

**SEMIANNUAL REPORT TO CONGRESS
OFFICE OF INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION**

PERIOD: OCTOBER 1, 1998 TO MARCH 31, 1999

Foreword

Pursuant to Public Law 95-452, the U.S. Small Business Administration's (SBA) Office of Inspector General (OIG) is required to prepare a Semiannual Report of its activities for the Congress of the United States. This report covers the full range of SBA/OIG activities from October 1, 1998 to March 31, 1999.

SBA has been given an important mission by Congress – to help small businesses, a major sector of the U.S. economy, grow and thrive. The OIG plays a critical role in ensuring that SBA programs are delivered effectively to their intended beneficiaries and in keeping the Congress and the Administration informed as to the results of those programs. As I begin my term as Inspector General, I look forward to working closely with Administrator Alvarez and the Congress to make SBA's programs and operations even more effective and responsive to the needs of the small business community.

SBA has indeed been fortunate to have had four IGs (James Hoobler, Charles Gillum, Mary Wieseman, and Paul Boucher) who have been strong, fair, and innovative leaders dedicated to the public good. My goal will be to continue this tradition of personal integrity, excellence, and professionalism in the office.

This semiannual report reflects the OIG's accomplishments under the leadership of Karen Lee, who served as Acting Inspector General from November 1997 through this reporting period. She did an outstanding job in completing many ongoing projects and in moving the OIG forward on key initiatives. The entire OIG staff also deserves recognition for continuing to carry out the important business of the office in a highly effective and professional way. They have truly kept the public trust and provided SBA managers with the quality oversight and assistance they have come to expect from the OIG. Finally, because the OIG does not work in a vacuum, I would like to express the OIG's appreciation for the ongoing support and interest of SBA's senior staff. I look forward to continuing this professional cooperative relationship.

Phyllis K. Fong
Inspector General

Table of Contents

Title	Page
Table of Contents.....	ii
Executive Summary	1
Business Loan Program.....	6
Disaster Loan Program.....	19
Small Business Investment Companies	27
Surety Bond Guarantees.	31
Government Contracting Programs	34
8(a) Business Development.....	36
Entrepreneurial Development (Business Education and Training)	38
Agency Management and Financial Activities.....	40
Organization, Resources, and Management Initiatives.....	46
Profile of Operating Results.	51
FY 1999 Productivity Statistics.....	54
Statutory Reporting Requirements.....	55
Table of Appendices	56

Executive Summary

This report on the activities of the Office of Inspector General (OIG) of the Small Business Administration (SBA) is submitted pursuant to Section 5(b) of Public Law (P.L.) 95-452, the Inspector General Act of 1978, as amended. It summarizes OIG activities for the 6-month period from October 1, 1998 to March 31, 1999.

Summary of Accomplishments

OIG audits, inspections, and investigations over the last 6 months achieved \$21,924,572 in potential dollar results, 25 indictments, and 27 convictions. The dollar results consist of \$2,934,063 in potential recoveries, including judicially awarded fines and restitution; \$16,258,765 in management avoidances; \$883,316 in disallowed costs agreed to by SBA's management; and \$1,848,428 in management commitments to use funds more efficiently.

The OIG alone could not have achieved the accomplishments set forth in this report to the Congress. The results for this reporting period reflect the cooperation and support of other audit, inspection, and investigative organizations such as: the Federal Bureau of Investigation (FBI); U.S. Marshals Service; Internal Revenue Service (IRS); Immigration and Naturalization Service (INS); Bureau of Alcohol, Tobacco and Firearms (ATF); other Federal OIGs; Department of Justice (DOJ) prosecutors; state and local law enforcement agencies; and most importantly, the actions of SBA program managers and employees. Indeed, much of our success is due to referrals made by conscientious SBA employees.

Highlights of the Past Six Months

Efforts to Improve SBA Program Management

Audits of Section 7(a) Lending Find Lender Non-Compliance with Required Procedures

A nationwide audit of Section 7(a) business loans neared conclusion in this period. Reports on North Carolina and Colorado loans were issued, leaving Kansas City as the eighth and last district in the sample to be completed. After the Kansas City report is issued, a summary report on systemic issues identified in the eight audits will be prepared in the second half of fiscal year (FY) 1999.

The purpose of the audit is to determine if Section 7(a) loans are originated, disbursed, and used in accordance with 22 key procedures. The eight districts were randomly selected, and 30 loans in each district were randomly picked for examination.

Results in North Carolina and Colorado were similar to results in the preceding five reports, with 26 of 60 loans having at least

one noncompliance with the 22 procedures. Typical lender errors are lack of IRS tax verification, failure to verify use of proceeds, and failure to verify equity injections. Recommendations are being made to each district office.

Audit of Northridge Disaster Early Defaults Finds Improvements Needed in Loan Origination and Liquidation

An audit of defaulted loans from the 1994 Northridge, California, earthquake disaster found that SBA needed to improve loan origination and the review of defaulted loans.

Based on sample results that 19 of 75 defaulting borrowers had poor credit or cash flow at loan origination, the auditors estimated that 2,316 Northridge loans totaling \$90 million could have had the same problem and should not have been made.

The auditors also identified 21 defaulting borrowers who had assets and income available for repayment that had not been identified by SBA. Another 15 borrowers in the sample had assets and income that SBA had already identified. The auditors estimated that borrowers on 2,560 defaulted Northridge loans totaling \$80 million could have had unidentified assets and income that could be used to repay loans.

SBA made 124,000 loans totaling more than \$4 billion after the Northridge earthquake. By December 1997, there were 9,144 loans totaling \$286 million in default; the audit sample came from the defaulted loans.

Audits of Three Surety Bond Companies

Found Inappropriate Claims

Audit reports were issued on three sureties this period, with all three audits finding significant noncompliance with SBA procedures. More than half of 51 bonds at one surety had deficiencies, which resulted in \$1.3 million owed to SBA. Another surety did not follow proper procedures in 11 of 24 bonds reviewed, with a finding that \$803,926 of loss claims were unallowable because of improper allocation of expenses and unallowable expenditures for claims settlement.

In addition to claims issues, sureties were cited for issuing bonds after project starts and splitting bonds to stay under the dollar maximum for SBA guarantees.

The Top Ten Management Issues Facing SBA Identified by the OIG

In response to separate requests from the Senate Committee on Governmental Affairs, the House Majority Leader, and the House Committee on Government Reform and Oversight, the OIG identified what it considered to be the top 10 management issues facing SBA. The issues identified were derived from recent audit oversight activities, as well as other program vulnerabilities identified through investigations conducted over the last few years. The OIG also recommended actions that would in its view resolve these issues. The issues identified are the following:

- SBA needs to hold lenders more accountable for errors in loan processing and servicing.
- Borrowers need to be held accountable for misuse of funds.

- SBA is not maximizing recoveries in servicing and liquidation.
- Fraud deterrence and detection requires continued emphasis.
- Contract dollars are too concentrated among relatively few 8(a) companies whose owners remain in the program after amassing substantial wealth.
- SBA does not adequately enforce its rules precluding excessive subcontracting.
- SBA should more closely monitor 8(a) companies.
- SBA needs to develop and implement a program-based, cost accounting system.
- SBA needs to improve its information system controls.
- The Paperwork Reduction Act and the Privacy Act need to be rationalized with the Government Performance and Results Act (GPRA) to permit effective measurement of performance outcomes.

GPRA Activities

The OIG has expanded its efforts to assist SBA in implementing GPRA. In addition to providing consultative advice on the development of SBA's GPRA plans, the Auditing and Inspection and Evaluation Divisions have begun to address implementation issues. In FY 1999 the OIG plans to initiate GPRA audits of five SBA programs and to include GPRA components in all OIG inspections. Finally, the OIG is currently developing a new OIG strategic plan for FY

2001- 2006.

Activities to Enhance Fraud Detection and Deterrence

Results of False Tax Return Cases Increase

Over the last 8 years, the OIG has received 434 allegations that false tax returns were submitted in support of SBA business or disaster loan applications. These fraud referrals now involve loan applications totaling \$126 million that have been submitted to 51 SBA district offices. To date, 131 individuals have been indicted on criminal charges: 127 have been **adjudicated guilty**; 3 indictments were dismissed; and 1 other has not yet gone to trial.

Affirmative Civil Enforcement Program

The OIG continues to produce results from its participation in the DOJ's Affirmative Civil Enforcement (ACE) program. This program, which is implemented by U.S. Attorney offices around the country, targets cases which might not be prosecuted criminally because of the minimal dollar amounts involved, absence of financial loss to the Government, or because other facts of the case might not support a criminal prosecution.

During the 6 years that the OIG has been involved with the ACE program, we have had a total of 110 successful cases, resulting in \$3,021,820 in civil penalties and \$5,009,126 in recoveries by SBA. These successes come from actions in 20 states and the Commonwealth of Puerto Rico. During this reporting period, the OIG had two successful ACE outcomes. One was a \$375,000 payment from the former owners

of a Section 8(a) company, and the other was a \$260,286 payment from a participating lender bank.

California Loan Broker at Center of Fraud Scheme Pleads Guilty

The Inglewood, California, loan broker at the center of a fraud scheme was charged with and pled guilty to five felonies, bringing the number of individuals charged with crimes in the wake of the investigation to 14. All 14 have entered guilty pleas, and with 6 defendants sentenced, total court-ordered restitution thus far has exceeded \$1 million in this case revolving around loan packages submitted to a now-defunct participating lender bank. The brokerage firm's portfolio at the bank totaled approximately 160 loans, originally valued at some \$60 million. During the last 6 months, the following results occurred.

- The principal owner of the loan brokerage was charged with and pled guilty to four counts of **making false statements to a Federally insured lender** and one count of **subscribing to a false statement on a tax return**. The man assisted in the submission of applications for a number of SBA-guaranteed loans containing altered tax returns. The charges address the preparation of false documents in four loan application packages which resulted in the approval of SBA-guaranteed loans totaling \$2,460,000 and producing losses to SBA and the participating lender bank of more than \$2,300,000.
- Three borrowers pled guilty to **making false statements to a Federally insured lender**, and another three were sentenced to confinement and restitution

totaling approximately \$750,000. All these actions related to the borrowers' SBA-guaranteed loans and resulted from an extensive investigation by the OIG, conducted jointly with the FBI and the IRS, based on allegations from an anonymous complainant. Partially as a result of the default rate of these allegedly fraudulent loans, the Office of the Comptroller of the Currency closed the bank in 1994.

Leaders of New York Village Convicted of Conspiracy, Embezzlement, Fraud, and Money Laundering

A Federal jury convicted four leaders of a village in Rockland County, New York, on the 21 counts on which they had been indicted. Shortly thereafter, a board member of a Specialized Small Business Investment Company (SSBIC) in that community was arrested by Israeli police based on his 1997 U.S. indictment. The board member and two other co-defendants (who have not yet been apprehended) became fugitives from the charges against them. The seven men had been charged with **conspiracy, embezzlement of Federal program funds, making material false statements, mail fraud, and wire fraud, mortgage fraud, and money laundering**. The 5-year investigation disclosed that the defendants had participated in a number of fraudulent schemes to obtain tens of millions of dollars through the SSBIC program and other Federal and state grant, loan, and subsidy programs.

Two from Massachusetts Trade Association Plead Guilty in Loan-Packaging Scheme

Two persons associated with a now-defunct trade association in Canton, Massachusetts,

pled guilty to crimes in connection with loan applications submitted on behalf of a number of interstate truckers who received SBA-guaranteed loans to purchase their trucks and insurance. The organizer of the trade association, who admitted engaging in a scheme to defraud the truckers, pled guilty to one count each of **conspiracy** and **wire fraud** and nine counts of **making false statements to a Federally insured financial institution**. He was sentenced to 15 months incarceration, 3 years probation, and \$215,546 restitution. The office manager of the association pled guilty to one count of **theft of money from a bank**. She was sentenced to 1 year probation.

Business Loan Program

SBA's small business loan programs serve one of the most important missions of the Agency: to ensure that Federal funds and resources are used to help finance qualified small enterprises. Under the **Section 7(a) Guaranteed Loan Program**, SBA guarantees loans to small businesses that are unable to obtain private financing. These loans must be of such merit, or be so secured, as to reasonably ensure repayment to the lending institution. No loan may be made unless the financial assistance is not otherwise available on reasonable terms from elsewhere in the credit market. Under the guarantee program, SBA agrees to purchase the guaranteed portion of the loan upon default by the small business. SBA's guarantee share of loans by private lenders averages about 75 percent.

More than 8,000 lenders have made at least one Section 7(a) loan in the past 5 years. Currently, approximately 42 percent of these loans are being made by participants in the Agency's **Certified Lender Program (CLP)** or its **Preferred Lender Program (PLP)**.

Lenders who are heavily involved in the SBA guarantee program and meet the Agency's criteria can participate through the **CLP**. Over 1,000 participating lenders, approved for the **CLP** program, are permitted to assume greater authorities and responsibilities in processing, closing, servicing, and liquidating loans. As a result, SBA can process loan guarantee applications in 3 days, rather than the 2 weeks that it may take for a thorough analysis by Agency staff. About 8 percent of all business loan guarantees are made through the **CLP** process.

As permitted by Section 5(b)(7) of the Small Business Act, SBA delegates even wider authority to preferred lenders, i.e., lenders who can commit the Agency to guarantee eligible business loans and decide the level of SBA participation. This program, with over 350 participants, reduces processing time on strong credit applications and uses the resources of SBA's best lenders to the maximum. About 34 percent of all business loan guarantees are made through the **PLP** process.

The **504 Loan Program** provides long-term, fixed-rate financing through certified development companies (CDCs) to small businesses to acquire real estate, machinery, and equipment for expansion of business or modernizing facilities. Typically, 504 loan proceeds are provided as follows: 50 percent by an unguaranteed first mortgage bank loan, 40 percent by an SBA-guaranteed debenture, and 10 percent by the small business customer. The maximum SBA debenture is \$1 million.

With the creation of the Agency's Low Documentation (**LowDoc**) application process, lenders are now able to use their own internal loan application documents, plus a single page, two-sided

SBA form to apply for an SBA guarantee on a loan of \$150,000 or less. The demand for this program continues to exceed 25 percent of all Section 7(a) loan approvals.

The **SBAExpress Loan Program** allows lenders to use their own loan analyses, procedures and documentation to originate loans of \$150,000 or less with a 50 percent SBA guarantee. Lenders can thus use their own application forms, internal credit memoranda, notes and documentation pertaining to loan collateral, servicing, and liquidation. This pilot program minimizes the use of Government mandated forms and procedures while reducing the cost of originating smaller, less complex SBA loans.

