



**Semiannual Report
of the Inspector General
U.S. Small Business Administration**



Fall 2002

A Report to Congress

April 1, 2002 - September 30, 2002

Pursuant to Public Law 95-452

Foreword

I am pleased to submit our Semiannual Report on the Office of Inspector General's (OIG) activities from April 1, 2002, to September 30, 2002.

This will be the last Semiannual Report that I prepare as SBA IG. Over the past several years, OIG has successfully carried out its mission to address fraud and to promote effectiveness in SBA programs. This reporting period is no exception. The Office issued 19 reports on efficiency and effectiveness activities, primarily based on OIG audit and inspection activities. OIG investigations resulted in 19 indictments and 15 convictions for criminal violations. The Office brought its collective experience to bear in reviewing 229 legislative, regulatory, policy, and procedural proposals concerning SBA and Government-wide programs. Overall, OIG dollar accomplishments from all activities totaled more than \$39 million. All of this was accomplished with an appropriation of \$11.9 million and an average staff level of 107. I am truly proud of the accomplishments of OIG's dedicated and professional staff.

We continued to focus our efforts on several key areas identified in our current strategic plan: financial management, information systems and computer security, lender oversight, high-risk issues, and new SBA initiatives. Discussion of our work in these areas can be found in the body of the report. We also completed a new strategic plan for FY 2003-2007, which will guide the Office's work for the next several years. The plan emphasizes prevention and deterrence, early identification of risks and management challenges, and a more integrated approach within and across our audit, investigation, and evaluation functions. I anticipate that future semiannual reports will discuss OIG accomplishments within the context of the new plan's goals.

It has been a privilege to serve at SBA over the past several years, and I look forward to continuing to serve the President, the Congress, and the American people at the Department of Agriculture. Any success that this OIG has had would not have been possible without the active support and interest of Administrator Barreto and the Agency's senior staff, and of our oversight Committees in the Congress. I truly appreciate all you have done to support our work. While SBA continues to face many challenges ahead, I am confident that OIG will continue to provide independent and expert advice. I leave SBA knowing that the Office has a clear direction, capable professional leadership, and a bright future.

