/07/2008	\$0	\$0
<b>Program Subtotal</b>	<b>3</b>		<b>\$0</b>	<b>\$0</b>
<i>Agency Management</i>				
Planning for the Loan Management and Accounting System Modernization and Development Effort	8-13	05/14/2008	\$0	\$0
<b>Program Subtotal</b>	<b>1</b>		<b>\$0</b>	<b>\$0</b>
<b>TOTALS (all programs)</b>	<b>9</b>		<b>\$1,216,003</b>	<b>\$79,300,000</b>



# Appendices

## Appendix II OIG Reports with Questioned Costs

		Reports	Recommendations*	Questioned Costs**	Unsupported Costs**
A.	<b>No management decision made by March 31, 2008</b>	1	1	\$373,258	\$0
B.	Issued during this reporting period	1	6	\$1,216,003	\$0
	Universe from which management decisions could be made in this reporting period – Subtotals	2	7	\$ 1,589,261	\$0
C.	Management decision(s) made during this reporting period				
	(i) Disallowed costs	1	1	\$373,258	\$0
	(ii) Costs not disallowed	0	0	\$0	\$0
D.	<b>No management decision made by September 30, 2008</b>	1	6	\$1,216,003	\$0

\* Reports may have more than one recommendation.

\*\* Questioned costs are those which are found to be improper, whereas unsupported costs may be proper but lack documentation.

## Appendix III OIG Reports with Recommendations that Funds Be Put to Better Use

		Reports	Recommendations*	Recommended Funds For Better Use
A.	<b>No management decision made by March 31, 2008</b>	2	4	\$37,700,000
B.	Issued during this reporting period	2	2	\$79,300,000
	Universe from which management decisions could be made in this reporting period – Subtotals	4	6	\$ 117,000,000
C.	Management decision(s) made during this reporting period			
	(i) Recommendations agreed to by SBA management	2	4	\$77,500,000
	(ii) Recommendations not agreed to by SBA management	2	2	\$ 39,500,000
D.	<b>No management decision made by September 30, 3008</b>	0	0	\$0

\* Reports may have more than one recommendation.

# Appendices

## Appendix IV OIG Reports with Non-Monetary Recommendations

		Reports	Recommendations
A.	<b>No management decision made by March 31, 2008**</b>	<b>8</b>	<b>33</b>
B.	Issued during this reporting period	6	35
	Universe from which management decisions could be made in this reporting period – Subtotals	14	68
C.	Management decision(s) made (for at least one recommendation in the report) during this reporting period	14	65
D.	<b>No management decision made by September 30, 2008*</b>	<b>3</b>	<b>3</b>

\* Adding the number of reports for C. & D. will not result in the subtotal of A. & B. because any single report may have recommendations that fall under both C. & D.

\*\* Information is different from what was previously reported due to database corrections.

## Appendix V OIG Reports From Prior Semiannual Periods with Overdue\* Management Decisions as of September 30, 2008

Title	Report Number	Date Issued	Status
Annual Credit Reviews for Gulf Coast Hurricane Disaster Loan Disbursements	8-10	03/28/2008	The Agency has not responded to one recommendation in the report.

\* Overdue is defined as more than 180 days from the date of issuance.

# Appendices

## Appendix VI OIG Reports Without Final Action as of September 30, 2008

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
0-14	7(a) Service Fee Collections	3/30/00	8/22/00	10/11/08
2-29	Audit of Internal Control Over Colson Services Corporation's Contract as Central Servicing Agent for SBA's Certified Development Company Loan Program	9/16/02	12/12/02	8/15/09
3-08	SBA's Oversight of the Fiscal Transfer Agent for the 7(a) Loan Program	1/30/03	4/15/07	11/30/09
3-30	Early Default Card Systems, Inc	6/19/03	12/21/04	6/30/07
4-16	SBA's Administration of the Procurement Activities of Asset Sale Due Diligence Contracts and Task Orders	3/17/04	***	**
4-34	Audit of SBA's Process for Complying with the Federal Managers' Financial Integrity Act Reporting Requirements	7/29/04	***	**
4-40	Audit of a SBA-guaranteed Loan to Elatec Technology Corporation and HK Equipment, Inc.	9/13/04	4/5/06	6/30/07
4-41	Audit of Selected SBA General Support Systems	9/10/04	11/9/04	9/30/05
4-42	Audit of SBA's Email System	9/10/04	11/15/04	1/12/07
4-44	SBA-Sponsored and Cosponsored Events Conducted by District Offices	9/24/04	***	9/30/05
5-12	Audit of SBA's Information Systems Controls – FY 2004	2/24/05	4/18/05	4/15/05
5-23	SBA's Administration of its Special Appropriation Grants	9/24/04	***	9/1/08
5-28	Review of SBA Procedures For Cash Gifts	9/30/05	2/23/06	2/29/08
6-01	Independent Evaluation of SBA's Information Security Program	10/7/05	***	**
6-04	Audit of SBA's Fiscal Year 2005 Financial Statements	11/14/05	5/10/06	6/30/07
6-07	The 1502 Reporting Process	12/9/05	***	11/14/08
6-10	FY 2005 Financial Statements Management Letter	1/18/06	***	**
6-26	Survey of the Quality Assurance Review Process	7/12/06	4/6/07	3/31/08
7-03	Audit of SBA's Fiscal Year 2006 Financial Statements	11/15/06	1/4/2007	12/31/2007

\*\* Target dates vary with different recommendations.

\*\*\* Management decision dates vary with different recommendations.