Summary of OIG Activity / <i>Business Loan Program</i>	
Audit Reports Issued	3
Audits Underway	5
Indictments Resulting from Investigations	14
Convictions Resulting from Investigations	13
Investigations Closed / Canceled / Remaining Inventory	22 / 3 /181
Investigations: Restitutions / Fines / Other Recoveries	\$1,395,016/ \$127,427/ \$0
Investigations: Declination of Loans Due to Name Checks	\$15,154,030
Investigations: Cases Referred to Other Agencies	1
Inspections Underway	1
Reviews of Proposed Regulations	2
Reviews of Standard Operating Procedures	2
Reviews of Other Issuances	19

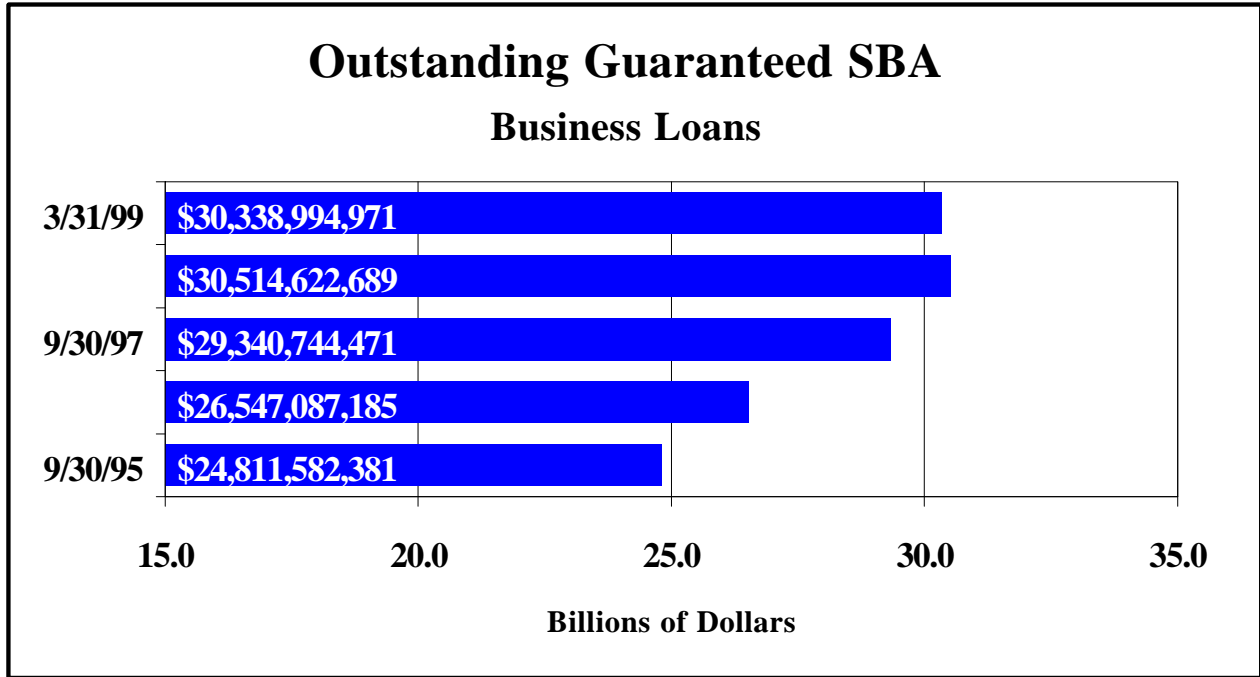


Figure 1

Efforts to Improve SBA Program Management

Two More Reports Released in Nationwide Section 7(a) Audit

As part of a nationwide audit, the OIG issued two reports on the processing, disbursing, and use of Section 7(a) business loans. North Carolina and Colorado are two of eight districts included in the on going audit. After all eight audits are completed in FY 1999, a summary report on systemic issues will be prepared.

In each of the eight audits, 30 randomly selected loans were audited to determine if 22 SBA procedures designed to reduce risk were followed.

In North Carolina, the auditors found

that at least 1 of the 22 procedures was not followed in 14 of the 30 loans. Non-compliances included: approval of a \$71,000 loan to an ineligible applicant for an ineligible purpose; lack of IRS tax verification (two loans); lack of verification of use of proceeds (seven loans); lack of equity injection verification (two loans); failure to obtain a Statement of Personal History (two loans); missing settlement sheets (two loans); and lack of compensation agreements detailing professional fees (two loans). These non-compliances led to three loans with deficiencies; one loan was ineligible, one loan's proceeds were not spent as approved, and one loan needed to complete the IRS verification process. The auditors made recommendations to correct deficiencies (the ineligible loan was knowingly approved by SBA and therefore cannot be corrected) and remind lenders and SBA employees of proper procedures. The

District Director agreed.

Reviewed

In Colorado, the auditors found that 12 of 30 loans had at least one non-compliance with SBA procedures. The non-compliances included weaknesses in credit or repayment ability, use of proceeds for ineligible purposes, lack of verification of cash injections, lack of verification of financial information with the IRS, lack of verification of use of proceeds, incomplete settlement sheets, and lack of joint payee checks for disbursements. These non-compliances resulted in eight loans with actual deficiencies, ranging from incomplete equity injections to ineligible loans. The District Director and the Assistant Administrator for Financial Assistance agreed with the auditors' recommendations for corrective action.

Audit of Early Defaulted Loan Finds Lender Complied with SBA Regulations

A \$280,000 loan to a Washington State company was selected for audit in a continuing review of early defaulting loans. Although the loan defaulted within 12 months of origination and caused a loss to SBA after liquidation of \$163,070, **no significant noncompliances were found in the loan processing and servicing.** The lender did not document the equity injection of \$250,000 required by the loan agreement, but the auditors determined that the borrower made at least 92 percent of the required injection.

Guide for Monitoring Preferred Lenders

The OIG reviewed a proposed Review Guide, which Agency personnel planned to use to review and monitor lenders participating in the PLP. Based upon past audits finding that lenders do not always submit tax verification forms to the IRS, the OIG recommended that the PLP review process should always include a determination that: (1) the lender obtained a completed IRS Form 4506, Request for Copy or Transcript of Tax Form, from the applicant/borrower; (2) the lender submitted the form to the IRS; and (3) the lender used the results to verify the validity of the tax return information or other credit information submitted by the applicant/borrower, prior to disbursement. The OIG, also recommended that the review should indicate whether a referral was made to the OIG as a result of any discrepancies found by the tax verification process.

Inspection of Section 504 Loan Program Underway

The OIG is conducting an inspection of the Section 504 Loan Program, with a focus on SBA's oversight of the Certified Development Companies. We expect to issue the report in August 1999.

Activities to Enhance Fraud Detection and Deterrence

Latest Result from Affirmative Civil Enforcement Program

During this reporting period, the OIG's participation in the DOJ's Affirmative Civil Enforcement (ACE) program produced one successful business loan case, resulting in a \$149,284 recovery by SBA and \$111,002 in

civil penalties. The case, described on page 12, involved settlement of a lawsuit against a Missouri participating lender.

OIG Briefs Members of Resource Partner Community

The investigation staff continued its practice of **making presentations to groups of SBA's resource partners**. The acting Special Agent in Charge of the OIG's Los Angeles field office gave a presentation to 35 attendees at a meeting sponsored by SBA's Los Angeles District Office. The presentation highlighted the benefits to be gained from cooperation between participants (in the Section 7(a) pre-qualification pilot loan program, in this case) and the OIG in combating waste, fraud, and abuse in SBA's lending programs.

President of Washington Rehabilitation Clinic Arrested for Alleged Fraud

The president of an injury rehabilitation clinic in Seattle, Washington, was arrested by agents of the OIG, the FBI, and the INS, based on an arrest warrant issued in 1984 by the U.S. District Court, District of Kansas. He was subsequently indicted on two counts of **bank fraud**, one count of **making material false statements** to SBA, one count of **making a false claim of citizenship**, and three counts of **making false statements to a Federally insured lender**. In 1994, he had received an \$80,000 SBA-guaranteed loan to purchase chiropractic equipment for his clinic. He subsequently defaulted on the loan. The OIG's joint investigation with the FBI found that the man had made false statements to obtain the loan and later converted loan proceeds to his personal use. In addition,

the investigation found that, on his SBA loan application and on applications to obtain three Federally guaranteed student loans, he falsely claimed to be a U.S. citizen. The outstanding arrest warrant did not appear during a check of the man's criminal history, but was discovered in his INS file. The arrest warrant was based on a five-count 1984 indictment of the man for; false representation as a U.S. citizen; false statements to obtain a Social Security card; fraud and misuse of visas, permits, and other documents; false statements to the U.S. Department of Education; and misuse of a Social Security number.

California Restaurateur Pleads Guilty to Making False Statement to Federally Insured Financial Institution

The owner of a restaurant in Palm Springs, California, pled guilty to one count of **making a false statement to a Federally insured financial institution**. He was sentenced to 1 year of probation and a \$2,000 fine. No restitution was ordered because the loan is current. The OIG initiated the investigation based on an allegation from a confidential source that the owner had submitted altered copies of tax returns to support his application for an SBA-guaranteed business loan. The investigation revealed large discrepancies between the tax returns provided to the participating lender bank and those submitted to the IRS. Based on information in the IRS tax returns, SBA's Santa Ana District Office determined that the restaurant would not have qualified for the \$870,000 loan.

Owners of Virgin Islands Construction Company Indicted on Conspiracy, Bank Fraud, Making False Statements,

and Money Laundering Charges

Co-owners of a now-defunct U.S. Virgin Islands construction company were indicted on charges of **conspiracy, bank fraud, making false statements, and money laundering**. In July 1992, in applying for an SBA-guaranteed loan through the participating bank lender, the co-owners allegedly submitted a fraudulent business proposal and other documents listing \$420,000 as the value of machinery to be purchased with the loan funds, when the actual cost of the machinery was only \$120,000. The machinery, manufactured by an Ohio company, was for the construction of poly-block building materials used in hurricane-resistant residential home construction. As part of the alleged fraudulent scheme, one of the owners opened a checking account in Las Vegas, Nevada, in the name of the proposed Ohio supplier of the machinery. Through the Las Vegas account, he was able to fraudulently receive the disbursements that were intended for the Ohio vendor. After relocating the company to Fort Lauderdale, Florida, without authorization from either the bank or SBA, the co-owners spent the majority of the loan funds on unauthorized expenses. The business failed in 1995 with a loss to SBA of more than \$400,000. The investigation originated from a referral by SBA's Puerto Rico and Virgin Islands District Office and is being conducted jointly with the FBI.

President of Kansas Electronic Game Maker Indicted on Charges of Making False Statements to Federally Insured Financial Institution and to SBA

The former president of a Kansas City, Kansas, manufacturer of an electronic

baseball game was indicted on one count each of **making a false statement to a Federally insured financial institution and making a material false statement to SBA**. The man allegedly overstated accounts receivable in his application to the participating lender and to SBA in order to qualify for a \$375,000 SBA-guaranteed loan. The company defaulted after making only two payments on the loan, and SBA purchased its 80 percent guaranteed share for \$299,194. After receiving the allegation, the OIG initially referred this matter to the FBI due to workload considerations. Two years later, however, the OIG joined the FBI in this investigation at the request of the U.S. Attorney's Office for the Western District of Missouri.

Montana Restaurateur Indicted on Charge of Making Material False Statement to SBA

The owner of a Cut Bank, Montana, restaurant was indicted on one count of **making a material false statement to SBA**. The OIG's joint investigation with the FBI determined that when the man obtained a \$54,000 SBA-guaranteed loan from a participating lender bank, he failed to disclose an extensive criminal record. Records showed that the man had been arrested more than 20 times for various alleged financial crimes. At the time of his indictment, he was already in custody for prior offenses. The investigation was initiated based on a referral from SBA's Montana District Office.

Missouri Banker Indicted for Making False Statements and Claims

An officer of a participating lender bank in Springfield, Missouri, was indicted on one

count each of **making false statements to SBA, making false entries in the records of a Federally insured bank, and making a false claim** against the United States. All the charges related to the banker's actions on a \$155,000 SBA-guaranteed loan issued in 1995 to a music retailer. After the borrower defaulted on the loan and filed bankruptcy, SBA paid the bank \$117,002 on its guarantee. According to the indictment, the bank officer filed a false application for the SBA-guaranteed loan, stating that certain outstanding bank loans to the borrower were current, when, in fact, they were delinquent. It was further alleged that the banker made false entries in the bank's records by stating that the SBA-guaranteed loan proceeds would be used to pay down delinquent trade accounts. In fact, a substantial portion of the loan proceeds was used to bring existing bank loans current. Finally, the indictment charged that, after the borrower defaulted, the banker made a false claim against SBA for payment of the full guarantee on this loan when she knew the guarantee was unenforceable because it had been obtained by means of a false application. The OIG initiated this joint investigation with the FBI based on a referral from SBA's Springfield, Missouri, Branch Office.

Missouri Lender Pays \$260,000 to Settle Civil Fraud Case

A civil fraud complaint was filed against a Springfield, Missouri, participating lender bank. The bank settled the matter on that same date by agreeing to pay the Government \$244,000, plus \$16,286 as reimbursement for Federal investigative costs. The complaint charged the bank with **making a false claim** in connection with a \$155,000 SBA-guaranteed loan to a music retailer. The complaint detailed alleged fraudulent actions by a bank officer (see above) and

also named another bank officer for allowing the false information to be submitted to SBA. In July 1998, the former president of the borrower pled guilty to making false statements to SBA by misrepresenting on the loan application that loans from the lender were current.

California Tax Preparer Pleads Guilty to Conspiracy to Defraud IRS and Tax Evasion

A tax preparer in Pasadena, California, was charged with and pled guilty to one count of **conspiracy to defraud the IRS** and eight counts of **tax evasion**. The OIG had been asked to join a criminal investigation already underway by the IRS and the FBI, based upon information that the tax preparer may have been responsible for the preparation of altered tax returns submitted to financial institutions and to SBA on behalf of clients who had received SBA-guaranteed loans. The OIG reported the criminal prosecutions of two of these clients last year. The investigation confirmed that the "copies" of their Federal tax returns, submitted to the participating bank with their SBA loan applications totaling more than \$1,060,000, had been altered from those submitted to the IRS to substantially overstate their incomes. These discrepancies formed the basis for a search warrant that was executed on the tax preparer's business. The charges just filed against him were a direct result of the evidence gathered during the search.

Colorado Saloon and Dance Hall Operator Indicted for Making False Statements

The former president of a saloon and dance hall in Durango, Colorado, was indicted on one count of **making false statements to a**

Federally insured bank and one count of **making false statements to SBA**. The charges, resulting from the OIG's joint investigation with the FBI, involved two SBA-guaranteed loans, totaling \$780,000, which his business received from the participating bank lender in 1996. The investigation determined that the man failed to disclose to the bank or SBA that he owed his father and two realtors a total of about \$240,000 in connection with his purchase and sale of a prior business in southern California. He defaulted on the SBA-guaranteed loans after making only a few payments, and has since filed for both personal and corporate bankruptcy. This investigation was initiated based on a Suspicious Activity Report filed by the lender.

President of Washington Credit Exchange Indicted on Fraud Charges

The president of a credit exchange in Kennewick, Washington, was indicted on one count of **making false statements to SBA** and one count of **bank fraud**. The charges stemmed from fraudulent statements she allegedly made to SBA and the participating lender to obtain a \$56,000 SBA-guaranteed LowDoc loan in January 1996. The investigation found that the businesswoman failed to disclose that her firm owed more than \$12,100 in Federal payroll taxes at the time she applied for the loan. In addition, when the loan funds were disbursed, she certified that "... all taxes, whether federal, state or local, business or personal, are now current..." Had the

unpaid taxes been disclosed, the loan would not have been made. Due to the default of this loan, SBA incurred a loss of \$35,285 and the bank incurred a loss of \$19,319. Officers of the SBA/OIG and the U.S. Marshals Service subsequently arrested the businesswoman. This investigation was based on a referral from SBA's Spokane District Office.