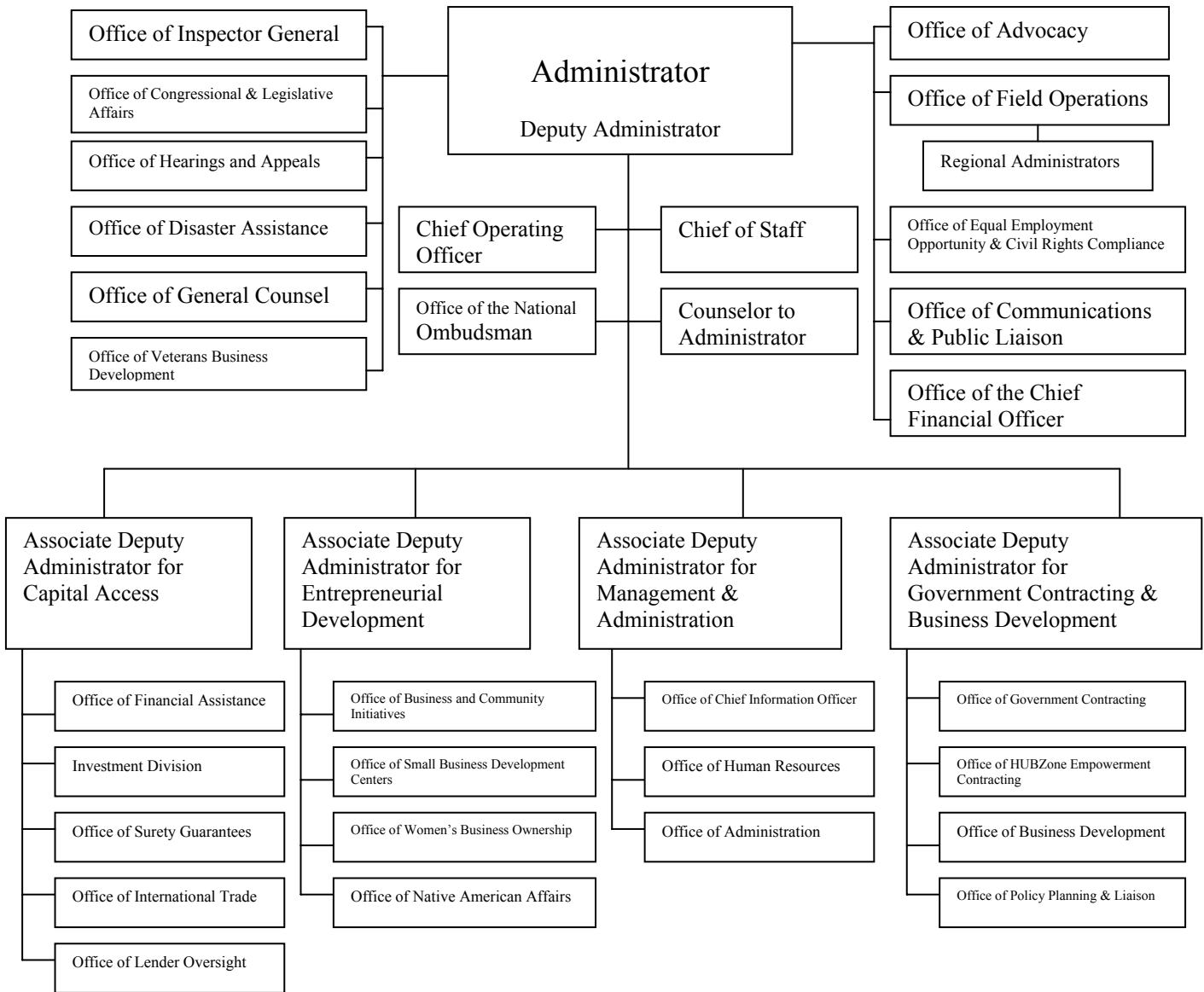


Phyllis K. Fong
Inspector General

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SBA Overview



Agency Overview. The Small Business Administration (SBA) was established in 1953, to assist small businesses from startup through the many stages of growth. SBA's two major goals are to help small businesses succeed and recover from disasters. SBA offers many services to entrepreneurs, including assistance with developing a business plan, obtaining financing, marketing products and services, and addressing management issues. SBA programs are delivered by a network of field offices in every state, the District of Columbia, the Virgin Islands, Guam, American Samoa, and Puerto Rico. SBA has an FY 2002 appropriation of \$768.5 million and has 4,045 employees, including Disaster Assistance and Office of Inspector General (OIG).

The Office of Capital Access has several loan and other programs that assist small businesses. The Section 7(a) program is the largest business loan program. Currently, the Agency is authorized to guarantee up to \$1 million of a small business loan on a loan up to \$2 million. The maximum guarantees are 75 percent for loans more than \$150,000, and 85 percent for loans of \$150,000 or less except for Export Working Capital program (EWCP) loans, which have a 90 percent guarantee. Under Section 7(a) of the Small Business Act (Act), SBA is authorized to offer a variety of specialized products and processes including the Certified and Preferred Lender (CLP and

SBA Overview

PLP), Low Documentation (LowDoc), *SBAExpress*, Community Express, Pre-Qualification, CAPLines, Defense Loan and Technical Assistance (DELTA), Community Adjustment and Investment Loan, EWCP, International Trade Loan, Energy and Conservation Loan, and Pollution Control Loan programs. In addition, Section 7(m) of the Act authorizes SBA to provide loans and grants to not-for-profit organizations that use these funds to provide small loans (currently up to \$35,000) and technical assistance to small businesses. The Small Business Investment Company (SBIC) program provides equity capital, long-term loans, debt-equity investments, and management assistance to small businesses, particularly during their growth stages. All of the specialized business loan programs are intended to provide entrepreneurs with the financing vehicles needed to help them start or grow their small business. The Office of Lender Oversight (OLO) was established to coordinate oversight of the Agency's lending programs. In addition to financial assistance programs, the Office of Capital Access (OCA) oversees the Surety Guarantee (SG) program, the International Trade program, and the Program for Investment in Microentrepreneurs (PRIME). OCA is also responsible for servicing all disaster loans and administering SBA's Asset Sales program.

The Office of Entrepreneurial Development administers programs that offer information, counseling, and management assistance through SBA's many resource partners and district offices. Resource partners include Service Corps of Retired Executives (SCORE), Small Business Development Centers (SBDC), Business Information Centers (BIC), and Women's Business Centers (WBC). These resource partners provide guidance and expertise to new entrepreneurs.

The Office of Government Contracting and Business Development administers programs that assist small businesses with Federal procurement opportunities. The Office of Business Development (BD) provides technical and procurement assistance to eligible businesses through two principal programs: (1) BD, which encompasses the Section 8(a) program and the Mentor-Protégé program; and (2) the Section 7(j) Management and Technical Assistance program. BD also includes the Office of Small Disadvantaged Business Certification and Eligibility (SDBC&E), which certifies companies applying as small disadvantaged businesses. The Office of Policy, Planning, and Liaison (OPPL) provides policy support for all of the Agency's procurement assistance programs. OPPL also includes the Office of Technology, which expands the competitiveness of small high technology research and development businesses in the Federal marketplace through two programs: Small Business Innovation Research and Small Business Technology Transfer. OPPL also includes the Office of Size Standards, which reviews and establishes industry size standards. The HUBZone Empowerment Contracting (HUBZone) program is designed to stimulate economic development and create jobs in urban and rural communities by providing contracting preferences to small businesses located in historically underutilized business zones. The Office of Government Contracting (GC) works with Federal agencies to establish and achieve goals for small business participation in Federal contracting. Through its field structure, GC reviews proposed procurements and identifies opportunities for all categories of small businesses.

The Office of Disaster Assistance offers assistance to victims of hurricanes, floods, earthquakes, wildfires, tornadoes, and other physical disasters. SBA's disaster loans are the primary form of Federal assistance for non-farm, private sector disaster losses. SBA is authorized by the Small Business Act to make three types of disaster loans: (1) physical disaster loans, which provide a primary source of funding for permanent rebuilding and replacement of uninsured disaster damages to homeowners, renters, non-farm businesses of all sizes, and nonprofit organizations; (2) economic injury disaster loans, which provide businesses with necessary working capital until normal operations resume after a physical disaster; and (3) pre-disaster mitigation loans. The disaster program is SBA's largest direct loan program, and the only SBA program for entities other than small businesses. SBA delivers disaster loans through four specialized Disaster Area Offices located in Niagara Falls, NY; Atlanta, GA; Ft. Worth, TX; and Sacramento, CA.