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## Appendix VI OIG Reports Without Final Action as of September 30, 2008

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
7-08	Audit of the SBA <i>Express</i> and Community Express Loan Purchase and Liquidations Process	12/29/06	1/11/07	**
7-16	Vulnerability Technology Security Assessment	3/6/07	3/7/07	3/30/07
7-21	SBA's Use of the Loan and Lender Monitoring System	5/2/2007	5/2/07	**
7-26	Audit of Liquidation of Disaster Loans	10/23/07	10/23/07	**
7-28	SBA's Oversight Of Business Loan Center, LLC	7/11/07	9/27/07	12/31/2009
7-29	Quality Assurance Reviews of Loss Verification	07/23/07	***	**
7-31	Audit of the E-Application System	8/20/07	10/16/07	**
8-06	Audit of SBA's FY 2007 Financial Statements - Management Letter	12/14/07	12/18/07	**
8-08	Audit of UPS Capital Business Capital Compliance with Selected 7(a) Lending Requirements	3/21/07	8/1/08	**
8-09	Loan Classification and Overpayments of Secondary Loans	3/26/08	***	**

\*\* Target dates vary with different recommendations.

\*\*\* Management decision dates vary with different recommendations.

# Appendices

**Appendix VII**  
**Summary of Significant Recommendations**  
**From Prior Semiannual Reporting Periods**  
**Without Final Action as of September 30, 2008\***

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
4-16	3/17/04	Develop and implement procedures to monitor contractor compliance with the 50 percent rule when applicable.	5/12/04	9/1/08
4-16	3/17/04	Ensure the amount of subcontracting is reviewed and documented in the contract file for awards of 8(a) and small business set-aside contracts and task orders to small businesses.	5/12/04	9/1/08
4-16	3/17/04	Revise SOP on Procurement and Grants Management as soon as possible, incorporate policies to address the outstanding items described above within 6 months of the issuance of this report.	5/12/04	9/1/08
5-12	2/24/05	For all SBA internal and contractor supported general support systems and major applications, e.g., Egan Mainframe, SBA and Corio UNIX, Network and Windows 2000; Loan Accounting System (LAS), Sybase, Mainframe, Joint Accounting and Administration Management System (JAAMS) Oracle, and related application functions: (1) develop and document policies and procedures clearly outlining what activities should be logged, who should be responsible for reviewing logs, what the logs should be reviewed for, how often logs should be reviewed, and how long logs should be retained; (2) assign responsibility within the Office of the Chief Information Officer for the review of application and general support system security logs; and (3) retain audit logs for a sufficient period of time (at least 90 days).	4/13/05	4/15/06

\* These are a subset of the universe of recommendations without final action.

\*\* Recommendation does not have a management decision.

# Appendices

## Appendix VII Summary of Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of September 30, 2008\*

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
7-08	12/29/06	Determine if loan proceeds on the 45 loans sampled during the audit were used in accordance with the terms of the loan authorizations, and take appropriate corrective actions.	1/11/07	5/31/07
7-08	12/29/06	Review the 2,729 loans for compliance with SBA rules and regulations and improper payments.	1/11/07	6/30/07
7-26	6/1/07	Develop and implement procedures to ensure that all the names and identification numbers of delinquent borrowers are entered into the SBA database and transferred to Treasury.	10/23/07	12/31/08
7-26	6/1/07	Follow up on the 88 loans that were miscoded or which did not identify all responsible parties to ensure that Treasury was sent the correct or missing information.	10/23/07	12/31/07
7-28	7/11/07	Take further action to mitigate the risk posed and to promote consistent and uniform enforcement actions by developing standard operating procedures to complement revised 13 CFR that describe circumstances under which it will suspend or revoke PLP authority or how it will do so.	9/16/07	12/31/09
7-31	9/27/07	Establish appropriate controls to ensure data entered into E-Application is accurately transferred to the Electronic 8(a) Review System.	9/3/08	9/3/09
8-09	3/23/08	Revise current procedures for classifying loans in the Loan Accounting System to ensure that loan currency is not solely based on the next installment due date.	9/3/08	9/3/09

\* These are a subset of the universe of recommendations without final action.

\*\* Recommendation does not have a management decision.

# Appendices

**Appendix VII**  
**Summary of Significant Recommendations**  
**From Prior Semiannual Reporting Periods**  
**Without Final Action as of September 30, 2008\***

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
8-09	3/23/08	Ensure that SBA is in compliance with the 1086 agreement by actively monitoring the Fiscal and Transfer Agent's monthly default reports, adhering to all requirements, and taking appropriate action on the reported loans.	9/3/08	3/31/09
8-09	3/23/08	Modify the 1086 agreement to require lenders to request guaranty purchase when interest is 120 days or more days past due and seek reimbursement from lenders for interest accrued in excess of 120 days on loans SBA purchases directly from the secondary market.	9/3/08	3/31/09
8-09	3/23/08	Discontinue the practice of including the amount of SBA's ongoing guaranty fees in the purchase payment to the Fiscal and Transfer Agent.	9/3/08	3/31/09
8-10	3/28/08	Require written justification for disaster assistance policy that is made outside of the Agency's required policies and procedures clearance process.	**	**

\* These are a subset of the universe of recommendations without final action.

\*\* Recommendation does not have a management decision.