President of Washington Construction Company Charged with Making False Statements on Loan Application

The former president of a construction company in Des Moines, Washington, was charged in an information with **making false statements on a loan application**. The OIG investigation found that the businessman provided false financial statements and made false statements regarding his prior criminal history and lawsuits that were pending against him and his company at the time he applied for a \$200,000 SBA-guaranteed loan and various other loans from the participating lender. The investigation also found that the man had provided the same false information to SBA in order to get a SBA-guaranteed surety bond and certification as a Section 8(a) contractor. The surety bond was declined and the businessman is no longer in the Section 8(a) program. During the investigation, OIG special agents executed search warrants on the business premises, a storage unit, and his personal residence. The searches confirmed the investigative findings and revealed additional evidence that the man made (or caused to be made) false statements to the IRS and state taxing authorities via mail and facsimile. The total loss to SBA was \$134,906, the loss to the lender was \$309,195, and the loss to state and Federal taxing authorities was \$73,555.

This case was referred to the OIG by SBA's Seattle District Office.

Owner of Pennsylvania Beauty Supply Company Charged with Making False Statements on Loan Application

The owner of a beauty supply company in Philadelphia, Pennsylvania, was charged in an information with two counts of **making material false statements** in an unsuccessful 1994 attempt to obtain a \$60,000 SBA-guaranteed bank loan. The businessman allegedly had failed to disclose a 1978 Delaware State criminal conviction in applying for the loan. The information also charged that he had submitted copies of Federal tax returns for 1991 and 1993 that he knew had been altered to show higher gross receipts and net profits than those actually filed with the IRS. The loan commitment was canceled when the tax return discrepancies were discovered, and further investigation revealed the businessman's criminal history. The OIG investigation was based upon a referral from SBA's Philadelphia District Office.

Results of Previously Reported Investigations

California Loan Broker at Center of Fraud Scheme Pleads Guilty

The Inglewood, California, loan broker at the center of a fraud scheme was charged with and pled guilty to five felonies, bringing the number of individuals charged with crimes in the wake of the 6-year investigation to 14. All 14 have entered guilty pleas, and with the number of defendants sentenced having doubled to 6, total court-ordered restitution has exceeded \$1 million. This case revolves around loan

packages submitted to a participating lender bank that, partially as a result of the default rate of the allegedly fraudulent loans, the Office of the Comptroller of the Currency closed in 1994.

- The firm's principal owner was charged with and pled guilty to four counts of **making false statements to a Federally insured financial institution** and one count of **subscribing to a false statement on a tax return**. He admitted his role in the submission of four SBA-guaranteed loan applications containing altered tax returns. The loans totaled \$2,460,000, and losses to SBA and the participating lender bank exceeded \$2,300,000. The owner also admitted failing to report the firm's gross receipts, for 1991 and 1992, resulting in a total tax loss of approximately \$520,000. The firm specialized in financing the purchase of gas stations through one participating lender bank. The OIG examination of loan files disclosed evidence of such fraudulent activities as false personal financial statements, false tax returns, and manipulation of documents to falsely show that the borrowers made substantial initial cash injections.
- The owner of an Oriental rug firm in Beverly Hills, California, was sentenced to 4 months incarceration, 4 months home detention, 5 years supervised release, and \$677,000 restitution to SBA. He previously pled guilty to one count of **fraudulent receipt of money from a bank transaction** for falsely representing the purpose of his \$1 million SBA-guaranteed loan.
- The owner of a car wash in Lomita, California, was sentenced to 5 months in

prison, 5 months home detention, 5 years supervised probation, and \$70,000 restitution (of which 75 percent comes to SBA). He previously pled guilty to **making a false statement to a Federally insured lender** by submitting altered individual income tax returns with his application for a \$1 million SBA-guaranteed loan.

- A married couple who were former owners of a West Covina, California, gas station pled guilty to four counts of **making false statements to a Federally insured financial institution** by submitting altered Federal income tax returns with their application for a \$1 million SBA-guaranteed loan.
- The former owner of a gas station in Fontana, California, pled guilty to three counts of **making false statements to a Federally insured lender** for submitting false documents with his application for a \$1 million SBA-guaranteed loan.
- A Los Angeles, California, plumbing contractor was sentenced to \$2,880 restitution to SBA and 3 years probation, with the first 8 months to be served in halfway house detention and home detention. He had pled guilty to one count of **making a false statement to a Federally insured lender** by submitting altered income tax returns as part of his application for a \$500,000 SBA-guaranteed loan.

(Updated from September 1998 and March 1998 Semiannual Reports.)

Florida Couple Sentenced For Making False Statements and Converting Loan Collateral

A couple who owned a crafts and fashion manufacturer/wholesaler/import firm in Longwood, Florida, was sentenced for their crimes in connection with the company's \$75,000 SBA-guaranteed LowDoc loan. The company's vice president, who previously pled guilty to four counts of **making a material false statement to SBA, making a false statement to influence a Federally insured financial institution, and converting SBA collateral**, was sentenced to 5 months incarceration, 5 months home detention, and 5 years supervised release. Further, if deported, the man will not be allowed to return to the United States without permission from the Attorney General. His wife (the company's president), who previously pled guilty to one count of **making a false statement to SBA**, was sentenced to 5 years probation. In addition, each was ordered to perform 150 hours community service and to pay (jointly) \$49,006 restitution. *(Updated from September 1998 Semiannual Report.)*

Massachusetts Trade Association Officials Plead Guilty in Loan-Packaging Scheme

Two persons associated with a now-defunct trade association in Canton, Massachusetts, pled guilty on the second day of trial to crimes in connection with loan applications submitted on behalf of interstate truckers. The organizer of the association admitted engaging in a scheme to defraud a number of truckers who received SBA-guaranteed loans to purchase their trucks and insurance. The organizer pled guilty to one count each of **conspiracy** and **wire fraud** and nine counts of **making false statements to a Federally insured financial institution**. The court had previously dismissed two

counts of **mail fraud**. The organizer was sentenced to 15 months incarceration, 3 years probation, and \$215,546 restitution. The office manager of the association, who was originally charged with the same 13 counts, pled guilty to one count of **theft of money from a bank**. The manager was sentenced to 1 year probation. *(Updated from September 1997 Semiannual Report.)*

New York Businessmen Sentenced for Mail Fraud and Conspiracy

Three Long Island, New York, businessmen who had each pled guilty to one count of **mail fraud** and one count of **conspiracy** were sentenced. The business manager of an East Islip, New York, chiropractic and physical therapy center was sentenced to 5 months imprisonment; the chief financial officer of an affiliated therapy provider was sentenced to 3 months imprisonment and a \$5,000 fine; and the owner of both companies and of another therapy provider was sentenced to 6 months imprisonment. Each defendant was also sentenced to 3 years supervised release. The men conspired to forward fraudulent financial statements to a non-bank participating lender in an unsuccessful attempt to obtain a \$750,000 SBA-guaranteed loan. They also participated in a scheme to mail reimbursement claims to insurance companies for physical therapy that was never provided to patients. *(Updated from March 1996 Semiannual Report.)*

Georgia Business Broker Sentenced for Conspiracy and Making False Statements to SBA

The owner and chief executive officer of a business brokerage in Kennesaw, Georgia, was sentenced to 5 years incarceration, 5

years supervised release, 100 hours community service, and approximately \$141,000 restitution. He was previously found guilty of one count of **conspiracy**, three counts of **making material false statements** to SBA, and three counts of **making false statements to a Federally insured bank**. The OIG's investigation of a \$155,000 SBA-guaranteed loan to buy a food distributor revealed that the man, who brokered the sale, conspired with the buyer's president and others to conceal the true purchase price from the participating lender bank and SBA. *(Updated from September 1998 and March 1998 Semiannual Reports.)*

Pennsylvania Manufacturer Sentenced for Misappropriating SBA Collateral

The owner of a Luzerne County, Pennsylvania, manufacturer of ambulances, fire trucks, and paramedic units was sentenced to 4 months home confinement, 3 years probation, 150 hours community service, and \$5,000 restitution. He previously pled guilty to one misdemeanor count of **misappropriation of SBA collateral**. In the plea agreement, he acknowledged that, to secure a \$171,842 loan, he fraudulently pledged as collateral a \$55,842 ambulance that he also sold to a volunteer fire company without SBA's knowledge or permission. *(Updated from September 1998 Semiannual Report.)*

Pennsylvania Restaurateur Sentenced for Making Material False Statement

The president of a restaurant in Bethlehem, Pennsylvania, was sentenced to 3 years probation, 100 hours community service, and a \$5,100 fine. He previously pled guilty to one count of **making a material false statement** to influence SBA to approve a

\$170,000 guaranteed loan to his business. *(Updated from September 1998 Semiannual Report.)*

Mississippi Tractor Dealer Sentenced for Making Material False Statement to Obtain Loan

The owner of a now-defunct tractor dealership in Shubuta, Mississippi, was sentenced to 5 years probation, a \$1,000 fine, and \$12,000 restitution. He was previously convicted on one count of knowingly **making a material false statement** to obtain a \$150,000 SBA-guaranteed loan. *(Updated from September 1998 and March 1998 Semiannual Reports.)*

Pennsylvania Businessman Sentenced for Making Material False Statements to SBA

The president of two automobile-related businesses in Philadelphia, Pennsylvania, was sentenced to 3 years probation and \$3,300 in fines. The man previously pled guilty to three counts of **making material false statements** to SBA. As part of his application for a \$252,000 SBA-guaranteed loan, he submitted altered copies of his tax returns. Additionally, he failed to disclose his 1992 arrest for kidnapping and assault. *(Updated from September 1998 Semiannual Report.)*

Mississippi Truck-Accessories Business Owner Pleads Guilty to Bank Fraud

The owner of a trucking accessories business in Long Beach, Mississippi, pled guilty to one count of **bank fraud** in connection with a \$100,000 LowDoc loan. He double-billed customers' credit cards, issued checks to several banks without

sufficient funds to cover them, forged signatures to cash checks, and deposited closed account checks, producing a total bank fraud loss of \$49,077. *(Updated from September 1998 Semiannual Report.)*

Former Law Enforcement Official Pleads Guilty to Franchise-Loan Fraud

The former Chief Deputy Sheriff of Carver County, Minnesota, pled guilty in Colorado to one count of **wire fraud** and one count of **bank fraud**. He had personally guaranteed a \$100,000 SBA loan through a participating non-bank lender for a mail-handling franchise in Denver to be owned by his wife. A check disbursing \$80,000 of the loan proceeds was issued for the purchase of this franchise. The OIG's investigation revealed, however, that the man forged an endorsement on the check and used the funds for his personal benefit, and that he submitted a falsified Personal Financial Statement. *(Updated from September 1998 Semiannual Report.)*

Disaster Loan Program

Pursuant to Section 7(b) of the Small Business Act, as amended, SBA's disaster loans represent the primary form of direct loan Federal assistance for non-farm, private sector disaster losses. Moreover, the Disaster Loan Program is the only form of SBA assistance not limited to small businesses. Disaster loans from SBA also help homeowners, renters, businesses of all sizes, and non-profit organizations to rebuild. SBA's disaster loans are also a critical source of economic stimulation in disaster-ravaged communities, helping to energize employment and stabilize tax bases.

By providing disaster assistance in the form of loans which are repaid to the U.S. Treasury, the SBA program helps to defray Federal costs. When victims need to borrow to repair uninsured damages, the low interest rates and the long terms available from SBA make recovery more affordable. Because SBA tailors the repayment of each disaster loan to each borrower's capability, unnecessary interest subsidies paid by the taxpayers are avoided.

The need for SBA disaster loans is unpredictable. During FY 1998, SBA approved 30,154 loans. Since the inception of the program, SBA has approved more than 1,416,000 disaster loans valued at some \$26 billion. As of the end of FY 1998, the SBA disaster loan portfolio included more than 277,000 loans worth over \$6.9 billion.

SBA is authorized by law to make two types of disaster assistance loans: (1) physical disaster loans, which are a primary source of funding for permanent rebuilding and replacement of uninsured disaster damages to real and personal property homeowners, renters, businesses of all sizes, and non-profit organizations; and (2) economic injury disaster loans which provide necessary working capital to small businesses until normal operations can be resumed after a physical disaster. SBA delivers its disaster loans through four specialized Disaster Assistance Area Offices located in Niagara Falls, New York (Area 1); Atlanta, Georgia (Area 2); Fort Worth, Texas (Area 3); and Sacramento, California (Area 4).

Summary of OIG Activity / Disaster Loan Program	
Audit Reports Issued	1
Audits Underway	2
Indictments Resulting from Investigations	9
Convictions Resulting from Investigations	9
Investigations Closed / Canceled / Remaining Inventory	19 / 6 / 148
Investigations: Restitutions / Fines / Other Recoveries	\$71,117 / \$2,050 / \$0
Investigations: Declination of Loans Due to Name Checks	\$1,104,735
Investigations: Cases Referred to Other Agencies	3
Reviews of Standard Operating Procedures	1
Reviews of Other Issuances	2

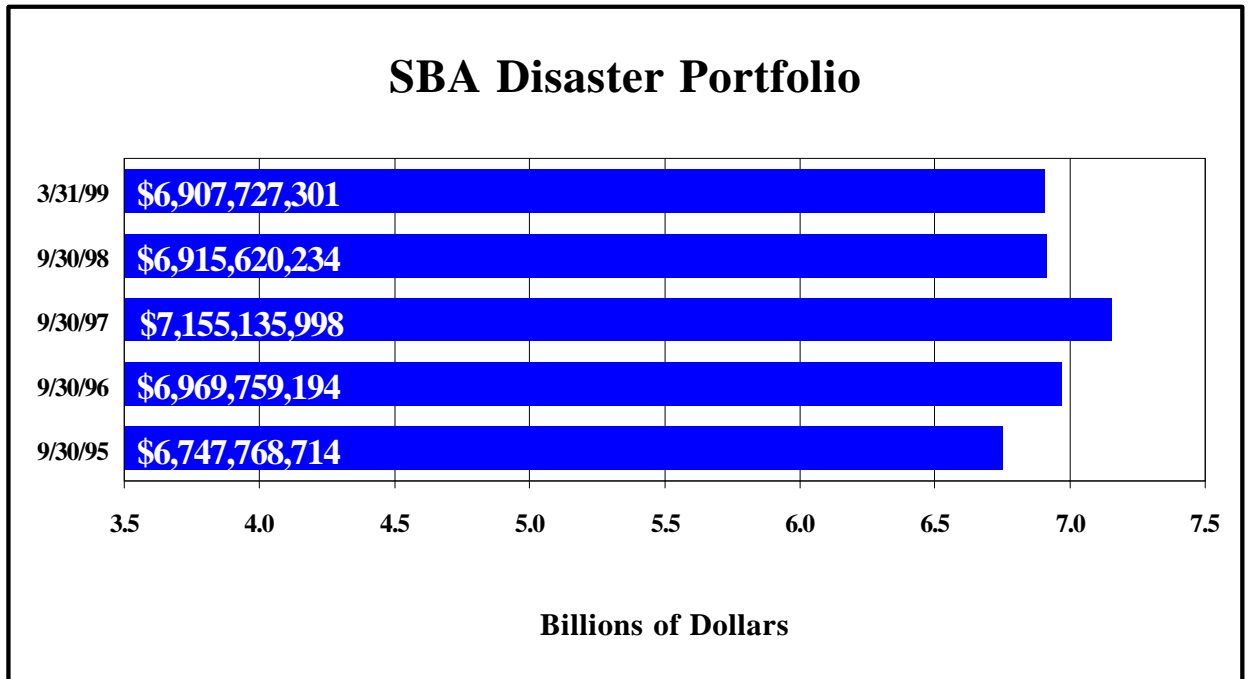


Figure 2

Efforts to Improve SBA Program Management

Audit Finds Improvement Needed in Loan Origination and Liquidation

An audit of 1994 Northridge, California, earthquake disaster defaulted loans revealed that **loan losses could be reduced by improvements in loan origination and loan liquidation.**

SBA made 124,000 loans totaling more than \$4 billion after the Northridge earthquake. By December 1997, there were 9,144 loans totaling \$286 million in default.