Significant Activities and Management Challenges

OIG Strategic Plan

OIG Strategic Plan

OIG's vision is to improve SBA programs by identifying key issues facing the Agency, ensuring that corrective actions were taken, and promoting a high level of integrity. OIG continues to focus on serving the needs of our customers and stakeholders and on safeguarding SBA resources from, waste, fraud, and abuse. The goals we sought to achieve under the current strategic plan were to: (1) improve the economy, efficiency, and effectiveness of SBA programs; (2) prevent and detect fraud and abuse and foster integrity in SBA programs and operations; and (3) ensure the economical, efficient, and effective operation of OIG. These goals provided the broad framework of our mission from which we further concentrated our work in the following five cross-cutting areas of strategic focus: (1) financial management systems; (2) information systems and computer security; (3) lender oversight; (4) selected high-risk issues; and (5) new Agency initiatives. During this reporting period OIG completed its work to develop a new strategic plan for FY 2003 – FY 2007. After consultation with stakeholders, OIG will implement this plan in FY 2003 and will subsequently report our activities against the new goals and objectives.

The following section details significant OIG accomplishments as they relate to the strategic foci in the current strategic plan.

Financial Management Systems

SBA's FY 2001 Financial Statement Management Letter

The SBA FY 2001 Financial Statement Management Letter identifies nine additional issues not noted in the FY 2001 Financial Statement audit.

As part of the SBA FY 2001 annual financial statement audit, OIG issued the independent auditor's management letter. It identified issues related to: (1) personal property and equipment; (2) foreclosed property records and valuation; (3) loan accounting records and servicing; (4) analysis of account balances and transactions; (5) credit card use; (6) sensitive loan sale information; (7) new transaction codes; (8) Master Reserve Fund (MRF) reporting; and (9) disaster loan cash flows. The conditions were identified during the SBA FY 2001 financial statement audit, but were not required to be included in the report on internal control. The first two issues were presented to document SBA's completion of remedial activity and to close the two recommendations. The Chief Financial Officer (CFO), Assistant Administrator for Administration (AA/A), and Chief Information Officer (CIO) generally agreed with the auditor's findings and recommendations.

SBA's Georgia District Office's Sponsorship Activities

OIG issued a report on the Georgia District Office's sponsorship activities at the request of the former Deputy Associate Administrator for Field

Significant Activities and Management Challenges

OIG highlights several noncompliances with Agency policy regarding sponsorship activities in a district office.

Operations. OIG reviewed the Office's compliance with SBA's policies and procedures for co-sponsorships and SBA gift authority. The audit revealed that the Office: (1) solicited and accepted gifts from prohibited sources and from a source requiring a conflict of interest determination; (2) did not deposit gift funds into the Business Assistance Trust (BAT) Fund; (3) used gift funds for prohibited purposes; (4) inappropriately expended excess funds; (5) collected and used registration fees without authority; and (6) did not have adequate controls in place to ensure proper accountability of funds. OIG concluded that these noncompliances occurred because senior District Office management did not believe the requirements of Standard Operating Procedure 90 75 2 were applicable to any of the Office's events and because oversight by regional and Headquarters personnel was not adequate.

OIG recommended that the Associate Administrator for Field Operations (AA/FO) provide better guidance to field office staff and improve its oversight over field office SBA-sponsored and cosponsored activities. The recommended guidance should address: (1) the distinction between the types of events and the appropriate procedures for planning and conducting cosponsored and SBA-sponsored events; (2) the appropriate sources from whom to solicit and accept gifts; (3) the requirement to obtain conflict of interest case-by-case determinations; (4) the proper procedures for disbursing excess gift funds; (5) the remission of gift funds to the BAT Fund at the U.S. Treasury; (6) the proper accountability of event funds; and (7) the appropriateness of charging fees. The General Counsel and AA/FO generally agreed with the final recommendations.

SBA Faces Significant Issues in Financial Management and Implementation of its New Accounting System

During this reporting period, a number of significant issues were identified affecting SBA's financial management activities relating to the accounting treatment for loan assets sales, oversight of the MRF for the secondary loan market, and implementing its new administrative accounting system. The loan asset sales accounting issues have been identified by the General Accounting Office (GAO) and GAO will be issuing their report shortly detailing those issues. In addition, OIG has work in progress relating to SBA's accounting and oversight of the fiscal health of the MRF, including adherence to U.S. Treasury fund requirements identified in a prior OIG audit. OIG is also conducting an audit of the implementation of the Joint Accounting and Administrative Management System (JAAMS) to determine how well SBA followed a structured approach and methodology in acquiring the system and whether users are satisfied with the utility and information available to manage administrative funds. JAAMS is an off-the-shelf software package that provides the basis for an integrated financial management solution for Federal agencies. GAO and OIG expect to issue reports during the first half of FY 2003.

Significant Activities and Management Challenges

OIG, through its independent public accountant, is currently auditing SBA's FY 2002 financial statements. The audited financial statements are due to the Office of Management and Budget (OMB) on January 31, 2003. The financial statement audit will need to consider the impact of these issues on SBA's financial statements.

Information Systems and Computer Security

SBA's Information Systems Controls – Fiscal Year 2001

OIG issued an independent auditor's report on information systems controls for FY 2001 as part of the SBA annual financial statement audit. The auditors reviewed general controls over SBA's financial management systems to determine compliance with various Federal requirements. General controls are the policies and procedures that apply to all or a large segment of an entity's information systems to help ensure their proper operation. While the auditors concluded, as they did in FY 2000, that SBA made progress toward implementing an Agency-wide systems security program, improvements are still needed.