# Appendices

## Appendix VIII Summary of Significant Recommendations April 1, 2007 through September 30, 2008

Report Number	Title	Date Issued	Recommendation
8-12	Oversight of SBA Supervised Lenders	5/9/2008	Establish risk mitigation goals applicable to each loan program and the entire lending portfolio, and performance measures to indicate the progress in achieving the goals.
8-13	Planning for the Loan Management and Accounting System Modernization and Development Effort	5/14/2008	Make cost-effective remediation of mainframe vulnerabilities a priority and ensure that migration of LAS occurs before the current mainframe contract expires in 2012 to reduce SBA's mainframe costs and timely mitigate associated security risks.
8-13	Planning for the Loan Management and Accounting System Modernization and Development Effort	5/14/2008	Design an implement an Enterprise-wide QA function that fully addresses the risk and scope of the LMAS project and ensures the OCIO can fulfill responsibilities under the Clinger-Cohen Act to provide independent quality assurance and oversight of Information Technology investments.
8-14	Non-Native Managers Secured Millions of Dollars from 8(a) Firms Owned by Alaska	8/7/2008	Immediately initiate actions to suspend and terminate the two participants from the 8(a) program based on their repeated non-compliance with their participation agreements, and ongoing refusal to provide truthful and complete information.
8-15	The Disaster Loss Verification Process	6/20/2008	Reinforce the requirement for loss verifiers to meet applicants at damaged properties, note the visit dates in DCMS, and ensure that future QARs determine the extent to which loss verifiers are making site visits.
8-15	The Disaster Loss Verification Process	6/20/2008	Ensure that the MEO adheres to monitoring requirements specified in the Letter of Obligation by finalizing and executing the Quality Assurance Surveillance Plan and holding formal performance evaluation meetings.
8-15	The Disaster Loss Verification Process	6/20/2008	Issue a notice to loan officers instructing them not to assign applications to loss verifiers that have been declined during pre-processing of the applications.



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## Appendix VIII

### Summary of Significant Recommendations April 1, 2007 through September 30, 2008

Report Number	Title	Date Issued	Recommendation
8-16	Acceptance of VBP Group into the 8(a) Program and Subsequent Contract Award by SBA	7/18/2008	Initiate debarment proceedings for the participant under either SBA's nonprocurement debarment and suspension procedures or the FAR. If immediate action is necessary to protect the Government's interest, impose suspension under those rules.
8-17	Disaster Loan File Transfer and Servicing Delays	8/17/2008	Adopt current servicing standards used by the El Paso and Birmingham Servicing Centers for loans that have not been transferred from the PDC.
8-18	Audit of Six SBA Guaranteed Loans	9/8/2008	Seek recovery of \$339,643, plus interest on the guaranty paid by SBA.
8-18	Audit of Six SBA Guaranteed Loans	9/8/2008	Seek recovery of \$639,717, plus interest on the guaranty paid by SBA.
8-18	Audit of Six SBA Guaranteed Loans	9/8/2008	Seek recovery of \$133,713, plus interest on the guaranty paid by SBA.
8-18	Audit of Six SBA Guaranteed Loans	9/8/2008	Seek recovery of \$40,000, plus interest Rico on the guaranty paid by SBA
8-18	Audit of Six SBA Guaranteed Loans	9/8/2008	Seek recovery of \$41,766, plus interest on the guaranty paid by SBA.
8-18	Audit of Six SBA Guaranteed Loans	9/8/2008	Seek recovery of \$21,164, plus interest on the guaranty paid by SBA.
8-19	Early-Defaulted Gulf Coast Disaster Hurricane Loans	9/12/2008	Develop an enhanced training program for all loan officers and supervisory loan officers that emphasizes how to properly evaluate applicant repayment ability and creditworthiness.

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## Appendix IX

### Events/Activities Where SBA Used its Cosponsorship Authority\* Small Business Act, Section 4(h) April 1, 2008 through September 30, 2008

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Emerging 200 Small Business Program	03/2008	11/2008	Boston, MA	Massachusetts District Office
Emerging 200 Small Business Program	04/2008	12/2008	Des Moines, IA	Iowa District Office
Veterans Procurement Business Conference	05/22/2008	05/22/2008	Portsmouth, VA	City of Portsmouth Department of Economic Development
OPERATION: Start Up and Grow	04/10/2008	04/10/2008	Syracuse, NY	New York Business Development Corporation, Onondaga Community College, Onondaga Small Business Development Center
9th Annual Small Business Resource Fair	09/17/2008	09/17/2008	Denver, CO	Denver Public Library, Minority/Women Chambers' Coalition, Denver SCORE Chapter, Colorado Small Business Development Center, Colorado Minority Business and Women's Office
Emerging 200 Small Business Program	06/2008	12/2008	Albuquerque, NM	New Mexico District Office
Series of Small Business Leadership Webcasts	Various dates	Various dates	Online	Liminal Group, LLC
Small Business Expo, Business Matchmaker and Small Business Week Awards Luncheon	05/14/2008	05/14/2008	Buffalo, NY	SCORE Buffalo Niagara - Chapter #35, Business First Inc.

\* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

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## Appendix IX

### Events/Activities Where SBA Used its Cosponsorship Authority\* Small Business Act, Section 4(h) April 1, 2008 through September 30, 2008

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Government Contracts, Software Licensing and Consulting Services Training	06/2008	06/2010	Washington, DC	J.M. George, P.C.
Emerging 200 Small Business Program	05/2008	12/2008	Atlanta, GA	Georgia District Office
Emerging 200 Small Business Program	05/2008	12/2008	Chicago, IL	Illinois District Office
Emerging 200 Small Business Program	04/2008	12/2008	Milwaukee, WI	Wisconsin District Office
AMERICA WEST Conference for SBA Lender	06/09/2008	06/11/2008	Spokane, WA	Evergreen Community Development Association
Matchmaking/2nd Annual Government Small Business Conference	05/08/2008	05/08/2008	Tampa, FL	University of South Florida Small Business Development Center
Small Business Economic Summit	06/09/2008	06/09/2008	New York, NY	National Minority Business Council, Inc.
Series of events celebrating HR5050	04/24/2008	04/24/2008	New York, NY	National Women's Business Council and SCORE

\* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

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**Appendix IX**  
**Events/Activities Where SBA Used its Cosponsorship Authority\***  
**Small Business Act, Section 4(h)**  
**April 1, 2008 through September 30, 2008**