In a random sample of 75 of the defaulted loans, the auditors found that 59 loans defaulted because the borrowers had unsatisfactory credit or insufficient cash flow. In 40 of the 59 loans, the problems arose after the loan was made. In the other 19, however, the problems existed at loan origination and the loans should not have been made. Based on these results, an estimated 2,316 defaulted loans totaling \$90 million were made to Northridge borrowers with unsatisfactory credit or insufficient cash flow at origination. The Associate Administrator for Disaster Assistance and the Disaster Area 4 director agreed with the finding and said that actions already initiated before the audit would correct the problems. These actions include annual quality assurance reviews of disaster assistance area offices, new automated reports for loan officers, a standardized training manual, and plans to develop a modified form of credit scoring to ensure credit bureau reports will be taken into account. The OIG agreed these actions are responsive to the audit finding.

For 21 of the defaulted loans totaling \$682,251, the auditors found that the borrowers had assets or income available to make payments. After SBA followed up on the audit information, 14 of these borrowers made payments totaling \$58,000 during the audit. Based on the sample results, the auditors estimated that borrowers on 2,560 defaulted loans totaling \$80 million had unidentified assets and income that could be used to repay loans. (In another 15 loans in the sample, SBA had identified borrowers' assets and income prior to the audit.) The Associate Administrator for Financial Assistance and the director of the Santa Ana Loan Servicing and Liquidation Office generally agreed with the finding, but said staffing shortages and other priorities prevented better identification of defaulted borrower assets and income. Staffing had increased from 6 employees to 26 as of October 1997. Other priorities identified were to protect SBA's collateral and lien position by reviewing bankruptcy notices, notices of default, notices of trustee sales, and probate notices and filing appropriate documents. With adequate staffing and effective asset/income identification techniques, program managers believe much of the funds on delinquent loans could be recovered.

Activities to Enhance Fraud Detection and Deterrence

Virgin Islands Businessman Pleads Guilty to Making False Statement to SBA

The owner of a feed store in St. Croix, U.S. Virgin Islands, pled guilty to a charge of **making false statements to SBA** in connection with two disaster loan applications, totaling \$215,900, which he

had submitted for his business and for his home. The man admitted providing SBA with grossly overstated revenue figures in comparison to the tax data filed with the Islands Revenue Bureau for 1993. Both applications were withdrawn from consideration when the discrepancies were discovered. A criminal complaint was filed and an arrest warrant was issued for him in 1996; he was placed in fugitive status after the OIG learned that he had fled to Jordan to avoid arrest. The owner was arrested in October 1998 after attempting to re-enter the Virgin Islands. The Disaster Assistance Area 1 Office referred the case to the OIG.

Colorado Telemarketer Indicted on Two Counts of Making False Statements to SBA

The owner of a telemarketing company in Denver, Colorado, was indicted on two counts of **making false statements to SBA**. The owner obtained a \$1.5 million SBA disaster loan after his company sustained damage from the Northridge, California, earthquake. He relocated his business to Denver and falsely reported (submitted invoices and other documents to SBA as “proof”) that he used \$1.2 million of the loan proceeds to purchase new equipment from another company. The OIG’s investigation found that most of the equipment listed on the company’s invoices was salvaged out of the earthquake-damaged building in California or was already owned by him or his other companies. The OIG initiated this investigation based on an anonymous telephone call.

California Shopping Center Owner Pleads Guilty to Grand Theft and Insurance Fraud

The owner of a shopping center in Los Angeles, California, pled guilty in Los Angeles County Superior Court to one count of **grand theft** and one count of **insurance fraud**. Both charges are violations of the California Penal Code. The OIG initiated its investigation based on a referral from a Los Angeles City Fire Department arson investigator and an auditor from the ATF. They had learned that, after the shopping center was looted during the 1992 civil unrest in Los Angeles, the owner obtained a \$281,800 disaster loan from SBA. In reviewing the owner’s SBA loan file during the arson/insurance fraud investigation, the ATF auditor suspected that the man had submitted tax returns that had been altered to significantly overstate his income. The SBA portion of the investigation confirmed that the tax returns were altered and that the loan would not have been approved had SBA known his true income. The case was prosecuted by the Los Angeles County District Attorney’s Office pursuant to a declination from the U.S. Attorney’s Office because the Federal statute of limitations had expired before the crime was discovered. The OIG conducted the investigation jointly with agents from the ATF and the California State Department of Insurance.

Two Former SBA Loss Verifiers Charged with Making Material False Statement

Felony charges of **making a material false statement** were brought against two former loss verifiers in SBA’s Disaster Assistance Area 4 Office. In separate criminal

informations, one man was charged with one count and the second man was charged with two counts. Following the January 1995 flooding in the Sacramento, California, area, the second man had applied to both SBA and the Federal Emergency Management Agency (FEMA) for disaster assistance in connection with damage to his home. During March 1996, he allegedly submitted false contracts, invoices, and checks purportedly evidencing repairs by and payments to the first man, who was an SBA employee at the time and a licensed contractor, to obtain a \$57,400 SBA disaster loan. The second man allegedly also submitted some of these false documents to FEMA in January 1997 as proof that the first man had repaired the 1995 disaster damage and that any damage observed in 1997 resulted from the 1997 flooding of the same area. The first man was charged with making false statements to SBA and FEMA investigators by fraudulently misrepresenting that he had performed and been paid for the disaster repairs. The case resulted from a referral from the FEMA/OIG and was conducted jointly.

Canadian Football League Player Indicted for Mail Fraud

A Canadian Football League player was indicted on seven counts of **mail fraud**. Following the January 1994 Northridge earthquake, he had obtained a total of \$396,100 in SBA disaster loans (one for physical damage, the other for economic injury) for his Artesia, California, computer business. The investigation revealed his business suffered no loss of any inventory and the man diverted loan funds to his personal use, which included the purchase of another business. In addition, he allegedly failed to disclose to SBA that the computer business had closed in September 1994, 1

month prior to his last loan disbursement of \$96,200. Upon learning that a warrant for his arrest had been issued, the man fled to Canada. He was recently arrested in Canada on immigration-violation charges and is currently awaiting a hearing with Canadian immigration authorities to determine if he will be extradited to the United States. The OIG initiated this investigation based on a referral from SBA's Disaster Assistance Area 4 Office.

California Businessman Indicted for Making Material False Statement

A Canoga Park, California, businessman was indicted on two counts of **making material false statements**. After the Northridge earthquake, the man had obtained SBA disaster loans (for physical damage and for economic injury) totaling \$55,700 for his businesses. (One was a printing business; the other was a four-unit apartment complex.) He also received a \$12,000 SBA disaster home loan for real estate and personal property losses to one of the Canoga Park units, where he resided during the earthquake. The investigation revealed that he failed to disclose to SBA that he had filed for bankruptcy in 1989 and 1990 under a different name and Social Security number. The man also failed to inform SBA that he was on probation at the time he applied for the disaster loans. The OIG joined the investigation, which was initiated by the ATF as an inquiry into possible arson. The investigation also expanded to include the Social Security Administration OIG.

California Businessman Charged with Making False Statement to Federally Insured Financial Institution

A Canoga Park, California, man was charged with one count of **making a false statement to a federally insured financial institution**. Following the 1994 Northridge earthquake, the man had received a \$48,000 disaster home loan from SBA for damage to his personal property and condominium. Later in 1994 he received a \$255,950 SBA-guaranteed loan for the purchase of a laundromat in Huntington Park, California. The OIG initiated its investigation based on a referral from SBA's Disaster Assistance Area 4 Office. The investigation disclosed that, in applying for the business loan, the man submitted false statements to the participating lender bank. He claimed to be employed at a salary of \$52,000; in fact, he was unemployed at the time and had never been employed by the named employer. He also did not disclose to the bank that, in violation of the requirement to use non-borrowed funds, he had used proceeds from the disaster loan as the source of the down payment for the purchase of the laundromat. The investigation further revealed that the man had submitted false information to SBA to support the loss of personal property in the disaster home loan. The investigation showed that most of the personal property claimed as damaged had actually been moved to another site. SBA loss verifiers were shown only minor broken items and were told that the rest had been cleared away prior to their visit. Both loan balances were charged off after his subsequent Chapter 7 bankruptcy discharge; the total loss to SBA was approximately \$245,000.

California Woman Charged with Making False Statement to SBA

A woman from southern California was charged in an information with one count of **making a material false statement** to SBA

for falsely claiming that her personal belongings were destroyed in an apartment complex she did not live at during the January 17, 1994, Northridge earthquake. She had previously been arrested in Indianapolis, Indiana, by special agents from the OIGs of SBA and FEMA and Deputy U.S. Marshals, based on a complaint alleging disaster fraud against both SBA and FEMA. The SBA/OIG's investigation showed that the woman had applied for an SBA disaster home loan for personal property that she claimed belonged to her and was destroyed during the earthquake. SBA had declined the application based on her adverse credit history. The woman subsequently submitted a new SBA disaster home loan application using an alias and a false Social Security number. Relying on the false Social Security number and a false receipt she submitted from the Southern California Gas Company, SBA approved the second application for \$20,200 and fully disbursed it. The SBA/OIG asked FEMA/OIG special agents to join the investigation after learning that the woman had also received a disaster grant from FEMA for the same location where she falsely claimed to have lived during the earthquake. The SBA/OIG initiated its investigation based on a referral from SBA's Disaster Assistance Area 4 Office.

Results of Previously Reported Investigations

Owner of California Modeling Agency Pleads Guilty to Falsely Claiming Damage

The owner of a modeling agency in Los Angeles, California, pled guilty to two counts of **making material false statements** to SBA. The remaining five counts

of **making material false statements** to SBA and four counts of **bank fraud** on which the man had been indicted were dismissed as part of the plea agreement. He was sentenced to 5 years probation, 2,000 hours community service, and \$68,117 restitution to SBA. *(Updated from September 1998 Semiannual Report.)*

California Physician Sentenced for Fraud Against SBA and Medicare

A physician in Beverly Hills, California, a recipient of SBA home and business disaster loans, was sentenced to serve 2 years imprisonment and 2 years supervised release. He was also ordered to pay \$311,000 in restitution to the U. S. Department of Health and Human Services and a \$600 special assessment fee. He previously pled guilty to 2 counts of **making a material false statement** to SBA and 10 counts of **mail fraud** against the Medicare program. The physician claimed to have incurred both personal and real property damage at his residence following the Northridge earthquake, when in fact the property was a rental unit and the personal property damage was actually incurred by his tenant. Also, the physician had submitted an invoice that overstated the extent of real property damage incurred at the rental. *(Updated from September 1998 Semiannual Report.)*

Four Indicted in North Dakota Flood-Loan Negotiate Guilty Pleas

Four people who were previously indicted on charges related to a fraudulently obtained \$122,900 SBA disaster loan to a private business school in Grand Forks, North Dakota, entered guilty pleas. The former corporate secretary and the former controller

of the school each pled guilty to one count of **conspiracy** to defraud SBA. Each was sentenced to 6 months home confinement, 3 years probation, and 100 hours community service. A salesman for a computer store in Fargo, North Dakota, pled guilty to one count of **mail fraud**, and was sentenced to 2 years probation, 50 hours community service, and a \$1,000 fine. The fourth defendant was indicted on ten counts (**wire fraud, money laundering, making material false statements, and failure to refund unearned Federal student aid funds**) in addition to the three counts (**conspiracy and making false statements to SBA**) on which she had previously been indicted. In return for her subsequent guilty plea to one **student-loan refund** count, the Government dismissed all the other charges against her. *(Updated from September 1998 Semiannual Report.)*

Florida Air Charter Owner Sentenced for Hurricane-Loan Fraud Scheme

The owner of a Miami, Florida, air charter and air cargo transport company was sentenced to 6 months home confinement with electronic monitoring, 3 years probation, 250 hours community service, and a \$150 assessment. He previously pled guilty to one count of **conspiracy** and two counts of **making material false statements** to influence SBA to disburse a \$288,500 disaster loan to the company. *(Updated from September 1998 Semiannual Report.)*

Small Business Investment Companies

The primary purpose of the Small Business Investment Company Program is to provide a source of long-term debt and equity capital to new or expanding small businesses. **Small Business Investment Companies (SBICs)** are independently owned and managed, profit-making investment companies licensed by SBA to finance small businesses through long-term loans and investments in their equity securities. SBICs often also provide management assistance to the companies they finance.

The role of SBA is to (a) determine which SBICs to license, (b) oversee and regulate those licensees, and (c) arrange for Government-guaranteed financing from private sources to add to their capital. Such financing, termed "leverage," is provided through either debentures or participating securities issued by the SBIC. The participating security was created by the Small Business Equity Enhancement Act of 1992 to serve the needs of SBICs investing principally in equity securities, which do not generate sufficient income to cover the interest on debenture leverage. They represent a limited partnership interest in the SBIC, whereby SBA advances the cost of the leverage until profits have been generated from the SBIC's investments. In consideration, SBA participates in approximately 10 percent of the SBIC's profits. The Agency arranges periodic public offerings of trust certificates backed by pools of SBIC debentures or participating securities. SBA guarantees the payment of principal and interest on the trust certificates.

As of March 31, 1999, there were 330 licensed and active SBICs, with a total capitalization of \$9.9 billion (private capital of \$6.7 billion and committed leverage of \$3.2 billion). Included are 71 Specialized SBICs (SSBICs) which were licensed under Section 301(d) of the Small Business Investment (SBI) Act to invest only in small businesses owned and managed by socially or economically disadvantaged persons. (Section 301(d) was repealed in 1996, but existing SSBICs were "grandfathered" and continue to operate as before.) While the SBIC program level utilized in FY 1998 was \$1.16 billion, authorization ceilings allow for \$1.5 billion in the FY 1999 program level, signaling a continuing expansion of the program. As of March 31, 1999, \$682 million of the FY 1999 program level was committed.