The report identified areas of weakness and provided recommendations for strengthening controls in the following areas: (1) entity-wide security program controls; (2) access controls; (3) application software development and program change controls; (4) system software controls; (5) segregation of duty controls; (6) service continuity controls; and (7) review of mainframe operations. The CIO and CFO generally agreed with 15 of the 24 recommendations in the draft report; they did, however, disagree with 8 recommendations and did not comment on 1 recommendation. An overriding concern of the Agency was that the report did not give enough recognition to the progress SBA has made over the past several years toward achieving its goals of control and security over its information systems. The independent auditors agreed that SBA has made significant improvements and modified the report appropriately to reflect those improvements. The Associate Administrator for Disaster Assistance agreed with the findings and provided comments on the recommendations affecting his office.

SBA's Information Security Program

OIG finds that SBA's information security program generally continues to improve.

The Government Information Security Reform Act (GISRA) requires OIG to perform an independent evaluation of SBA's information security program. In September 2002, OIG issued a report presenting the results of its evaluation. The auditors found that generally SBA's information security program continues to improve for high priority financial management and general support systems. Vulnerabilities continue to exist, however, in computer security program monitoring, computer incident response reporting,

Significant Activities and Management Challenges

system access controls, computer security system testing, and disaster recovery and contingency planning. OIG agreed with the Agency's assessment of the material weaknesses in these areas.

Lender Oversight

Review of SBA Loan Processing

OIG continues its ongoing audit of defaulted loans to identify trends in lender processing that may help the Agency save or recover funds.

OIG has completed a series of audits of SBA-guaranteed loans originated by a former Preferred Lender Program (PLP) lender. The audits covered loans that were purchased by SBA between January 1996 and February 2000. The objective of the audit was to determine if the PLP lender processed and serviced the loans in accordance with SBA rules and regulations. Through September 30, 2002, OIG completed audit reports on eight loans that were not processed by the lender in material compliance with SBA rules and regulations. The deficiencies involved lender actions related to: repayment ability, equity injection, use of proceeds, creditworthiness, collateral, eligibility, Internal Revenue Service (IRS) verifications, working capital, and appraisals. The eight final audit reports have a combined recommended recovery of \$1.3 million for erroneous guaranty payments and have gained the attention of the SBA lending community and SBA program offices. The shortcomings of the guaranty purchase process have been one of the OIG top 10 management challenge. Other audits of this lender's loans are in progress.

An example of the problems disclosed follows:

- The lender approved a loan to a borrower that did not have repayment ability. According to SBA procedures, the ability to repay a loan from the cash flow of the business is the most important consideration in the loan making process and absence of repayment ability dictates the decline of the loan. The lender relied on the projected earnings of the business to determine repayment ability, but the lender's analysis did not include several expenses, such as an increase in the lease expense, owner salaries, and payments on a loan to the stockholders. When these expenses are added to the lender's repayment calculation, the result was a negative cash flow. The lender also did not verify equity, did not exercise prudent controls over the use of loan proceeds, and did not obtain IRS verification as required. As a result of these deficiencies, the lender agreed to repay \$197,751 to SBA which represented the full amount paid on the guaranty.

In October 2002, SBA issued a Policy Notice on the guaranty purchase process to improve the quality, consistency, and timeliness of guaranty purchase decisions. The Policy Notice provides general guidance and instructions for SBA's review of a guaranty purchase request and addresses specific purchase issues. Implementation of the new guidance should help improve some of the problems noted by our prior audits with the guaranty purchase decision process.

Significant Activities and Management Challenges

FY02 Management Challenges

Agency-wide Issues

1. *SBA needs to improve its managing for results processes and produce reliable performance data.*
2. *SBA faces significant challenges in modernizing its major loan monitoring and financial management systems.*
3. *Information systems security needs improvement.*
4. *Maximizing program performance requires that SBA fully develop and implement its human capital management strategies.*

Loan Programs

5. *SBA needs better controls over the business loan purchase process.*
6. *SBA needs to continue improving lender oversight.*

Section 8(a) Business Development

7. *More participating companies need access to business development and contracts in the Section 8(a)BD program.*
8. *SBA needs clearer standards to determine economic disadvantage.*
9. *SBA needs to clarify its rules intended to deter Section 8(a)BD participants from passing through procurement activity to non-Section 8(a)BD firms.*

Fraud Deterrence and Detection

10. *Preventing loan fraud requires additional measures, including new regulations and funding.*

An on-going OIG audit of the guaranty purchase process scheduled for completion during the first quarter of FY 2003, will address any remaining weaknesses of the purchase process and the anticipated impact of the policy notice on guaranty purchase decisions.

Investigative Work in the Area of Lender Oversight

OIG continues to work fraud cases that relate to loan agents and loan packagers. OIG has noted a trend of increased fraud among these groups. Several ongoing joint investigations with the Federal Bureau of Investigation (FBI) and the Department of Treasury Inspector General for Tax Administration (TIGTA), were initiated as a result of fraudulent schemes to obtain millions in SBA-guaranteed business loans to finance the purchase of gas station/convenience stores in Texas. The schemes involved: 1) false capital injections; 2) false tax returns; 3) false tax return verifications; 4) inflated selling prices; and 5) false appraisals which resulted in properties being purchased and resold in a short period of time with the value inflated each time (flipped). All transactions were financed by SBA-guaranteed business loans. The schemes involved dual escrow closings where loan proceeds from one closing were used as capital injection for another loan, as well as third parties (investors) providing, for a fee, the capital injection until closing, straw buyers, and sellers. Amended tax returns with increased profits were filed with IRS and after IRS verification were amended back to the reduced profits. There were only slight variations to the schemes, all of which involved loan packagers, loan brokers (who find buyers and sellers), IRS verification personnel, title company officials, appraisers, and bank loan officers. To date, these investigations have yielded 30 indictments, 13 convictions, more than \$12.7 million in recoveries, and more than \$15.7 million in cost avoidances.