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Small Business Week Event	05/22/2008	05/22/2008	Portland, OR	Portland Score Chapter, West Coast Bancorp, Resource Capital CDC, Oregon Business Development CDC, Cascades West Financial Services CDC, Oregon Community Economic Development, KBNP Radio, Key Bank, Evergreen CDC, United Western Bank, US Bank, Capital Pacific Bank, Albina Bank, Oregon Business Magazine, Port of Portland-Municipal Agency, Microsoft Corp., Schwabe, Williamson & Wyatt
The Government Contractor Workshop Series	05/14/2008	09/09/2008	Baltimore, MD	Greater Baltimore Urban League
US SBA Awards Luncheon	06/05/2008	06/05/2008	Charleston, WV	West Virginia Chamber of Commerce
Fullerton SBA Day	06/21/2008	06/21/2008	Fullerton, CA	City of Fullerton Economic Development Department, Fullerton Chamber of Commerce, Santa Ana Regional SBDC Network
Emerging 200 Small Business Program	05/2008	10/2008	Baltimore, MD	Maryland District Office
Connecticut XPO for Business	06/05/2008	06/05/2008	Hartford, CT	Connecticut Business and Industry Association
Emerging 200 Small Business Program	06/2008	10/2008	Philadelphia, PA	Pennsylvania District Office

\* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

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### Appendix IX

**Events/Activities Where SBA Used its Cosponsorship Authority\***  
**Small Business Act, Section 4(h)**  
**April 1, 2008 through September 30, 2008**

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Business and Economic Development Conference.	05/29/2008	05/29/2008	San Juan, PR	Department of the Interior, National Park Service
Workshops on Pre Business Planning, How To Start a Small Business; Writing a Business Plan, SBA Loan Programs; & How To Market Your Program	05/2008	07/30/2008	Norcross, GA	City of Hope Community Development Corporation
Cyber Security is Good Business	07/01/2008	09/20/2008	Buffalo, NY, Houston, TX, Kansas City, MO, Sacramento, CA, Honolulu, HI, Milwaukee, WI, Springfield, IL, Chicago, IL, St. Louis, MO	Federal Bureau of Investigation, National Institute of Standards & Technology
Business Workshop and Matchmaking Event	06/10/2008	06/10/2008	Portland, OR	ASTRA Women's Business Alliance, The Minority Business Opportunity Committee
Annual SBA Small Business Newspaper Insert	05/24/2008	05/24/2008	Denver, CO	The Denver Business Journal
Small Business Week Breakfast	06/20/2008	06/20/2008	Washington, DC	Business Development Assistance Group, Inc.

\* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

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## Appendix IX

### Events/Activities Where SBA Used its Cosponsorship Authority\* Small Business Act, Section 4(h) April 1, 2008 through September 30, 2008

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Ongoing series of Small Business courses in Spanish	03/2008	10/2008	Los Angeles, Orange, Ventura, Riverside, CA	La Opinion, L.P., Comerica, LA SBDC and Santa Ana SBDC
Emerging 200 Small Business Program	06/2008	10/2008	New Orleans, LA	Louisiana District Office
4th Annual Service Disabled and Veterans Small Business Conference - Contacts for Contracts Opportunities	09/17/2008	09/18/2008	Albuquerque, NM	Santa Fe Community College thru NM SBDC, New Mexico Department of Veterans' Services
Small Business Resource Activities	06/2008	06/2010	Des Moines, IA	Greater Des Moines Partnership
SBW Awards Luncheon	06/4/2008	06/4/2008	Los Angeles, CA	Los Angeles Chamber of Commerce
SBA/HOBY International Business & Entrepreneurship Program	07/28/2008	07/28/2008	Washington, DC	Hugh O'Brian Youth Leadership

\* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

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## Appendix IX

### Events/Activities Where SBA Used its Cosponsorship Authority\* Small Business Act, Section 4(h) April 1, 2008 through September 30, 2008

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
First State Bank of Newcastle	09/2/2008	05/9/2009	Newcastle, WY	Women's Business Roundtables
Annual American Indian Conference	9/29/2008	10/01/2008	Worley, ID	American Indian Alaska Native Tourism Association
Vermont's 12th Annual Women's Economic Opportunity Conference	10/25/2008	10/25/2008	Randolph, VT	The Office of U.S. Senator Patrick Leahy, Vermont Small Business Development Center, U.S. Department of Labor, Women's Bureau, Vermont Agency of Transportation, Vermont Commission on Women, Vermont Commission on Women Education and Research Foundation, Women's Agricultural Network, Vermont Department of Economic Development, Vermont Women's Business Center, Vermont Department of Labor, Vermont Manufacturing Extension Center, Vermont Works for Women, Vermont Agency of Human Services, Office of Economic Opportunity, Vermont Interactive Television, Central Vermont Community Action Council, Office of the Vermont State Treasurer
BYOB - Be Your Own Boss Workshop	07/14/2008	09/23/2008	Southern Oaks, Village, MWC, Warr Acres, Choctaw, Belle Isle, OK	Oklahoma Metropolitan Library System, Oklahoma City Chapter SCORE

\* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

# Appendices

## Appendix IX

### Events/Activities Where SBA Used its Cosponsorship Authority\* Small Business Act, Section 4(h) April 1, 2008 through September 30, 2008