The SBI Act generally requires that all SBICs licensed by SBA be examined every 2 years to ensure licensee compliance with law and Agency regulations. The Small Business Credit and Business Opportunity Enhancement Act of 1992 transferred the responsibility for examining SBICs from the OIG to the Agency effective October 1, 1992. While SBA's Investment Division is now responsible for these examinations, the OIG continues to have authority to audit the SBIC program pursuant to its responsibility to oversee all Agency programs and activities.

Summary of OIG Activity / <i>Small Business Investment Companies</i>	
Indictments Resulting from Investigations	1
Convictions Resulting from Investigations	5
Investigations Closed / Remaining Inventory	1 / 11
Investigations: Restitutions / Fines / Other Recoveries	\$100,000 / \$10,000 / \$843,453
Reviews of Regulations	2
Reviews of Standard Operating Procedures	1
Reviews of Other Issuances	3

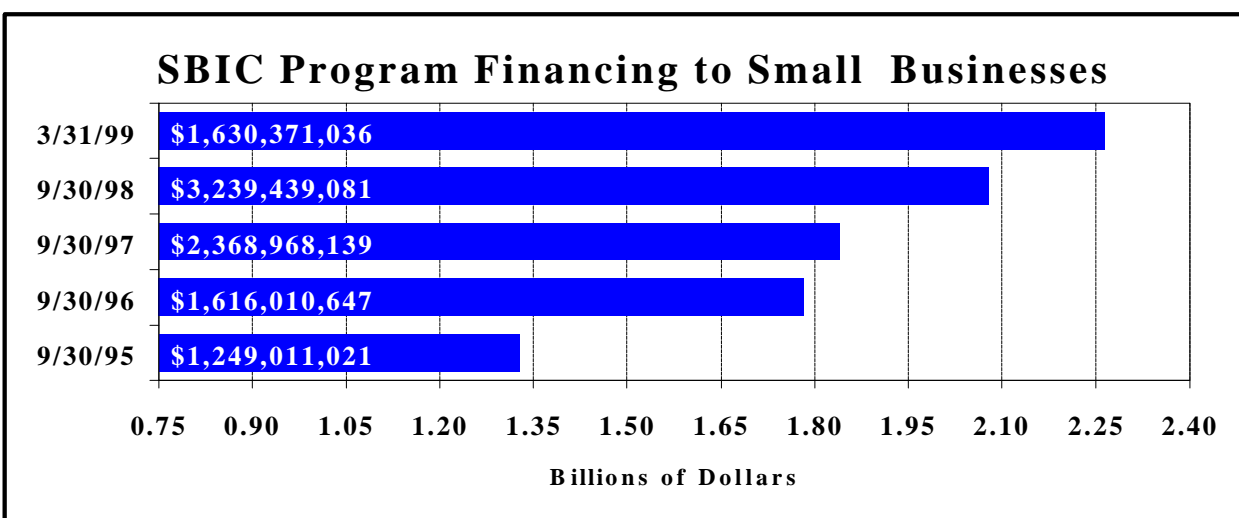


Figure 3

Activities to Enhance Fraud Detection and Deterrence

President of New York Small Business Investment Company Indicted for Bank Fraud, Misapplication of SBIC Funds, and Making Material False Statements

The president of a New York, New York, SBIC was indicted on charges of **bank fraud, misapplication of SBIC funds, and making material false statements**. The indictment charged that, from March 1996

through February 1997, the man fraudulently obtained over \$750,000 in loans from the SBIC, as well as over \$250,000 in salary advances. According to the indictment, he caused the SBIC's vice president to co-sign the salary advance and loan checks by falsely representing that the loans were permissible under SBA regulations. The man claimed that the funds were to be used to purchase his estranged wife's interest in the SBIC, in order to prevent her from gaining control of the company. He then allegedly used the

fraudulently obtained funds for unauthorized purposes, including repayment of his personal gambling debts and personal debts to the two other members of the SBIC's loan committee. His actions caused SBIC a loss of over \$900,000 and forced the Agency to liquidate the SBIC in 1997. This investigation, conducted jointly with the FBI, originated from a referral by SBA's Office of SBIC Operations.

Results of Previously Reported Investigations

Board Chairman of California SSBIC Sentenced for Fund-Misapplication Scheme

The chairman of the board of a now-defunct SSBIC in Westminster, California, was sentenced to 1 day in custody, 5 years supervised release, a \$100,000 fine, and 300 hours community service. He previously pled guilty to one count of **conspiracy** and three counts of **willful misapplication of funds** belonging to the SSBIC. His sentencing is the culmination of an extensive investigation initiated in 1992, based on information provided by SBA's Investment Division shortly after \$1 million in SBA funds were advanced to the SSBIC. In 1997 he repaid \$927,000 of the \$1 million he fraudulently obtained from SBA. *(Updated from March 1998 Semiannual Report.)*

Leaders of New York Village Convicted of Conspiracy, Embezzlement, Fraud, and Money Laundering

A Federal jury convicted four leaders of an incorporated community in Rockland

County, New York, on the 21 counts on which they had been indicted. Shortly thereafter, Israeli police arrested a board member of an SSBIC in that community based on his 1997 U.S. indictment. The board member and two of his co-defendants (who have not yet been apprehended) became fugitives from the charges against them. The seven men had been charged with **conspiracy, embezzlement of Federal program funds, making material false statements, mail fraud, and wire fraud, mortgage fraud, and money laundering.** The 5-year investigation disclosed that the defendants had participated in a number of fraudulent schemes to obtain tens of millions of dollars through the SSBIC program and other Federal and state grant, loan, and subsidy programs. SBA's liquidation of the SSBIC concluded more than 1 year ago; the SSBIC repaid SBA \$1.1 million of the \$1.2 million of leverage funding provided by SBA. The Government of Israel is considering the U.S. Government's request for the arrested man's extradition. *(Updated from September 1997 Semiannual Report.)*

Rhode Island Banker Negotiates Plea in SBIC Funds-Diversion Case

A former bank official pled no contest in Rhode Island Superior Court to one count of **filing a false document** and agreed to voluntarily contribute \$10,000 to the Rhode Island Violent Crimes Indemnity Fund. He was indicted in 1994 on charges that he engaged in a **racketeering** enterprise and **obtained money under false pretenses.** The OIG's joint investigation with the Rhode Island State Police disclosed that the man had borrowed a total of \$300,000 from two SBICs under the pretense that the loan proceeds were to be used by a Newport,

Rhode Island, shipyard he owned. (*Updated from September 1994 Semiannual Report.*)

Surety Bond Guarantees

Small and emerging contractors who cannot get surety bonds through regular commercial channels can apply for SBA bonding assistance under the **Surety Bond Guarantee Program**. Under this program, SBA guarantees a portion of the losses sustained by a surety company as a result of the issuance of a bid, payment, and/or performance bond to a small business concern.

Businesses in the construction and service industries can meet SBA's size eligibility standards if their average annual receipts (including those of their affiliates) for the last 3 fiscal years do not exceed \$5 million. A contract bond is generally eligible for SBA's guarantee if the bond is covered by the Contract Bonds section of the Current Manual of Rules, Procedures and Classifications of the Surety Association of America; required by the invitation to bid or by the contract; and executed by a surety company that is determined by SBA to be eligible to participate in the program and certified acceptable by the Department of the Treasury.

The **Preferred Surety Bond (PSB)** program allows selected sureties to issue, monitor, and service surety bonds without SBA's prior approval. SBA accomplishes two primary objectives through this program: (1) expanding the number of sureties participating in the surety bond guarantee program; and (2) increasing bonding availability to business concerns that would otherwise not be able to obtain bonding in the standard marketplace. Title II of P. L. 100-590 also requires an annual audit of each surety participating in this program.

SBA can guarantee bonds for contracts with a face value of up to \$1.25 million. In FY 1998, SBA contingent liability for new final bond guarantees, including those issued under the PSB program, was \$414 million. The appropriated guarantee authority level for FY 1998 surety bond guarantees was \$1.672 billion; in FY 1999, it remains at \$1.672 billion.

Summary of OIG Activity / Surety Bond Guarantees	
Audit Reports Issued	3
Audits Underway	2
Investigations Closed / Remaining Inventory	1 / 2
Investigations: Declinations Due to Name Checks	2
Investigations: Cases Referred to Other Agencies	1
Reviews of Other Issuances	1

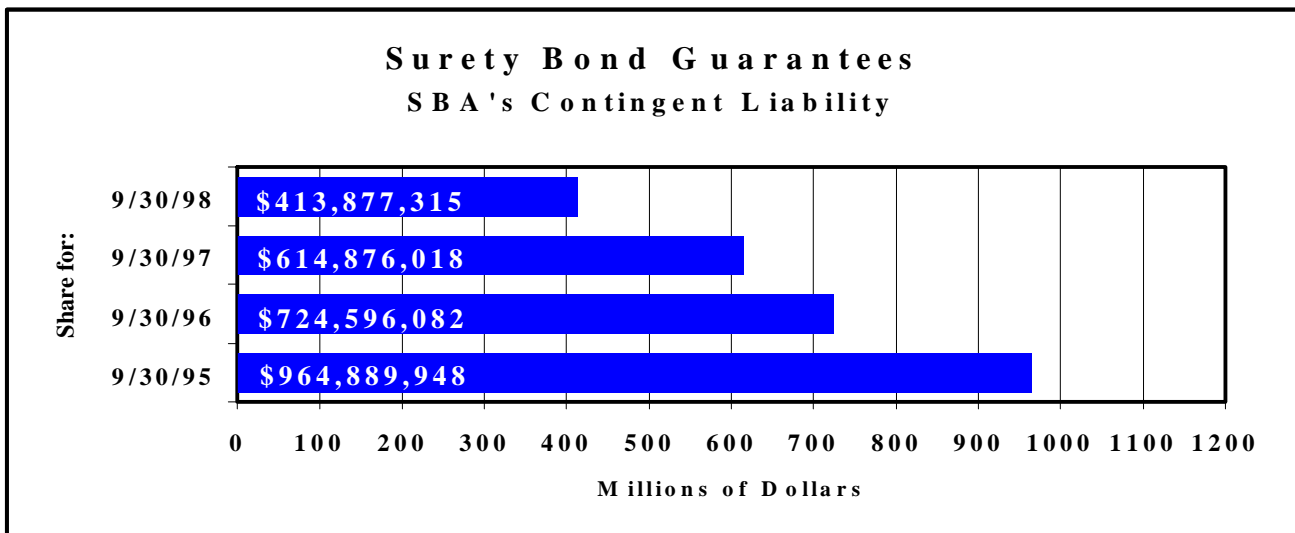


Figure 4

Efforts to Improve SBA Program Management

Audits of Three Surety Bond Companies Found Noncompliance with SBA Procedures

Audit reports were issued by the OIG on three sureties located in Chicago, Baltimore and Seattle. **All three audits found significant noncompliance with SBA procedures.** More than half of 51 bonds at one surety had deficiencies, which resulted in \$1.3 million owed to SBA. Another

surety did not follow proper procedures in 11 of 24 bonds reviewed, with a finding that \$803,926 of loss claims were unallowable because of improper allocation of expenses and unallowable expenditures for claims settlement. The third audit identified \$26,303 in claims for ineligible legal costs, as well as two cases where two bonds were issued for the same project, thereby exceeding the \$1.25 million limit of guaranteed bonds on one project.

In addition to claims issues, the sureties were cited for issuing bonds after project starts and splitting bonds to stay under the

dollar maximum for SBA guarantees. The reports recommended that the Associate Administrator for Surety Guarantees (AA/SG) seek reimbursement on ineligible bonds, deny payment on any future claims on the remaining ineligible bonds, and direct the sureties to revise policies and procedures. The AA/SG concurred with the findings and recommendations on two of the three audits. The AA/SG generally agreed with the findings and recommendations of the third audit, but stated that the recommendations required legal interpretation prior to implementation.

Government Contracting Programs

SBA provides assistance to small businesses to obtain a fair share of Federal Government contracting opportunities. SBA also works with each department or agency to establish procurement goals for contracting with small, small-disadvantaged, and women-owned small businesses. The Agency's Government contracting programs include **Prime Contracts, Subcontracting Assistance, Certificate of Competency, Natural Resources Sales Assistance,** and the **Procurement Marketing Access Network (PRO-Net).**

The goals of the **Prime Contract Program** are to increase small business opportunities in the Federal acquisition process and to expand full and open competition to effect savings to the Federal Government. Supporting initiatives are carried out by traditional and breakout procurement center representatives assigned to major Federal acquisition activities.

The **Subcontracting Assistance Program** promotes the optimal use of small businesses by the Government's large prime contractors. This program objective is carried out by commercial market representatives who monitor the procurement activities of the large prime contractors.

The **Certificate of Competency (COC) Program** provides an appeal process to ensure that small business concerns, especially those new to the Federal procurement market, are given a fair opportunity to compete for and win Government contracts. If a small business is the lowest bidder on a contract but is found to be non-responsible in its ability to fulfill the contract's requirements, it can appeal to SBA. After reviewing a firm's capabilities, SBA can issue a COC that requires the contracting officer to award the contract to that business.

Natural Resources Sales Assistance helps small businesses obtain a fair share of Federal property offered for sale or disposal, with a focus on sales of Federal timber, royalty oil, coal leases, and other mineral leases.

PRO-Net is SBA's Internet-based inventory of U.S. small businesses that are interested in Federal procurement opportunities, either directly with the Government or with prime contractors. Federal agencies, large prime contractors, state and local governments use PRO-Net as a resource in identifying small businesses for procurement opportunities. Small businesses use this interactive mechanism to market their products and services.

The **HUBZone Empowerment Contracting Program** encourages economic development in historically underutilized business zones – “HUBZones” – through the establishment of Federal contract awards preferences for small businesses located in such areas. After determining eligibility, the SBA lists qualified businesses in its *PRO-NET* database.

The Small Disadvantage Business (SDB) Certification Program ensures that small businesses owned and controlled by individuals claiming to be socially and economically disadvantaged meet the eligibility criteria. Once certified, the businesses are eligible to receive price evaluation credits when bidding on Federal contracts.

Summary of OIG Activity / Government Contracting	
Investigations Closed /Remaining Inventory	0 / 6*
Reviews of Proposed Regulations	2
Reviews of Other Issuances	4

*Two of these are cases involving the SDB Contracting Program

Efforts to Improve SBA Program Management

HUBZone Implementation Reviewed

The OIG reviewed revisions to the regulations and internal Agency procedural notices implementing the HUBZone program. Additionally, the OIG worked in a consultative capacity with staff of the HUBZone Empowerment Contracting Program to develop an application form for participants in the program. The new prospective form addresses both the information-gathering needs of the Agency and the fraud deterrence concerns of the OIG. This application was adopted and is now in use by the Program.

8(a) Business Development

Section 7(j)(10) of the Small Business Act established the **Minority Small Business and Capital Ownership Development Program**, recently renamed the **8(a) Business Development Program**, for the purpose of promoting greater access to the free enterprise system for socially and economically disadvantaged individuals. Under the Act, SBA provides business development assistance to small business concerns that are at least 51 percent unconditionally owned, controlled, and managed by one or more socially and economically disadvantaged individuals and also meets other program eligibility requirements. Such companies may participate in the program for a maximum of 9 years and must enhance their competitiveness during this period so as to prepare for commercial sector competition upon graduation from the program.