Selected High Risk Issues

FY 2002 Top 10 Management Challenges and Progress Made

In accordance with the Reports Consolidation Act of 2000, in January 2002, OIG issued its report identifying and rating the most serious management challenges facing SBA in FY 2002. A full discussion of the challenges and how OIG developed them can be found at the OIG website: <http://www.sba.gov/IG/igreadingroom.html>.

Using unverified information submitted by SBA management in July 2002, OIG provided the Agency with a mid-year assessment of SBA progress in resolving the FY 2002 management challenges. The Agency's record of progress in resolving the challenges was mixed. Moreover, we still found few progress reports that contained targets or milestones for achieving progress.

Significant Activities and Management Challenges

In January, when the FY 2002 challenges were published, the Agency appeared to be making some progress on five challenges. These included modernizing information systems, improving information systems security, implementing human capital management strategies, business loan guarantee purchase controls, and improving lender oversight.

By June, some additional substantive progress had been noted regarding modernizing financial management information systems, business loan guarantee purchase controls, and improving lender oversight. Based on an on-going audit, however, OIG noted that there had been some weakening in small business investment company (SBIC) oversight. Moreover, the development of the original loan monitoring system had been put on hold and the Office of Lender Oversight was developing preliminary information to identify loan monitoring requirements.

Incremental progress continued to be made in improving information systems security and in implementing human capital management strategies; however, it was not sufficient to warrant a change in project status.

No progress was reported on the managing for results challenge. There was also still no measurable progress on preventing loan agent and borrower fraud. While no decisions had been made, a SBA task force was exploring approaches to address two of the three Section 8(a) Business Development (BD) program challenges—access to business development and contracts and clearer standards to define “economic disadvantage.” SBA had made progress in the area of Section 8(a) pass-through procurement activity.

Fraud Detection and Deterrence

In FY 2002, OIG focused significant resources on fraud detection and deterrence in SBA programs. The Office gave 18 fraud awareness briefings to approximately 925 people from SBA, other Federal agencies, and private sector partners. OIG handled 66 security clearances and performed name checks on nearly 2,400 entities which resulted in OIG recommending that more than \$35.7 million in loans not be awarded. Being potential high risk loans, this represents a significant cost-avoidance for the Agency.

Section 7(j) Management and Technical Assistance Program Cooperative Agreement Administration Activities

OIG issued a report on SBA’s Section 7(j) Management and Technical Assistance program cooperative agreement administration activities. The Section 7(j) program provides management and technical assistance to Section 8(a) certified firms, small disadvantaged businesses, businesses operating in areas of high unemployment or low income, and firms owned by low income individuals. Funding for the program was \$3.6 million in FY 2000 and

OIG conducts an audit to determine if the pre and post award process for the Section 7(j) program cooperative agreement awards was conducted appropriately.

Significant Activities and Management Challenges

FY 2001. The objective of the audit was to determine whether pre- and post-award processes associated with Section 7(j) program cooperative agreement awards were carried out in accordance with applicable policies and procedures to ensure the effective use of program funds. OIG found that: (1) SBA's reliance on unsolicited proposals limited its ability to effectively plan, process, and approve project awards; (2) documentation associated with proposal and financial reviews was incomplete; (3) award recommendations were not properly supported; (4) legal sufficiency review issues were not resolved prior to award; and (5) project reporting and monitoring required improvement. The extent of SBA's failure to follow established policies and procedures indicates a potential material weakness in the Section 7(j) program. OIG made 12 recommendations to the Associate Deputy Administrator for Government Contracting and Business Development (ADA/GC&BD) and the AA/A that are expected to be addressed during the follow-up and resolution process.

New Agency Initiatives

Modernizing Human Capital Management

OIG makes recommendations to the Agency for improving its human capital management initiative.

OIG issued a report on modernizing human capital management. The purpose of the report was to provide SBA management with recommendations to assist in repositioning the Human Resources (HR) office and its functions. However, the report's research and conclusions are broad-based and may have value for other government entities facing these challenges. The inspection focused primarily on: (1) delivery systems (especially automation); (2) HR metrics; and (3) office structure. To identify "best practices" in these areas, OIG staff visited agencies that are moving ahead in HR automation, advisory services, and building metrics.

OIG made several recommendations. First, that SBA review the business case for its HR information system in light of other agencies' implementation experiences and the Administration's new HR initiatives, and consider available short-term alternatives. Second, that the SBA HR office develop business case metrics to determine the cost effectiveness of implementing appropriate functional automation software and/or outsourcing or cross-servicing certain HR functions. Third, that the SBA HR office work with SBA management to develop a measurement system that conforms to the Office of Personnel Management's (OPM) Standards of HR Management Accountability and includes: (1) financial measures, such as cost per employee hired; (2) customer satisfaction measures, such as those associated with responsiveness and quality; (3) workforce capacity measures, such as employee satisfaction and education; and (4) process effectiveness, such as cycle time and productivity. Fourth, that the Assistant Administrator for HR ensure that: (1) relevant SBA HR activities, such as strategic advisory services, are incorporated into office operations, and the office plays a key role in the Agency's workforce planning and restructuring effort; (2) a process is in place for working closely with line management;

Significant Activities and Management Challenges

(3) individual planning, policy, and operational responsibilities within the office are well-defined; and (4) HR activities, metrics, and results are publicized to all concerned HR staff, line managers, and the workforce. The Deputy Associate Deputy Administrator for Management and Administration agreed with the recommendations.

OIG Profile

There are five divisions of SBA/OIG.