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Spirit of Small Business Awards	08/17/2008	08/17/2008	Santa Barbara, CA	Pacific Coast Business Times
2008 Post Awards Training	06/23/2008	06/25/2008	Washington, DC	Association of Women's Business Centers
Lunch and Learn Seminars	Various dates in 2008		West Fargo, ND	West Fargo Chamber of Commerce
Lunch and Learn Workshops	06/2008	11/2008	Fargo, ND	Homebuilders Association of Fargo-Moorhead
2008 Congressional Briefing	07/23/2008	07/23/2008	Columbia, SC	USDA Rural Development, US Department of Housing and Urban Development
SBA Tri-County Faith Based Financing Conference	10/09/2008	10/09/2008	Ontario, CA	AmPac Tristate CDC, Inland Empire WBC
Survive the Economic Storm Small Business Forum	08/21/2008	08/21/2008	Honolulu, HI	Pacific Business News, Altres HR
Grow Your Business-Small Business Seminar	07/24/2008	07/25/2008	San Mateo, CA	World Journal, San Mateo Public Library, City of San Mateo

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## Appendix IX

### Events/Activities Where SBA Used its Cosponsorship Authority\*

#### Small Business Act, Section 4(h)

April 1, 2008 through September 30, 2008

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Hispanic Business Development Conference	09/29/2008	09/29/2008	Garden City, NY	County of Nassau Office of Minority Affairs, Verizon Communications, Inc., New York Business Development Corporation
Grow Your Business Seminar	10/2008	06/2009	West Hartford, Ct	The West Hartford Chamber of Commerce
SBA Key Business Resources for Women & the Ohio Keys to Success Award Ceremony	09/30/2008	09/30/2008	Fairfield, OH	Ohio Department of Development Entrepreneurship & Small Business Division, Ohio Business Connection
Women's Business Forum	09/15/2008	09/15/2008	Media, PA	Congressman Joe Sestak
2008 Albany Matchmaker	09/05/2008	09/05/2008	Albany, NY	New York Business Development Corporation, University of Albany SBDC
ABC's of Pitching your Venture to Investors	10/07/2008	11/05/2008	Columbus, OH	The National CEO Leadership Institute, Inc., SCORE Columbus Chapter
Watch Your Small Business Grow Workshop	09/22/2008	09/22/2008	Culpeper, VA	Congressman Eric Cantor

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### Events/Activities Where SBA Used its Cosponsorship Authority\* Small Business Act, Section 4(h) April 1, 2008 through September 30, 2008

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Fact Sheet	08/19/2008	08/19/2008	Washington, DC	Environmental Protection Agency
MEDWeek Awards Program Symposium	09/05/2008	09/05/2008	Indianapolis, IN	The City of Indianapolis
Fact Sheet/Online Training Module	09/08/2008	09/08/2008	Washington, DC	U.S. Treasury
Growth Opportunities	10/08/2008	03/05/2008	Amherst, NY	SCORE Buffalo Niagara, Amherst Industrial Development Agency, Business First, Inc.
Business Workshops	10/09/2008	10/09/2010	Atlanta, GA	Asian Indian Chamber of Commerce
Doing Business with the GSA: Selling to the Federal Government	10/23/2008	10/23/2008	Burlington, VT	Vermont Department of Economic Development (PTAC)
Rhode Island Minority Enterprise Development Week 2008	10/14/2008	10/17/2008	Warwick, RI	Hispanic American Chamber of Commerce
Trade Secrets, an ETAP program	10/22/2008	02/18/2009	Santa Ana, CA	Orange County Hispanic Chamber of Commerce, U.S. Commercial Service, Orange County Center for International Trade Development, ExIm Bank

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# Appendices

## Appendix X Legal Actions Summary April 1, 2008 through September 30, 2008

<b>State</b>	<b>Program</b>	<b>Alleged Violation(s) Prosecuted</b>	<b>Legal Action</b>	<b>Investigated Jointly With</b>
AL	DL	An individual altered a bill of sale for a houseboat that he used as his primary residence in order to secure an SBA disaster loan of \$21,800. He also made false statements to the SBA regarding the use of loan proceeds.	Individual sentenced to 5 years probation, and \$17,790 in restitution.	None
CA	BL	The former owner of a rawhide export business applied for an SBA Export Working Capital line of credit for \$2 million. In order to receive more cash advances from this line of credit, the owner altered purchase orders, supplier invoices, and contracts. He also falsified financial statements and tax returns that he submitted to the bank.	Owner pled guilty.	FBI
CA	BL	Three individuals were involved in a identity theft ring operated for the purpose of fraudulently obtaining SBA Express lines of credit, conventional and/or residential loans, and credit cards.	One individual pled guilty to a criminal information and was sentenced to 12 months and 1 day in prison, 5 years supervised release, and \$79,790 in restitution. Another, who had previously been convicted in state court, pled guilty in federal court. The third has been indicted.	LAPD, CDOL, DHS/ICE, UPSIS, SSA/OIG
CA	BL	Three individuals are alleged to be involved in a sophisticated organized fraud ring using fraudulent documents to create false identities in order to apply for SBA Express loans, as well as other types of credit.	Three individuals indicted.	FBI, DHS/ICE, USPIS, SSA/OIG

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## Appendix X Legal Actions Summary April 1, 2008 through September 30, 2008

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
CA	BL	A woman and her son defrauded the SBA and two banks of \$550,000 by creating “shell” businesses and applying for SBA loans for these businesses. Their scheme enabled them to acquire SBA loan funds, which they then funneled to an offshore bank account in St. Kitts.	The government of St. Kitts wired \$149,213 to the U.S. Treasury Forfeiture Fund as a result of DOJ freezing the assets of the mother and son. Both fled to Greece to avoid prosecution and remain fugitives.	IRS/CID
CA	BL	The owner of a now-defunct airplane parts business obtained a \$999,000 SBA-guaranteed business loan to purchase another parts business. The purchaser failed to disclose that he had borrowed the \$125,000 cash injection from an associate of the seller.	Owner pled guilty.	FBI
CO	BL	The former office manager for a plastic surgeon used the doctor’s personal information and signature stamp without his authorization to fraudulently obtain two SBA-guaranteed Express loans, totaling \$150,000, and an additional \$180,948 in non-SBA loans.	Office manager pled guilty and was sentenced to 60 months in prison and 5 years supervised release. Restitution will be determined at a later date.	DDAO
DC	BL	Two individuals facilitated the creation of a technology company as an improper investment vehicle for an SBIC by assisting the SBIC manager and others conceal material information and self-dealing from SBA. They also helped the manager structure other entities that he controlled so as to conceal relationships that violated SBA regulations.	The defendants entered into a settlement agreement. They agreed to pay \$7,950,000 to the SBA receivership and \$2 million to DOJ.	SBA/OGC