One of the business development tools available to participant firms is access to Federal contracting opportunities authorized by **Section 8(a)** of the Small Business Act. Under the Section 8(a) program, SBA contracts with other Government agencies to provide goods and services and subcontracts the performance of these contracts to program participants. As of September 30, 1998, based on preliminary data pending the final Federal Procurement Data System report, there were 4,941 approved program participants. In FY 1998, active Section 8(a) program participants received 4,276 contracts and 22,036 modifications with an aggregate value of \$5.2 billion. Generally, Section 8(a) contracts with estimated values, including all options, of more than \$5 million (manufacturing) or \$3 million (all other industries) must be competed among eligible Section 8(a) program participants. The vast majority of the contracts awarded under the program, however, have estimated values below these two thresholds and are awarded on a sole-source basis.

Under the **Section 7(j) Management and Technical Assistance Program**, which is housed in the Office of 8(a) Business Development, SBA provides specialized training, professional consultant assistance, and executive development to certified Section 8(a) firms, socially and economically disadvantaged individuals whose firms are not participants in the Section 8(a) program, low-income individuals, and small businesses located in areas of low income or high unemployment.

There are over \$9 billion in Section 8(a) subcontracts currently outstanding and subject to OIG audit, inspection, and investigation oversight activities. These contracts are reflected in other Government agencies' portfolios; therefore, their values are not included in the OIG's \$35 billion audit, inspection, and investigation universe.

Summary of OIG Activity / 8(a) Business Development	
Audits Underway	1
Investigations Closed /Canceled/ Remaining Inventory	2 / 3 / 27
Investigations: Restitution / Fines / Other Recoveries	\$375,000 / \$0 / \$0
Investigations: Declinations Due to Name Checks	11
Investigations: Cases Referred to Other Agencies	1
Reviews of Other Issuances	11

Activities to Enhance Fraud Detection and Deterrence

Latest Result from Affirmative Civil Enforcement Program

During this reporting period, the OIG's participation in the DOJ's Affirmative Civil Enforcement (ACE) program produced one successful Section 8(a) business development case.

The former owners of a Section 8(a) company denied liability but agreed to pay the Government \$375,000 to settle findings that they violated the False Claims Act. The firm had applied to participate in the Section 8(a) program in 1993 and was approved in 1994. Allegations were subsequently received that one of the owners had lied about his personal financial condition. An SBA/OIG audit revealed that one of the owners exceeded the Section 8(a) personal net worth limit. The OIG's investigation confirmed that the owner had submitted false statements to SBA and **misrepresented his personal financial condition** when he reported investment property as his personal residence. To have accurately reported the property would have disqualified him as an Section 8(a)

participant. In February 1998, the matter was presented to the Civil Division of the U.S. Attorney's Office with jurisdiction over the matter. In December 1998, an Assistant U.S. Attorney sent the owner's attorneys a demand letter and a draft complaint for relief for the alleged violations. The \$610,000 sought was triple the estimated amount of profits earned on the firm's Section 8(a) contracts in 1995-97, plus a \$10,000 penalty. The owners sold the firm in March 1998 and voluntarily withdrew from the Section 8(a) program.

Entrepreneurial Development (Business Education and Training)

SBA provides assistance to small business owners, managers, and prospective owners through a variety of counseling and training programs housed under its Office of Entrepreneurial Development.

SBA established the **Small Business Development Center (SBDC)** program to make management assistance and counseling widely available. SBDCs offer “one-stop” assistance to small businesses by providing a wide variety of information and guidance in easily accessible locations. The program is a partnership between the private sector, the educational community and Federal, State, and local governments. There are SBDCs in all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, and Guam, with approximately 1,000 subcenters or service locations located at chambers of commerce, economic development corporations, institutions of higher learning, or in downtown storefronts. In FY 1998, SBDCs provided counseling and training to over 547,000 clients.

The **Service Corps of Retired Executives (SCORE)** is another of the valuable business development resource partners of SBA. Composed of approximately 12,400 volunteers working in over 700 sites, SCORE provides counseling and training to current or prospective business persons. In addition, this year SCORE began providing assistance by e-mail from their website (www.score.org). On-site sessions are free to the public, and formal training is provided at a low cost. In FY 1998, SCORE conducted more than 350,000 client sessions.

The vast majority of SBA business development and education activities in the areas of training, counseling, and the provision of management information materials occur through outreach efforts with external organizations. Co-sponsorship arrangements, authorized under the Small Business Act, play a key part in this process. The Act gives SBA the authority to cosponsor training and counseling activities for small business concerns with non-profit entities and/or with other Federal Government agencies. In addition, the Act authorizes the Agency to cosponsor training, but not counseling, with for-profit concerns.

Business Information Centers (BICs) provide business owners with access to computers, software, databases, and other resources to assist them in starting and expanding their businesses. All BICs have at least one on-site counselor. Centers can address the varied business start-up and growth issues encountered by small business owners and provide access to computer applications and the internet. There are currently 56 BICs in operation.

The **Women’s Business Center (WBC)** program provides training and counseling specifically tailored to the needs of the vastly underserved market of women entrepreneurs. This program includes 35 currently funded sites and additional graduated sites that touch nearly every state in the Union. One of the currently funded sites is a virtual WBC (www.onlinewbc.org) that receives nearly 1 million hits per month from over 100 countries.

SBA's 18 **One-Stop Capital Shops (OSCS)** provide centralized access to the full range of a community's small business resources, including entrepreneurial development, access to capital, and procurement of government contracts. The program cuts across and combines a variety of SBA's technical assistance resources. Clients can access small business information resources (through the BICs), receive counseling (from SCORE volunteers) and training (from a local SBDC chapter), learn to develop a business plan or mend damaged credit (from non-governmental resource partners), as well as apply for financing (traditionally with microloan intermediaries). An OSCS is a partnership between the Federal Government, led by SBA, and a local community designed to offer small business assistance from a single, easy to access, retail location.

Beginning in 1997, SBA began an aggressive **Welfare to Work (W2W)** initiative that cuts across SBA's technical assistance programs to increase small business access to hiring new employees. Since 1998, using a combination of the SBA toll free number (1-800 U ASK SBA), the SBA webpage (www.sba.gov/welfare) and a local contact in over 70 district-based offices, the SBA W2W initiative has informed business on the benefits of W2W programs and connected them to local contacts. SBDCs, SCORE, and the WBC programs have targeted training and resources to aid the W2W initiative and find effective business solutions involving W2W.

Summary of OIG Activity / <i>Entrepreneurial Development</i>	
Audits Underway	1
Reviews of Other Issuances	10

Agency Management and Financial Activities

Agency Management and Financial Activities include SBA's administration of the loan programs, as well as the full range of its internal administration and financial management operations. OIG audit, investigative, and inspection activities assist SBA managers by reviewing their operations for efficiency and effectiveness. The audits of SBA's financial statements, as required by the Chief Financial Officers Act, review the Agency's cash management and integrity assurance activities.

SBA's management and financial activities are supported by the Agency's \$819.9 million in operating funds, partially provided by FY 1999 appropriations enacted in P.L. 105-119. Of the \$819.9 million available, which includes carry-overs and estimated recoveries, \$288.3 million funds Salaries and Expenses, \$30.9 million is for disaster loan servicing, and \$85.3 million is for disaster loan making. In addition, \$224.2 million is available for business loans, \$147.3 million for disaster loans, and \$3.8 million for the Surety Bond Guarantee program.

Summary of OIG Activity / Agency Management and Financial	
Audit Reports Issued	3
Audits Underway	5
Indictments Resulting from Investigations	1
Investigations Closed / Canceled / Remaining Inventory	3 / 1 / 14
Investigations: Restitutions / Fines / Other Recoveries	\$0 / \$10,000 / \$0
Inspections Underway	1
Reviews of Proposed Legislation	4
Reviews of Proposed Regulations	4
Reviews of Standard Operating Procedures	5
Reviews of Other Issuances	54

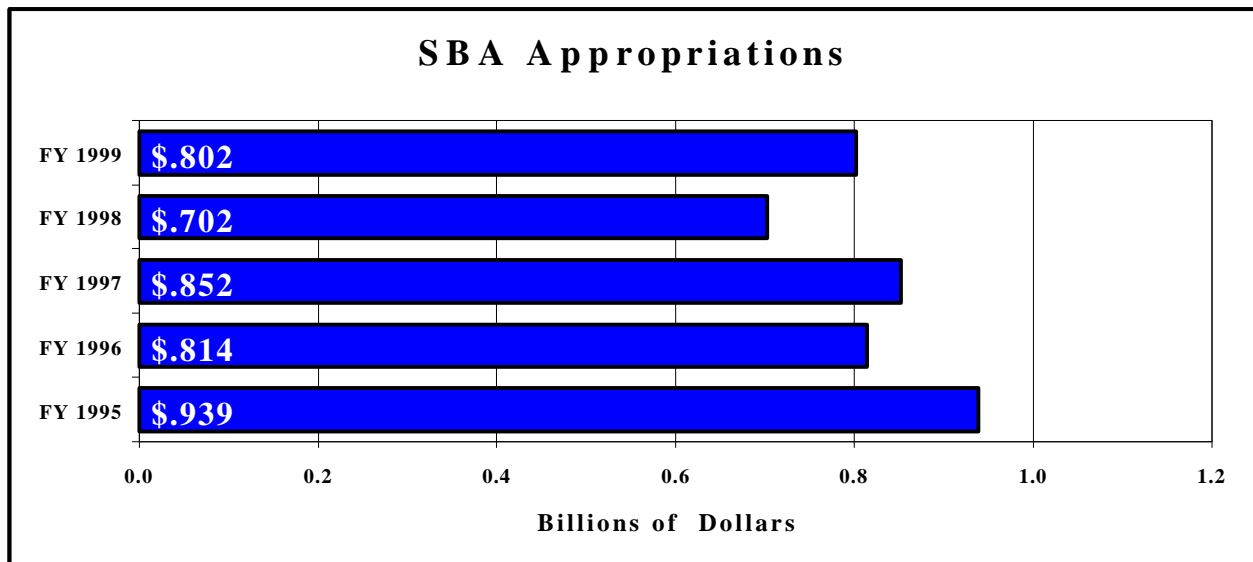


Figure 5

Efforts to Improve SBA Program Management

Grantee Failed to Follow SBA Requirement

Auditors questioned \$101,061 in expenditures out of a \$1,000,000 special appropriation grant for a small business development institute in Philadelphia, Pennsylvania. The questioned costs included excess Federal salary sharing for the director (\$25,219), duplicate or unexpended reimbursement claims (\$69,831), and unallowable fund raising expenses (\$6,011).

The auditors also found that the grantee had not obtained title to the land on which the center was built, did not use competitive bids to select a general contractor, and did not require the contractor to obtain surety bonds, all violations of the grant agreement. The auditors recommended that the Director of the Office of Procurement and Grants

Management (OPGM) recover the questioned costs and freeze payments to the grantee until title to the land is obtained. The Director of OPGM agreed with the findings and recommendations

Audit Finds Online Women's Business Center Inappropriately Used SBA Grant Funds

An audit disclosed that an online women's business center in Dallas, Texas, inappropriately used SBA grant funds to buy a computer and purchase office supplies and airline tickets from companies owned by board members.

The audit recommended that the center reimburse SBA for the cost of the equipment purchase (\$3,822) and cease purchases from companies where a conflict of interest exists. The Director of OPGM verbally concurred with all findings and agreed to implement the recommendations.

Audit of Two SBA Grants Found Inappropriate Expenses

The OIG issued an audit by the Department of Commerce Office OIG for two SBA grants. **The audit found that unallowable expenses were included in indirect costs.** Specifically, the grantee did not separate affiliate services as a cost center. Expenses related to affiliate services were inappropriately accumulated as part of the indirect cost pool. This resulted in overcharges to SBA totaling \$18,966.

The Auditing Division issued the report to the Assistant Administrator for Administration with a recommendation to disallow the costs. The Assistant Administrator agreed to disallow the costs.

Inspection of Paperless Environment Underway

The OIG is conducting an inspection of management issues that could arise in a paperless environment. It is intended to assist SBA managers and private-sector partners who are planning to convert existing program procedures, such as the processing of loan applications, from a paper-based system to an electronic process. We expect the report to be issued in May 1999.

Proposed Federal Managers Financial Integrity Act Annual Report Reviewed

The OIG reviewed several drafts of the Agency's proposed Federal Managers Financial Integrity Act (FMFIA) Annual Report and had concerns with the designated material program weaknesses and the basis

for the Administrator's statement of assurance. In past years, it has been the Administrator's practice to require all program heads to assess the internal controls within their own operations to determine whether high-risk areas or material weaknesses exist. This was an effective way to ensure that all Agency programs and operations were reviewed as part of the Agency's annual certification process. It did not appear that this process, or any similar procedure involving program heads, was followed this year. Moreover, the proposed report and transmittal letter did not clearly state the basis for the Administrator's statement of reasonable assurance and report on material weaknesses. For the past 2 years, the OIG has been asked by the Congress to identify the top 10 management problems facing the Agency. The OIG was concerned that it did not appear that any of these OIG-identified issues were considered in developing the proposed FMFIA Report.

Proposed Legislation Reviewed: Paperwork Reduction

The OIG reviewed and commented on a draft of H.R.____, The Small Business Paperwork Compliance Relief Act of 1999. While this proposed bill addressed many of the concerns we reported previously regarding H.R. 3310, The Small Business Paperwork Reduction Act of 1998, the OIG had some concerns with the proposed legislation. Unlike its predecessor, the proposed bill does not define the term "small business." The OIG recommended that language be added to ensure that, for purposes of the proposed legislation, "small business" would have the same meaning as set forth in the Small Business Act. Section 2(b) of the draft bill requires each agency to establish one point of contact to

act as a liaison between the agency and small businesses with respect to the collection of information. The OIG is concerned that a requirement to coordinate the collection of information necessary to further the mission of an agency's OIG conflicts with the Inspector General Act of 1978 (IG Act), as amended, which provides for independence in the conduct of OIG audits, investigations, and inspections.

Section 2(c) deals with the suspension of penalties for a first-time violation of a requirement regarding the collection of information. The OIG recommended that the language of the draft bill be amended to exempt from suspension of the penalties those instances that cause or threaten to cause significant harm. The OIG also recommended that Section 2(c) be amended to prohibit the suspension of penalties where there is evidence of criminal wrongdoing.