SBA/OIG was established by the Inspector General (IG) Act of 1978. OIG provides nationwide coverage of SBA's programs and activities. In addition to the Immediate Office of the IG, OIG's five divisions work together to perform the missions mandated by Congress.

- **Auditing Division** provides comprehensive audit coverage of SBA's operations through program performance reviews, internal control assessments, and financial and mandated audits to promote the economical, efficient, and effective operation of SBA programs. Audits give SBA managers an objective and systematic assessment of how well their offices are carrying out their programs and operations. Financial audits examine the presentation of financial information, internal controls, and adherence to financial requirements. Performance audits assess operations in terms of economical and effective use of resources.
- **Investigations Division** manages a nationwide program to prevent and detect illegal and/or improper activities involving SBA programs, operations, and personnel. The criminal investigative staff carries out a full range of traditional law enforcement functions. The security operations staff ensures that all Agency employees have the appropriate background investigations and security clearances for their duties. The name check program provides SBA officials with character-eligibility information on loan applicants and other potential program participants.
- **Inspection and Evaluation Division** conducts assessments of the effectiveness of SBA programs and activities, analyses of critical program issues, best practices studies, and research on matters concerning SBA performance.
- **Counsel Division** is an in-house legal staff that provides legal advice and assistance to all OIG components, represents OIG in litigation arising out of or affecting OIG operations, and processes Freedom of Information and Privacy Act requests.
- **Management and Policy Division** is responsible for developing, managing, and executing the OIG budget; developing and supporting information systems and hardware; developing OIG HR policy and providing a full-service HR program to OIG; providing support services to headquarters (HQ) OIG employees; managing a nationwide facilities management function; providing communications services; authoring and publishing semi-annual reports, OIG strategic and operating plans and reports, and OIG annual plans and reports.

OIG Profile

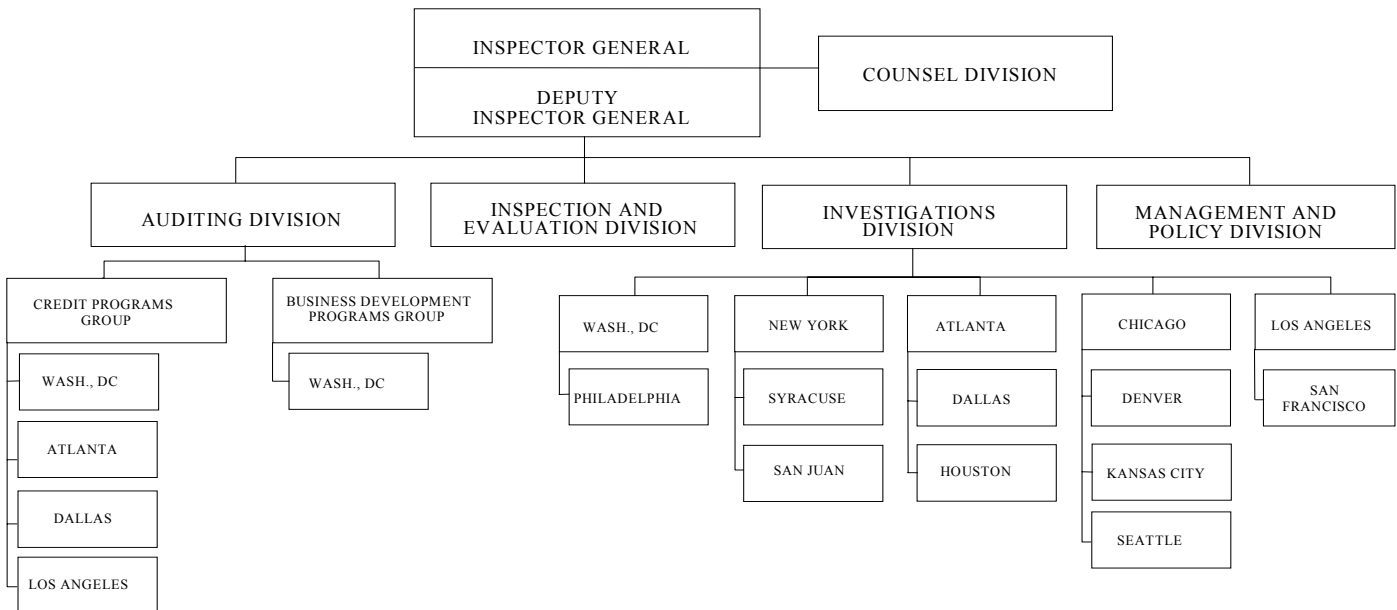
SBA/OIG has offices nationwide.

OIG is headquartered in Washington, DC, and has field audit and investigation offices in Atlanta, Chicago, Dallas, Denver, Houston, Kansas City, Los Angeles, Philadelphia, New York, San Francisco, San Juan, Seattle, and Syracuse.

SBA/OIG resources.

As of September 30, 2002, OIG's on-board strength was 107. The OIG FY 2002 appropriation was \$11.5 million, with a \$500,000 transfer for disaster assistance oversight activities, and a \$5,568 rescission.

OFFICE OF INSPECTOR GENERAL SMALL BUSINESS ADMINISTRATION



OIG Activities

This chapter includes details and results of audits, investigations, inspections, and other significant OIG activities. The material in this chapter is organized by major SBA program area. Many of the audits, inspections, and other materials discussed in this section can be found at <http://www.sba.gov/IG/igreadingroom.html>.

Business Loan Programs

As was discussed in the Significant Activities and Management Challenges section, OIG has conducted a series of audits of SBA-guaranteed loans by a former PLP. Below are illustrations of these audits and their results.