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## Appendix X Legal Actions Summary April 1, 2008 through September 30, 2008

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
DE	BL	A state of Delaware employee and a business owner obtained a \$309,000 SBA-guaranteed loan by providing false documents pertaining to the ownership of abandoned stock certificates and making false statements regarding the source of the required equity injection.	State employee sentenced to 60 months in prison, 3 years supervised release, and restitution of \$1,245,248 to be paid jointly with the business owner. Business owner sentenced to 51 months in prison, 3 years supervised release, and is jointly responsible for up to \$1,191,200 of the restitution ordered.	FBI, IRS/CID
FL	DL	An individual falsely claimed that his apartment in New Orleans had been damaged as a result of Hurricane Katrina in order to receive a \$40,000 SBA disaster loan.	Individual sentenced to 4 months in prison, 3 years supervised release, and restitution of \$40,415.	None
IL	BL	A husband and wife conspired to bribe an SBA official in order to influence the award of a \$594,000 SBA 504 loan for their interstate trucking firm. The husband offered the official a \$5,000 bribe in exchange for overlooking the fact that he falsely claimed to be a U.S. citizen on his loan application.	Husband sentenced to 24 months in prison, 2 years supervised release, and a fine of \$7,500. Wife previously sentenced to one year probation.	None
KY	GC	A business consultant misrepresented the location of his company's main office, as well as the number of employees living in a HUBZone, in order to influence SBA to certify his company as a HUBZone business.	Consultant indicted and found guilty in a jury trial.	DCIS
LA	DL	An individual provided altered building permits in order to induce SBA to release Hurricane Katrina disaster funds for a \$19,500 home loan and a \$49,600 business loan.	Individual pled guilty.	None

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## Appendix X Legal Actions Summary April 1, 2008 through September 30, 2008

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
LA	DL	A pastor applied for a \$252,000 SBA physical disaster loan and a \$35,000 grant from the Bush/Clinton Katrina Fund to rebuild his church, but instead used a portion of the funds for his own personal benefit.	Pastor pled guilty and was sentenced to 17 months in prison, 3 years supervised release, and restitution of \$34,754.	FBI
LA	BL	A certified public accountant (CPA) impersonated an SBA employee and provided false documentation in order to obtain SBA-guaranteed loans, totaling approximately \$2.9 million, for her employer as part of the Hurricane Katrina relief effort.	CPA sentenced to 120 months in prison, 5 years supervised release, and restitution of \$505,008. Due to investigative efforts, only \$5,000 of the \$2.9 million was disbursed.	USSS
LA	DL	An individual applied for two SBA disaster loans to repair damages related to Hurricane Katrina: a home loan for her primary residence and a business loan for her rental property. She received the home loan in the amount of \$150,000 but not the business loan. It is alleged that she used the proceeds of the SBA disaster home loan to make repairs to her rental property.	Individual indicted.	HUD/OIG
LA	DL	A licensed real estate agent is alleged to have falsely claimed an address in the hurricane area as her primary residence when applying for a \$125,600 SBA disaster home loan and a \$291,600 SBA disaster business loan. She is also suspected of submitting bogus repair receipts and residential leases.	Real estate agent indicted.	DHS/OIG
MD	GC	Three individuals conspired to violate SBA requirements relating to control and ownership of firms participating in the SBA 8(a) program. The owner of an 8(a) asbestos abatement company failed to disclose that two non-disadvantaged individuals were providing critical bonding, insurance, financial support, and control over the company.	The company and three individuals pled guilty to criminal informations.	EPA/CID, NCIS, IRS/CID, FBI

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## Appendix X Legal Actions Summary April 1, 2008 through September 30, 2008

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
MI	BL	An individual conspired with his brother and others to fraudulently acquire a \$990,000 SBA-guaranteed loan issued by a non-bank lender. The conspiracy was furthered through the use of a false sales agreement, an inflated purchase price, and a bogus equity injection. The purpose of the scheme was to refinance and consolidate delinquent debts owed by one brother's business using proceeds from the loan made to the other brother who acted as a "straw buyer."	One brother sentenced to 36 months probation and ordered to pay restitution of \$658,809 jointly with the other brother who was previously sentenced.	USSS
MI	BL	A former personal banker issued a \$1,680,000 cashier's check based on a non-sufficient funds credit card check written by a bank customer. This unfunded check was used to close on the purchase of a house with the intent to promptly resell or "flip" the property to a straw buyer. The personal banker worked for a bank vice president who previously pled guilty to charges relating to fraud against SBA.	Former personal banker pled guilty.	USSS
MI	BL	A loan broker allegedly solicited straw purchasers to apply for 12 fraudulent loans, while conspiring with a title company co-owner to defraud the SBA. Because these real estate transactions overstated the actual value of the properties and misrepresented the terms of the sales in supporting paperwork, excess proceeds were generated from the sales. These funds were then diverted to the two co-conspirators and others.	Both indicted.	USSS
MI	BL	The buyer and the seller of a gas station/mini mart conspired to falsely represent that a \$300,000 equity injection was being made in order to secure an \$880,000 SBA-guaranteed loan for the buyer.	Buyer sentenced to 5 years probation and restitution, which after liquidation of property amounted to \$577,004. Seller named in a superseding indictment.	USSS