Proposed Legislation Reviewed; Government Waste, Fraud, and Error Reduction Act of 1998

The OIG reviewed H.R. 436, Government Waste, Fraud, and Error Reduction Act of 1999. This bill, which is essentially the same as H.R. 4243, Government Waste, Fraud, and Error Reduction Act of 1998, which was reported on previously, proposes to improve Federal agency financial and travel management and debt collection practices. The OIG raised the same concerns regarding H.R. 436, that it raised a year earlier regarding its predecessor. Comments focused on such issues as ensuring that any systems for electronic payments or travel reservations be sufficiently secure to deter fraud and to preserve all evidence (for prosecution purposes) should fraud still occur, requiring

contractors to perform background checks on all individuals who would perform debt collection services, establishing a simple mechanism to allow Federal agencies to obtain information about delinquent debtors from other Federal agencies in a timely manner, specifying the circumstances or criteria under which the head of a Federal agency could waive the general prohibition against providing a benefit to a delinquent debtor, obtaining authorization to retain a share of all forfeited assets pertaining to high value non-tax debts to support agency law enforcement efforts, ensuring that a provision that would require agencies to sell each loan within 6 months of the loan disbursement would not thwart future efforts to prosecute all types of criminal activity pertaining to those loans, and expanding the definition of "federal benefit" to ensure that persons with a delinquent outstanding debt would not be eligible for business disaster loans, rental housing assistance, grants, and participation in Federal programs, such as the Section 8(a) minority set-aside program.

Activities to Enhance Fraud Detection and Deterrence

OIG Conducts Employee Awareness Briefings

In addition to investigating complaints of waste, fraud, and abuse involving SBA programs, OIG Investigations Division staff presented **integrity awareness briefings** to a total of 439 **Agency employees** in seven cities. Of particular note, a special agent who is bilingual made presentations, one in English and one in Spanish, to a total of 289 employees at the Disaster Assistance Area 1 Office in Niagara Falls, New York. The involvement and cooperation of all SBA employees in combating waste, fraud, and abuse is critical to an effective OIG investigations program and to the Agency's overall productivity and efficiency.

During the reporting period, employee contributions to our mission were significant. As Figure 6 shows, more than 49 percent of the investigations initiated by the OIG originated with referrals from within the Agency. This cooperation indicates the strong commitment of SBA employees to reducing waste, fraud, and abuse in Agency programs and improving the Agency's management and control of its programs.

Former SBA Employee Indicted for Felony Theft

A former Office Automation Assistant in SBA's Cleveland District Office was indicted in Cuyahoga County, Ohio, on one count of **felony theft**, a violation of the Ohio Revised Code. The charge was based on her alleged theft of cash from the district office's imprest fund. When an unannounced verification by district office managers found a shortage of almost \$1,100, they referred the matter to the OIG. The joint OIG and Cleveland Police Department investigation found that the employee had removed the cash due to personal financial difficulties. (SBA's net loss from her actions turned out to be \$845.) The employee resigned from her employment with SBA.

Results of Previously Reported Investigations

Former Arizona District Director Sentenced for Bribery and Conspiracy

The former District Director of SBA's Arizona District Office was sentenced to 5 years probation (with the first year to be served in home detention) and a \$10,000 fine. A trial jury previously found him guilty on one count of **conspiracy** and two counts of **bribery**. (*Updated from September 1998 Semiannual Report.*)

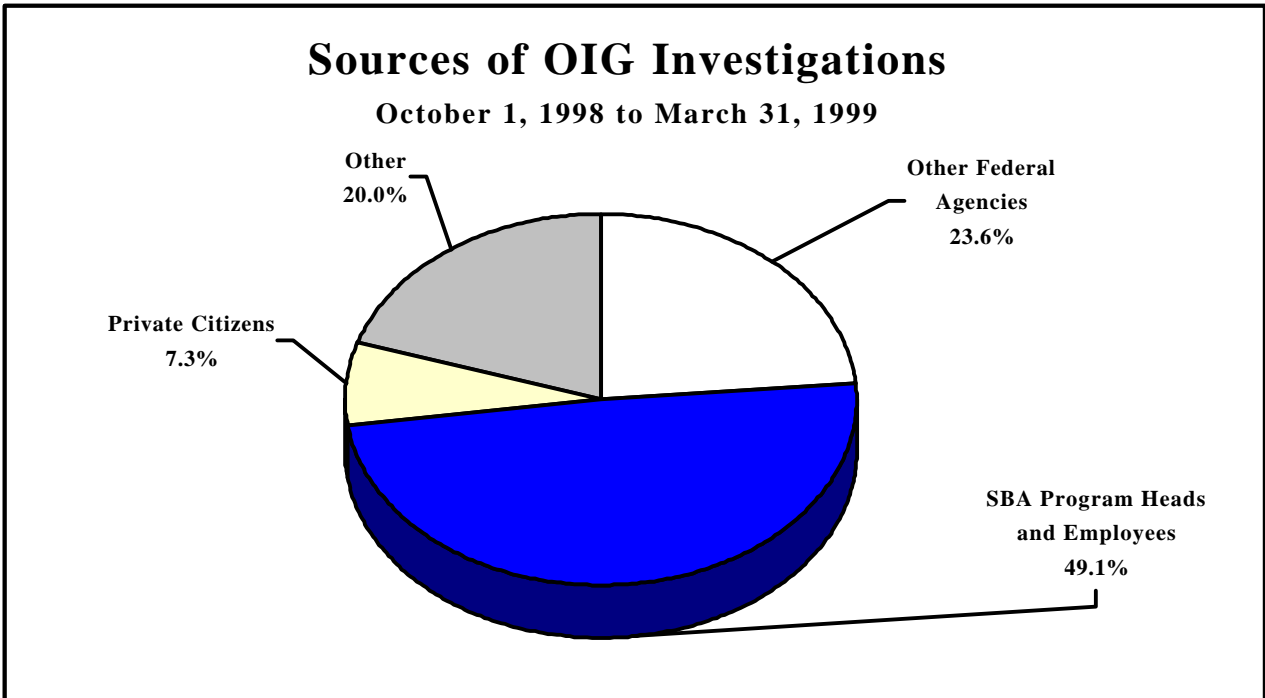


Figure 6

SBA Job Applicant Debarred from Federal Employment

A man who had applied for employment with SBA was debarred for 4 years from competing for or accepting any position with the Government. He previously pled guilty to one misdemeanor count of **making a fraudulent demand** for wages by making false statements in the application he submitted to SBA. *(Updated from September 1998 Semiannual Report.)*

Organization, Resources, and Management Initiatives

The dual missions of the Office of Inspector General are to help improve management in the Agency and to detect and deter fraud in SBA's programs. Mission goals and objectives are accomplished through the provision of audit, investigation, and inspection and evaluation oversight of the Agency's portfolio, programs, and supporting operations. This chapter provides an overview of the OIG's organizational structure and its personnel and financial resources. It also summarizes key internal management initiatives designed to use available resources as effectively as possible.

Summary of OIG Activity / Org. Resources & Mgmt. Initiatives	
Inspections Underway	1
Reviews of Proposed Legislation	1

Organization

The SBA/OIG is organized into four divisions as follows:

- Auditing Division
- Investigations Division
- Inspection and Evaluation Division
- Management and Legal Counsel Division

The Auditing and Investigations Divisions each administer their field activities through field offices and resident offices around the country. The Auditing Division has offices located in Atlanta, Chicago, Dallas, Los Angeles, and Washington. The Investigations Division has offices in those cities as well as in Denver, Houston, Kansas City, New York, Philadelphia, San Francisco, Seattle, and Syracuse. The Investigations

Division's Office of Security Operations is located in Washington, D.C. Both the Inspection and Evaluation Division and the Management and Legal Counsel Division operate out of Washington, D.C. A current OIG organization chart can be found on the following page.

Resources

In FY 1999, funding for the OIG consists of \$10.8 million for operating costs and an additional \$500,000 for disaster oversight, a total of \$11.3 million. The authorized personnel ceiling increased from 114 in FY 1998 to 122 full-time equivalent (FTE) positions for FY 1999. While this level of funding represents a modest increase from the number of dollars appropriated in FY 1998, it provides only a minimal level of oversight to SBA programs and program dollars at risk. Congressionally mandated law enforcement availability pay, annual

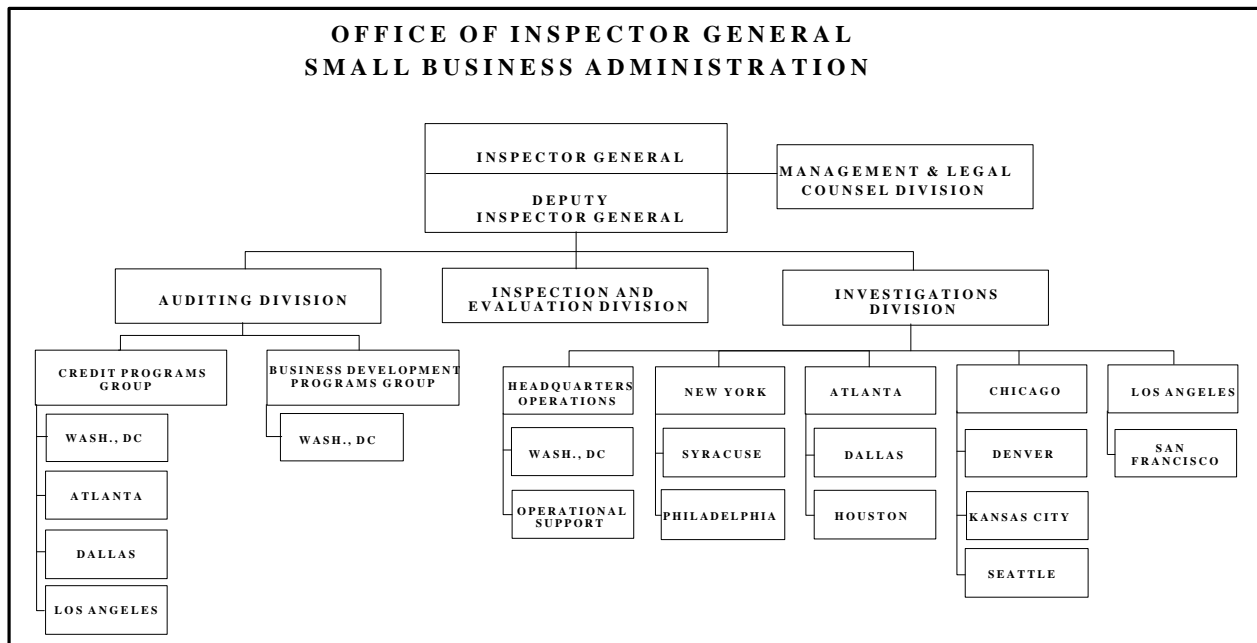


Figure 7

cost of living increases, and various locality pay adjustments are still not fully funded by the OIG's authorized spending levels. In FY 1999, 12 temporary appointments supported by disaster funding were converted to permanent status to retain expertise and experience in disaster assistance oversight.

In FY 1994, the OIG received \$3 million in supplemental "no year" disaster funds to be used for activities related to the Agency's expanding disaster assistance program. These funds will remain available until expended. At this time, the OIG projects that these "no year" funds will be expended by the end of FY 1999.

Additionally, in the FY 1997, 1998, and 1999 appropriations, Congress directed the Agency to transfer \$500,000 from its disaster assistance account to the OIG for disaster program oversight. With the no year funds expended and the unknown status of any disaster oversight appropriations for FY 2000, the SBA/OIG may be forced to

curtail its vigorous oversight of disaster activities.

The relatively static level of resources over the past 5 years remains a concern. As depicted in both Figures 1 and 2 (pages 8 and 20, respectively), the dynamics of the Agency's portfolio and the President's New Markets Initiative, designed to reach more distressed rural and urban areas of the country, would suggest that the OIG's resources must be increased to ensure an adequate level of program oversight. While the increase in resources from FY 1998 to FY 1999 (\$10.5 million to \$11.3 million) has been helpful, it did not allow the OIG to "catch up" to its expenses after years of chronic underfunding, and still does not allow the OIG to fully address SBA's increasing portfolio and programs. The OIG continues to experience difficulty in carrying out its mandate to provide meaningful oversight of the Agency's programs and supporting activities and to safeguard the Government's investment in SBA's extensive credit programs. As is

apparent from the accompanying narrative, some SBA programs received only modest oversight while others virtually went without oversight.

As the table on page 50 illustrates, the business and disaster loan programs consume most of the OIG's direct investigation and auditing time (81 and 58 percent, respectively). Because these two programs represent the greatest risk of financial loss to the taxpayer, the OIG has made a conscious decision to devote a substantial amount of its limited resources to these programs. Business loan and disaster loan frauds are the two largest areas for investigative activity. As the table also illustrates, however, this emphasis on these critical areas results in only minimal or no audit and investigative coverage of other program areas.

For FY 2000, the President has requested Congress to appropriate \$11.0 million for the OIG; unlike the past 3 years, this amount does not include any disaster assistance oversight funds. Although the OIG expects to be funded by SBA for 6 FTE for oversight of the Small and Disadvantaged Business program, the OIG budget will be unable to completely absorb the combined cost-of-living and locality pay raises of an estimated 4.6 percent in FY 2000.

Management Initiatives

GPRA Activities

The OIG has expanded its efforts to assist SBA in implementing the Government Performance and Results Act (GPRA). Within the Agency, the OIG GPRA coordinator participated in SBA's GPRA Credit Measures Task Force, which

developed a separate credit measures appendix for the FY 2000 annual plan. Outside of SBA, the OIG has continued to play an active role both in the IG community and with other agencies through participation in the National Academy of Public Administration's GPRA Performance Consortium.

Internally, we are developing a new OIG strategic plan for FY 2001-2006. The OIG's GPRA plan represents a portion of the OIG's proposed activities for FYs 1999 and 2000. It is designed to be a targeted approach that will provide useful information to the Congress and maximum benefit to SBA while providing the OIG with the ability to fulfill other critical statutorily mandated and discretionary oversight responsibilities.

We have also begun planning how we will address SBA's GPRA implementation. The Auditing and Inspection and Evaluation Divisions have included GPRA implementation as a part of their regular review activities for FY 1999. GPRA related audits to be initiated in FY 1999 will include—

- 8(a) Business Development Program
- SBIC
- Disaster Assistance Program
- Surety Bond Guarantee Program
- Government Contracting Program

These SBA programs were chosen as the first GPRA audits because they are key programs, several of which the OIG has done little work on in prior years. The objective of the audits will be to determine if SBA's GPRA goals for those programs:

1. Reflect the statutory mission;

2. Are consistent with SBA's strategic plan;
3. Include efficiency and effectiveness measures;
4. Have measurable performance indicators, and
5. Are supported by reliable data.

The Inspection and Evaluation Division will include a GPRA component in appropriate inspections planned for FY 1999. For example, an inspection of SBA oversight of the Section 504 Loan Program (Certified Development Company) will focus on implementation of GPRA in that program.

In FY 2000, the OIG plans to review selected aspects of SBA's first GPRA annual performance report to be submitted to the President and to the Congress on March 31, 2000.