OIG continues audits of SBA-guaranteed loans made by a former PLP.

- An applicant for one approved loan submitted false and misleading financial information to the lender. The financial documentation submitted by the borrower was modified and altered in a manner that should have been detected by the lender. The wage information reported on the applicant's Wage and Tax Statement (Form W-2) was clearly altered from \$23,909 to \$84,093. The applicant's Federal tax return was also modified to match the altered amount shown on the Form W-2. Finally, the business income statement for the most recent year of operation was an exact copy of the prior year's income statement with the exception of the dates. The lender did not obtain an IRS transcript to verify the financial data submitted by the borrower. The failure of the lender to identify the falsified information and obtain an IRS verification reflect lack of due care during the review and evaluations of the loan application. This loan was subject to denial based on the applicant's poor character and questionable repayment ability. The District Director (DD) agreed with the recommendation to seek recovery of \$93,689 from the lender.
- For a loan made under the LowDoc pilot loan program, the lender did not follow prudent lending practices in assessing the applicant's repayment ability and securing collateral. The lender based repayment on the projected earnings of the business, which was based on two pending distribution contracts. However, the lender did not take prudent measures to ensure that the contracts were in effect before disbursing the loans proceeds. The business failed after making just five payments because the distribution contracts never materialized. The lender also did not take prudent measures to protect the collateral that was taken to secure the loan. Soon after the loan was disbursed, the borrower began showing signs of trouble by missing payments and making interest only payments. During a 2-month period, the borrower issued 4 checks that bounced due to lack of funds. In accordance with SBA procedures, a lender is required to perform a site visit within 10 days of knowledge of conditions that create an in-liquidation situation. There was no evidence

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that the lender performed a site visit until after learning from the borrower's landlord, 2 years after the loan was disbursed, that the borrower had vacated the premises and taken all the collateral. The collateral was never located. While the DD disagreed with the recommendation to seek recovery of \$84,911 and stated that liability on the loan should not be denied based on credit that was approved by SBA, there was no evidence found or provided to support that SBA pre-approved the credit decision on this loan.

- The lender disbursed an SBA loan for \$493,747 to refinance ineligible loans. SBA procedures provide that loan proceeds may be used to refinance debt when the terms of the debt are unreasonable and refinancing will provide substantial benefit to the small business in the form of increased cash flow. The lender must also certify in writing that the debt refinanced is and always has been current. The only documentation found in support of the loans was a manually prepared schedule that did not provide enough information to evaluate if the loans met refinancing requirements. Furthermore, the schedule indicated that 2 of the loans may have been delinquent for 9 months and 2 years. Consequently, because there was no evidence that the loans were eligible for refinancing with SBA-guaranteed loan proceeds, SBA was not obligated to honor the guaranty portion of the loan used to refinance \$493,747 of borrower debt. The lender also did not verify the use of proceeds intended to pay off the balance on a purchase contract for vending machines that were also taken as collateral on the loan. Under the agreement, the proceeds were to be disbursed via a joint payee check and title of the vending machines would transfer to the borrower upon evidence that the check was deposited into the vendor's bank account. However, the lender did not take prudent measures to ensure that proceeds were properly disbursed and instead made the check out in the name of the borrower only who deposited it into his bank account. There was no evidence that the borrower ever paid off the balance on the purchase contract or took title or possession of the vending equipment. The DD agreed with the audit recommendation to seek recovery of \$450,599 from the lender and had collected \$370,309 by the time the audit report was issued.

OIG recommends that the Agency develop new procedures to safeguard against loans being issued to borrowers with prior defaults.

Borrowers with Prior Loan Defaults

OIG issued a report on borrowers with prior loan defaults. The objective of the audit was to determine if Section 7(a) loans were inappropriately guaranteed for applicants who had previously defaulted on guaranteed loans resulting in a loss to the Government. OIG performed the audit using a sample of 47 loans obtained from SBA's loan database by matching loans made between October 1995 and April 2001, to all purchased and liquidated loans. The audit identified that 166 of the loans were made to applicants with prior loan losses. Of those 166, OIG can

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confirm 42 applicants that caused prior losses to the Government received new loan guarantees. OIG could not verify that the remaining 124 loans were made to applicants with prior losses because the prior loan files no longer exist. OIG found that district offices were not adhering to the 10-year retention requirement for charged-off loan files. OIG identified 30 files destroyed between 3.4 years and 9 years after being charged-off. As a result of the ineligible loans, SBA was at risk for guarantees totaling about \$20.1 million and had honored guarantees totaling about \$2.3 million to borrowers with prior defaults. Additionally, one of the sample loans defaulted after the draft report was issued and is estimated to result in a loss of about \$667,500 to SBA. Based on the audit findings, the loan was referred to the Investigations Division and is being considered for investigation.

OIG recommended that the Office of Financial Assistance (OFA) establish procedures to require loan officers to identify applicants with prior loan losses and to allow lenders to use the SBA database to identify applicants with prior loan losses, seek recovery from existing borrowers who failed to disclose their prior loan losses, annotate loan files to identify borrowers with current loans who failed to disclose prior losses, and reiterate to district offices the requirements for retention of charged-off loan files.

OFA did not believe that the cited condition was significant enough to warrant new procedures and was concerned that lender access to the SBA database would raise Privacy Act issues. OFA agreed to seek recovery from borrowers whose current loans default and who failed to disclose prior losses, to annotate the loan database to alert SBA personnel of existing borrowers who failed to disclose prior losses, and to issue guidelines to field offices about retention of charged-off loans.