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### Appendix X Legal Actions Summary April 1, 2008 through September 30, 2008

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
MI	BL	A straw buyer provided false information concerning her financial status and the required equity injection to obtain an \$825,000 SBA-guaranteed loan, which was actually for her brother-in-law who was the true owner and intended operator of the business.	Individual sentenced to 3 months in prison, 3 years supervised release, and a \$5,000 fine.	USSS
MS	DL	An individual allegedly indicated that his primary residence was in an area affected by Hurricane Katrina when it was not. He received a \$179,400 SBA loan as well as assistance from FEMA.	Individual indicted.	DHS/OIG, HUD/OIG, MSAO
MS	DL	An individual claimed her primary residence was in Bay St. Louis, MS, when she was actually living in Houston, TX. She and her husband received \$80,600 in Hurricane Katrina disaster assistance from the SBA and \$11,000 from FEMA.	Both pled guilty.	DHS/OIG, HUD/OIG, USDA/OIG MSAO
MT	BL	A bank failed to reveal to the SBA that a company applying for a \$1.8 million line of credit had been previously turned down by the SBA. The initial denial was due to the fact that a large portion of the loan was going to be used to pay off an existing line of credit with the same bank.	Bank agreed to waive claim to SBA's loan guarantee worth \$999,900 and SBA's fee rebate worth \$34,996. The bank was required to pay \$15,003 to the DOJ.	None
NY	BL	Three individuals are alleged to be members of an organized group of foreign nationals who obtained credit cards and loans from various financial institutions using false identities, documents, and businesses. The individuals are suspected of obtaining a total of 11 SBA Express loans totaling \$440,000.	All three indicted.	USPIS



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## Appendix X Legal Actions Summary April 1, 2008 through September 30, 2008

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
NY	DL	The owner of a business that sells motor vehicles and parts forged endorsements on SBA issued two-party checks totaling \$131,600. The owner was supposed to use the checks to pay off creditors, but instead, he deposited them into the business account.	Owner sentenced to 12 months and 1 day in prison, 5 years supervised release, and was ordered to pay restitution of \$646,900 to the SBA.	USPIS
NY	BL	The owner of a realty company allegedly failed to disclose that he had other outstanding loans when he applied for two SBA-guaranteed Express lines of credit totaling \$142,800.	Owner indicted.	None
PA	BL	A businessman fraudulently obtained a \$993,000 SBA-guaranteed loan by pledging collateral not belonging to him and falsely claiming to have made a \$250,000 cash injection. In support of the loan application, an accountant prepared a fraudulent tax record, at the direction of the loan broker, to increase the likelihood of the loan being approved.	The loan broker was sentenced to 30 months in jail, 3 years supervised release, and restitution of \$993,000 to be paid jointly and severally with the business-man who was previously sentenced. The accountant was sentenced to 3 years probation, a \$3,000 fine, and \$40,000 in restitution.	FBI
SD	BL	The part-owner of a marina provided false tax returns in support of an application for a \$239,000 SBA 504 loan to purchase property and build a new marina.	Part-owner sentenced to 36 months in prison, 1 year supervised release, and restitution of \$89,041.	IRS/CID
TX	DL	An individual allegedly submitted a disaster loan application to SBA on behalf of a seafood company falsely claiming that the company had sustained \$2.8 million in disaster damage resulting from Hurricane Rita.	Individual indicted.	DHS/ATF, DHS/OIG

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## Appendix X Legal Actions Summary April 1, 2008 through September 30, 2008

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
TX	DL	The president of a lumber company and her husband purported to own several vacant lots, which they knew did not belong to them. The couple offered these lots to SBA as collateral in order to obtain a \$25,800 Economic Injury Disaster Loan.	The couple was ordered to jointly pay \$25,185 in restitution. The president was sentenced to 60 days home confinement and 4 years probation. Her husband was sentenced to 60 days in prison, 60 days home confinement, and 3 years supervised release.	None
TX	GC	Six individuals participated in a multimillion-dollar fraud scheme to steer fixed Department of Defense contracts to a company owned by one of the defendants.	Six individuals sentenced to between 60 and 84 months in prison and 3 years supervised release. Collectively the six were ordered to pay \$2.7 million in restitution.	FBI, IRS/CID, USA/CID, GSA/OIG, DOI/OIG, DCIS
VA	BL	Two individuals engaged in an extensive mortgage fraud scheme involving selling or refinancing residential properties despite the presence of a number of liens and judgments, including a judgment related to a defaulted SBA-guaranteed loan.	One individual pled guilty to an information and was sentenced to 70 months in prison, 3 years supervised release, and restitution of \$3,925,597 to be paid jointly and severally with the other defendant. Second individual sentenced to 16 months in prison, 3 years supervised release, and is jointly and severally responsible for up to \$650,614 of the restitution ordered.	FBI, USPIS, USSS