**Direct Investigation Time by Program Area
October 1, 1998 to March 31, 1999**

Program Area	Direct Time %	Number of Investigations*	
		Closed**	In Progress
Business Loans	56%	25	181
Disaster Loans	25%	25	148
SBIC	3%	1	11
Surety Bond Guarantees	2%	1	2
Government Contracting	1%	0	4
Minority Enterprise Development	9%	5	27
Small Disadvantaged Business	***	0	2
Entrepreneurial Development	***	0	0
Agency Management and Financial	5%	4	14
Total	101%****	61	389

* Includes civil cases

*** Less than 1/2 percent

**Includes cases canceled

**** Total exceeds 100% due to rounding

**Direct Auditing Time by Program Area
October 1, 1998 to March 31, 1999**

Program Area	Direct Time %	Number of Audits	
		Issued	In Progress
Business Loans	39 %	3	5
Disaster Loans	19 %	1	2
SBIC	0	0	0
Surety Bond Guarantees	11 %	3	2
Government Contracting	0	0	0
Minority Enterprise Development	2 %	0	1
Small Disadvantaged Business	0	0	0
Entrepreneurial Development	7 %	0	1
Agency Management and Financial	22 %	3	5
Total	100%	10	16

Profile of Operating Results

October 1, 1998 to March 31, 1999

Audit Activities	Totals
A. Reports Issued.....	10
B. Audit Recommendations Issued.....	55
C. Dollar Value of Costs Questioned.....	\$1,952,516
D. Dollar Value of Recommendations that Funds Be Put to Better Use	\$270,458
E. Recommended Revenue Enhancements*	\$80,300,000

Audit Follow-Up Activities

A. Audit Recommendations Closed.....	59
B. Disallowed Costs Agreed to by Management.....	\$883,316
C. Dollar Value of Recommendations That Funds Be Put to Better Use Agreed to by Management	\$1,848,428
D. Unresolved Audit Recommendations.....	73
E. Dollar Value of Unresolved Audit Recommendations.....	\$21,150,247

Inspection Activities

A. Reports Issued.....	0
------------------------	---

Legislation/Regulation/SOP/Other Reviews

A. Legislation Reviewed	5
B. Regulations Reviewed.....	10
C. Standard Operating Procedures Reviewed	9
D. Other Issuances Reviewed**	104

* Assets and income that could be used to repay Northridge earthquake disaster loans.

** This includes policy notices, procedural notices, Administrator's action memoranda, and other communications, which frequently involve the implementation of new programs and policies.

Status of Investigations as of March 31, 1999

A.	Total Cases	450
B.	Closed Cases	61
C.	Pending Cases	20
D.	Open Cases	369
E.	Subjects Under Investigation	1,220
F.	Cases Referred to FBI or Other Agencies for Investigation	6

Summary of Indictments and Convictions

A.	Indictments from OIG Cases	25
B.	Convictions from OIG Cases	27

Summary of Recoveries and Management Avoidances

A.	Potential Recoveries and Fines as a Result of OIG Investigations	\$2,934,063
B.	Management Avoidances as a Result of OIG Investigations	\$0
C.	Management Avoidances as a Result of the Name Check Program	<u>\$16,258,765</u>
Total:		<u>\$19,192,828</u>

SBA Personnel Actions Taken as a Result of Investigations

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

Program Actions Taken as a Result of Investigations

A.	Suspensions	0
B.	Debarments*	1
C.	Removals from Program	0
D.	Other Program Actions	0

Summary of OIG Fraud Line Operation

A.	Total Fraud Line Calls/Letters	308
B.	Total Calls/Letters Referred to Investigations Division for Evaluation	41
C.	Total Calls/Letters Referred to Program Offices or Other Federal Investigative Agencies	75
D.	Total Other Calls/Letters	192

*A former SBA job applicant was debarred from applying for Federal jobs.

**Office of Inspector General
Actual Personnel on Board as of March 31, 1999**

A. Immediate Office	2
B. Auditing Division	42
Professional	37
Support	5
C. Investigations Division	52
Professional	43
Support	9
D. Inspection and Evaluation Division	9
Professional	8
Support	1
E. Management and Legal Counsel Division	10
Professional	8
Support	2
 OIG Total	 115

FY 1999 Productivity Statistics

First Six Months

Office-Wide Dollar Accomplishments	Totals
A. Potential Investigative Recoveries and Fines	\$2,934,063
B. Management Avoidances as Result of Investigations and Name Checks	\$16,258,765
C. Disallowed Costs Agreed to by Management.....	\$883,316
D. Recommendations that Funds Be Put to Better Use Agreed to by Management	\$1,848,428
Total	<u>\$21,924,572</u>

Auditing Division Activities

A. Reports Issued.....	10
B. Disallowed Costs Agreed to by Management.....	\$883,316
C. Recommendation that Funds Be Put to Better Use Agreed to by Management	\$1,848,428

Inspection and Evaluation Division Activities

A. Reports Issued.....	0
------------------------	---

Investigations Division Activities

A. Cases Closed.....	61
B. Indictments	25
C. Convictions.....	27
D. Potential Investigative Recoveries and Fines	\$2,934,063
E. Management Avoidances.....	\$16,258,765
- Investigation Cases.....	\$0
- Name Check Program.....	\$16,258,765

Statutory Reporting Requirements

The specific reporting requirements as prescribed in the Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988, are listed below.

Source	Pages
Section 4(a)(2) Review of Legislation and Regulations	6 - 45
Section 5(a)(1) Significant Problems, Abuses, and Deficiencies	6 - 45
Section 5(a)(2) Recommendations with Respect to Significant Problems, Abuses, and Deficiencies	6 - 45
Section 5(a)(3) Prior Significant Recommendations Not Yet Implemented	65
Section 5(a)(4) Matters Referred to Prosecutive Authorities	6 - 45
Section 5(a)(5) and 6(b)(2) Summary of Instances Where Information Was Refused	None
Section 5(a)(6) Listing of Audit Reports	59
Section 5(a)(7) Summary of Significant Audits	6 - 45
Section 5(a)(8) Audit Reports Containing Questioned Costs	61
Section 5(a)(9) Audit Reports Recommending that Funds Be Put to Better Use	62
Section 5(a)(10) Summary of Reports Where No Management Decision Was Made	64
Section 5(a)(11) Significant Revised Management Decisions	None
Section 5(a)(12) Significant Management Decisions with Which OIG Disagreed	None

Table of Appendices

Appendix	Page
Appendix I - Audit Reports Issued	57
Appendix II	
Part A - Inspector General-Issued Audit Reports with Questioned Costs	58
Part B - Inspector General-Issued Audit Reports with Recommendations that Funds Be Put to Better Use.....	59
Part C - Inspector General-Issued Audit Reports with Non-Monetary Recommendations.....	60
Part D – Inspector General-Issued Audit Reports with Overdue Management Decision	61
Part E – Significant Audit Reports without Final Action.....	62

APPENDIX I
Audit Reports Issued
October 1, 1998 to March 31, 1999

TITLE	NUMBER	ISSUE DATE	QUESTIONED COSTS	FUNDS FOR BETTER USE
Business Loans				
Colorado 7(a) Loans	9-05	2/24/99	\$ 394,772	\$22,958
Mt. Baker Brewing Co.	9-02	12/3/98		
North Carolina 7(a) Loans	9-04	2/10/99		247,500
Program sub-total	3 audits		\$ 394,772	\$ 270,458
Disaster Loans				
Northridge Defaulted Loans	9-09	3/31/99		
Program sub-total	1 audit		\$ 0	\$ 0
Surety Bond Guarantees				
CNA Surety Companies	9-03	1/29/99	\$ 803,926	
F&D Surety	9-06	3/22/99	489,850	
CBIC Surety	9-10	3/31/99	140,119	
Program sub-total	3 audits		\$ 1,433,895	\$ 0
Agency Management & Financial Activities				
Giving of Self Partnership	9-08	3/24/99	101,061	
On-Line Women's Business Center	9-07	3/22/99	3,822	
W.Va. High Tech Foundation	9-01	10/27/98	18,966	
Program sub-total	3 audits		\$ 123,849	\$ 0
TOTALS (all programs)				
	Reports: 10		\$1,952,516	\$ 270,458

APPENDIX II - Part A
Audit Reports with Questioned Costs
October 1, 1998 to March 31, 1999

		REPORTS	RECs*	COSTS***	
				QUESTIONED	UNSUPPORTED
A.	For which no management decision had been made by September 30, 1998	7	9	\$2,997,662	\$781,461
B.	Which were issued during the period	7	25	\$1,952,516	
	Subtotals (A + B)	14	34	\$4,950,178	\$781,461
C.	For which a management decision was made during the reporting period	5	7	\$997,306	
	(i) Disallowed costs	2	4	\$883,316	
	(ii) Costs not disallowed	3	3	\$113,990	
D.	For which no management decision had been made by March 31, 1999	11**	27	\$3,952,872	\$781,461

* Recommendations.

** The recommendations resolved did not address all the recommendations within the reports where they appeared.

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

APPENDIX II - Part B
Audit Reports with Recommendations that Funds Be Put to Better Use
October 1, 1998 to March 31, 1999

		REPORTS	RECs*	RECOMMENDED FUNDS FOR BETTER USE
A.	For which no management decision had been made by September 30, 1998	14	29	\$18,947,417
B.	Which were issued during the period	2	2	\$270,458
	Subtotals (A + B)	16	31	\$19,217,875
C.	For which a management decision was made during the reporting period	7	11	\$2,020,500
	(i) Recommendations agreed to by SBA management	6	9	\$1,848,428***
	(ii) Recommendations not agreed to by SBA management	1	2	\$331,250
D.	For which no management decision had been made by March 31, 1999	11**	20	\$17,197,375

* Recommendations.

** The recommendations resolved did not address all the recommendations within the reports where they appeared.

*** Management agreed to \$159,178 more than recommended.

APPENDIX II - Part C
Audits Reports with Non-Monetary Recommendations
October 1, 1998 to March 31, 1999

		REPORTS	RECOMMENDATIONS
A.	For which no management decision had been made by September 30, 1998	18	39*
B.	Which were issued during the period	8	28
	Subtotals (A + B)	26	67
C.	For which a management decision was made (for at least one recommendation in the report) during the reporting period	16	41
D.	For which no management decision (for at least one recommendation in the report) had been made by March 31, 1999	14**	26

- * Beginning balance corrected to reflect prior period adjustment.
- ** The recommendations resolved did not address all the recommendations within the reports where they appeared.

APPENDIX II - Part D
Audit Reports with Overdue Management Decisions
March 31, 1999

TITLE	NUMBER	ISSUED	STATUS
Business Loan Center	65H002019	9/20/96	1 of 5 recommendations still being negotiated.
Low Documentation Loan Program	65E002022	9/30/96	OIG will escalate disagreement.
LowDoc Loan Program – Atlanta	77F006017	7/7/97	OIG will escalate disagreement.
LowDoc Loan Program - Santa Ana DO	77F009020	7/8/97	OIG will escalate disagreement.
LowDoc Loan Program - Dallas DO	77F008022	7/31/97	OIG will escalate disagreement.
Business Loan Guarantee Purchases	75H011026	9/30/97	3 of 7 recommendations still being negotiated.
Low Documentation Loan Program Summary	87F005002	11/24/97	OIG will escalate disagreement.
Loan Liquidation	85W003009	2/27/98	1 of 2 recommendations still being negotiated.
7(a) Loan Processing - Atlanta DO	87F019014	5/13/98	OIG will escalate disagreement.
7(a) Loan Processing - New Jersey DO	88F003019	7/8/98	2 of 7 recommendations still being negotiated.
7(a) Loan Processing - Buffalo DO	87F021018	7/8/98	OIG will escalate disagreement.
Emergent Business Capital, Inc.	87F013020	7/13/98	2 recommendations still being negotiated.
7(a) Loan Processing - Madison DO	87F020022	7/22/98	3 of 7 recommendations still being negotiated.
7(a) Loan Processing - Los Angeles DO	88F002028	9/20/98	1 of 8 recommendations still being negotiated.
SafeCo/First National Surety Company	88H009026	9/30/98	3 of 7 recommendations are under legal review.
GSA Kansas City 8(a) Sole Source IDIQ – FAST	88H006025	9/29/98	4 recommendations still being negotiated.
Grant Proposal for WVHTCF	77H001014	4/25/97	1 recommendation still being negotiated.

APPENDIX II – Part E
Significant Audit Reports Described in Prior Semiannual Reports
Without Final Action as of March 31, 1999

REPORT NUMBER	TITLE	DATE IS-SUED	DATE OF MANAGEMENT DECISION	FINAL ACTION TARGET`
5-3-H-004-006	SBA Loan Servicing and Debt Collection Activities	3/31/95	4/30/95	9/30/98
6-6-H-002-011	GeoDemographics, Ltd.	3/29/96	9/30/96	4/01/98
6-5-F-002-019	Business Loan Center	9/20/96	* 1	* 1
6-5-E-001-021	Basic Ordering Agreements	9/25/96	2/10/97	9/25/97
6-5-E-002-022	Low Documentation Loan Program	9/30/96	* 1	* 1
7-4-E-001-009	Early Default of Guaranteed Loans	2/18/97	10/14/97	12/31/97
7-7-H-001-011	Grant Closeout Procedures	3/26/97	10/20/97	10/20/98
7-6-H-006-015	FY 1996 Financial Statements	4/29/97	9/30/97	4/30/99
7-7-S-918-018	User Technology Associates Inc.	6/06/97	3/26/98	6/05/98
7-7-F-006-017	LowDoc Program – Atlanta DO	7/7/97	* 1	* 1
7-7-F-009020	LowDoc Loan Program – Santa Ana DO	7/8/97	*1	* 1
7-7-F-007-021	LowDoc Loan Program – Washington DO	7/18/97	11/06/97	12/31/97
7-6-F-003-023	Approval of Disaster Home Loans	9/04/97	3/17/98	9/30/98
7-5-H-011-026	Business Loan Guarantee Purchases	9/30/97	* 1	* 1
8-7-F-005-002	LowDoc Loan Program Summary Report	11/24/97	* 1	* 1

8-5-F-003-009	Loan Liquidation	2/27/98	* 1	* 1
8-7-H-008-010	SBA's FY 1997 Financial Statements	2/28/97	6/5/98	2/28/99
8-7-H-003-011	Disbursement Processing – C&W Schedules	3/11/98	7/16/98	2/15/99
8-7-F-019-014	7a Loans – Atlanta	5/13/98	* 1	* 1
8-7-F-021-018	7a Loans – Buffalo	7/8/98	* 1	* 1
8-7-F-013-020	Emergent Business Capital	7/13/98	* 1	* 1
8-8-F-003-019	7a Loans – New Jersey	7/13/98	* 1	* 1
8-7-F-020-022	7a Loans – Madison	7/22/98	* 1	* 1
8-8-F-002-028	7a Loans – Los Angeles	9/30/98	* 1	* 1
8-8-H-007-024	Reliance Surety	9/29/98	2/23/99	3/24/99
8-8-H-004-027	SBG Fee Refunds	9/30/98	2/25/99	3/31/99
8-8-H-009-026	Safeco/First National Surety	9/30/98	* 1	* 1
8-8-H-006-025	GSA Kansas City Sole Source 8a IDIQ Contracts	9/29/98	* 1	* 1
8-7-H-002-017	NOAA Computer Contracts	6/18/98	3/1/99	12/31/99
8-7-H-008-015	SBA FY '97 Financial Statements – Management Letter	5/20/98	7/23/98	12/31/99
8-6-F-008-023	Arkansas Capital Corporation	7/31/98	3/31/99	3/31/2000

* A management decision has not been made on all recommendations in the audit report.