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## Appendix X

### Legal Actions Summary April 1, 2008 through September 30, 2008

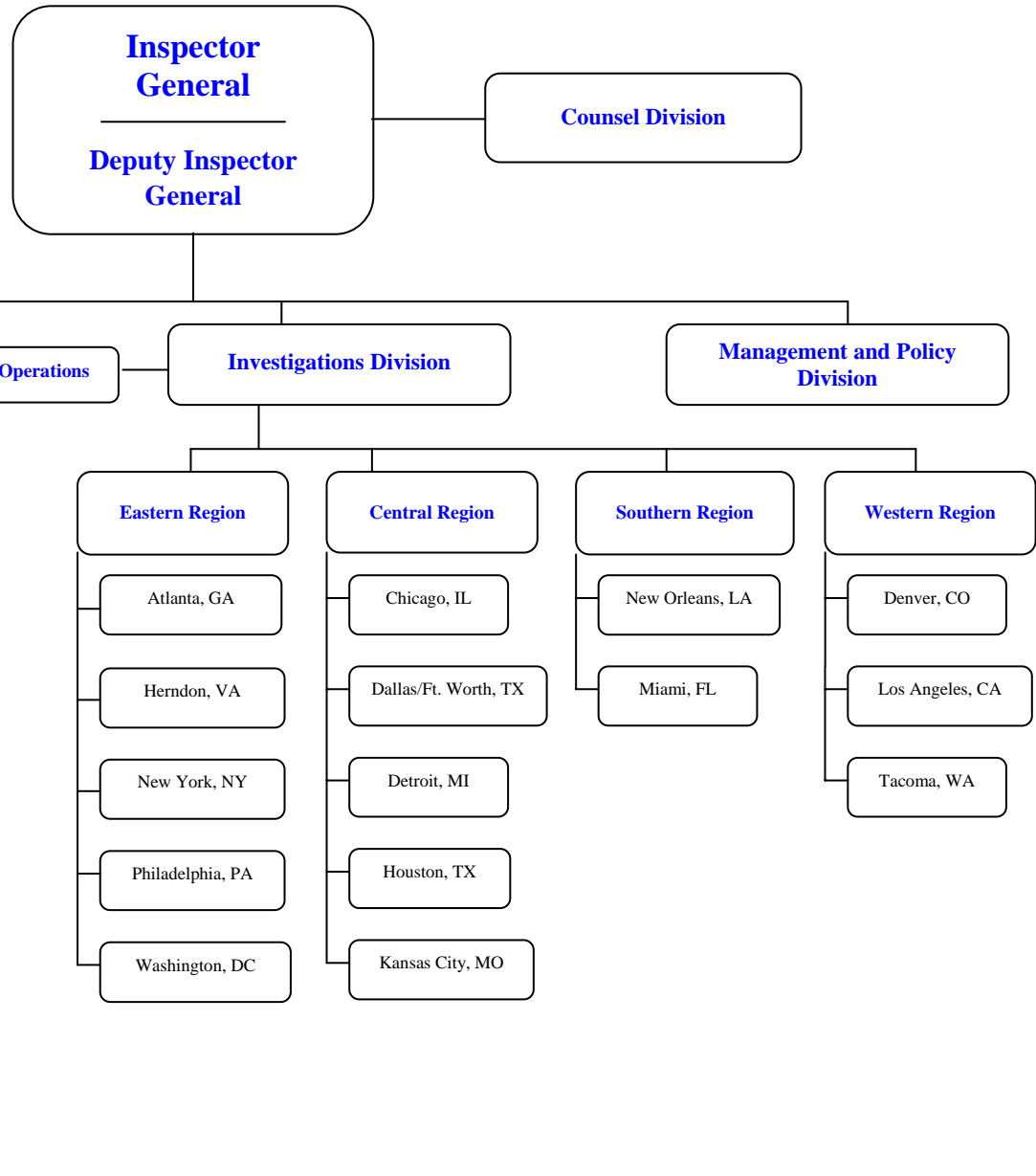
State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
WA	SB	A now defunct construction company obtained SBA surety bonds in order to perform public works contracts for state agencies and city municipalities. The president of the company falsely stated that he paid his subcontractors and suppliers and that his company was out of funds when, in fact, he was diverting contract proceeds of about \$87,000 to his personal use.	President pled guilty.	FBI, NICB

**Program Codes:** BL=Business Loans; DL=Disaster Loans; GC=Government Contracting and Section 8(a) Business Development; SBDC=Small Business Development Center; SB=Surety Bond Guarantee

**Joint-investigation Federal Agency Acronyms:** CDOI=California Department of Insurance; DCIS=Defense Criminal Investigative Service; DDAO=Denver District Attorney's Office; DHS/ATF=Department of Homeland Security/Alcohol, Tobacco and Firearms; DHS/ICE=Department of Homeland Security/Immigration and Customs Enforcement; DHS/OIG=Department of Homeland Security/Office of Inspector General; DOI/OIG=Department of Interior/OIG; EPA/CID=Environmental Protection Agency/Criminal Investigations Division; FBI=Federal Bureau of Investigation; GSA/OIG=General Services Administration/OIG; HUD/OIG=Housing and Urban Development/OIG; IRS/CID=Internal Revenue Service/CID; LAPD=Los Angeles Police Department; MSAO=Mississippi State Auditor's Office; NCIS=Naval Criminal Investigative Service; NICB=National Insurance Crime Bureau; SBA/OGC=Small Business Administration/Office of General Counsel; SSA/OIG=Social Security Administration/OIG; USA/CID=United States Army/CID; USDA/OIG=U.S. Department of Agriculture/OIG; USPIS=United States Postal Inspection Service; USSS=United States Secret Service



**Appendix XI**  
**Small Business Administration**  
**Office of Inspector General**





# Make A Difference!

To promote integrity, economy, and efficiency, we encourage you to report instances of fraud, waste, or mismanagement to the SBA OIG HOTLINE.\*

## Call:

1-800-767-0385 (Toll Free)

## Write or Visit:

U.S. Small Business Administration  
Office of Inspector General  
Investigations Division  
409 Third Street, SW. (5<sup>th</sup> Floor)  
Washington, DC 20416

Or E-mail Us at [OIGHotline@SBA.GOV](mailto:OIGHotline@SBA.GOV)

\*Upon request, your name will be held in confidence.