Two Early Defaulted Loans

OIG recommends that the SBA recover \$747,308 plus interest and expenses paid for a defaulted loan, suspend the lender's preferred status, and pursue civil enforcement.

OIG issued a report on two early defaulted loans originated by the same lender. The first loan was \$1.56 million to borrower #1 and the second loan was \$1.58 million borrower #2. The loans were selected as part of OIG's on-going program to audit SBA-guaranteed loans charged-off or transferred to liquidation status within 36 months of approval. The objective of the audit was to determine if the early loan defaults were caused by lender or borrower noncompliance with SBA's requirements.

OIG found that the lender did not comply with SBA's policies and procedures for the two related loans. The lender did not ensure that borrower #1 complied with SBA regulations and material conditions of the loan authorization. Borrower #1 used loan proceeds for unauthorized and unsupported purposes, and the lender did not ensure that the borrower obtained lien waivers, a valid surety bond, and had the ability to pay additional construction expenses. These noncompliances reduced the amount of funds available to complete the project and contributed to the loan default. The lender became aware of the noncompliances and, in lieu of

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submitting the defaulted loan for SBA to honor the guarantee, attempted to complete the project and remedy the default by making a subsequent loan to borrower #2. Borrower #2 was formed by two of borrower #1's partners. The loan to borrower #2 did not meet SBA's eligibility criteria for change of ownership, was improperly made using preferred lending procedures, and did not include the required equity injection. Additionally, the loan did not meet refinancing criteria. The effect of the subsequent loan was to transfer the lender's loss to SBA. SBA paid approximately \$747,000 to honor the guarantee.

OIG recommended that the SBA Georgia District Office deny liability for the loan to borrower #2 and seek recovery from the lender of principal totaling \$747,308 plus interest and expenses paid by SBA. OIG also recommended that the lender's preferred lender program status be suspended and that SBA pursue civil enforcement remedies against the lender under the False Claims Act. The District Director agreed with our recommendations.

SBA's Experience with Defaulted Franchise Loans

OIG issued a report on SBA's experience with defaulted franchise loans. The inspection examined the franchise loan portfolio's potential exposure, purchase rates, and specific lenders' performance. Despite SBA's public view that franchisees are generally more successful than nonfranchisees, SBA's experience with defaulted loans and some outside studies do not support this. OIG recommended that the Agency's printed and electronic information no longer state this view. In addition, SBA's loan databases inaccurately identified some loans to nonfranchisees as franchise loans, thus hampering the monitoring of potential franchisor control over franchisees. Despite this, the databases may still be useful because the control issue could apply to *any* situation in which a large entity allows the use of its brand name. OIG also recommended that SBA define what constitutes either a franchise loan or loans to small businesses that use a larger firm's brand name, communicate the definition(s), and reclassify its loan data. Finally, although most of the large defaulted loans examined in depth exhibited early warning signs, any deficiencies in credit analysis cannot be attributed solely to lender bias in favor of franchise loans or their equivalents. OFA agreed with OIG's recommendations.

OIG accomplishes more than \$8.5 million in cost avoidances during the reporting period.

Investigative Accomplishments in the Business Loan Programs

Over the years, OIG investigations of fraud in SBA's loan programs have identified various types of fraud. Two major trends in recent years are: (1) fraud involving loan agents; and (2) fraud involving false tax returns. OIG is reporting more than \$8.5 million in cost avoidances this 6-month period; \$7.8 million of these avoidances were in the SBA loan programs and resulted from four investigations in two SBA district offices. They fall into

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two categories: (1) loans under investigation where the lender notified SBA that it would not submit claims for guarantees; and (2) loans that were not disbursed because of adverse information OIG was able to document.

Fraud Involving Loan Agents

Loan agents provide referral and loan application services to prospective borrowers or lenders for a fee. Some agents, particularly loan packagers, have been involved in a variety of fraudulent schemes that have resulted in financial losses to SBA and, ultimately, the taxpayers. During this reporting period, OIG investigations of loan agent fraud resulted in four indictments, one conviction, and \$172,000 in restitution to SBA. The following cases illustrate OIG investigations of fraud involving business loan agents.

- A Phoenix, Arizona, business executive was sentenced to 90 days of community confinement in a halfway house, 90 days home detention, and 3 years of supervised release, and was ordered to pay a \$5,000 fine and \$172,000 in restitution to SBA. He had pled guilty to one count of making a material false statement to obtain a \$900,000 SBA-guaranteed loan for the purchase of six fast food franchises. The investigation disclosed that, at the direction of his business brokerage firm, the defendant claimed on his “Personal Financial Statement” form that he had \$140,000 worth of stock in restaurants and that he had \$471,949 in “earned fees.” The investigation revealed that although he knew about SBA’s cash injection requirement, he did not have the cash necessary to close the loan. As a result, he agreed to allow his business brokerage firm to obtain a temporary cash-injection from a third party. In order for the scheme to work, the defendant arranged to obtain a real estate sales license so that he could receive a commission for the sale of the six franchises he purchased through the business brokerage firm. The defendant knew that a portion of the commission would be used to repay the third party that made his cash injection. The case was a joint investigation with FBI and was based on a referral from the SBA Arizona District Office.
- A Houston, Texas, loan broker and three of his clients who applied for a \$2 million SBA-guaranteed loan to purchase a motel were indicted. The indictment charged all four on one count of conspiracy, three counts of mail fraud, and one count of wire fraud. According to the indictment, the defendants submitted a loan application package with fraudulent personal financial statements and a false purchase contract that inflated the price of the motel from \$2 million to \$2.7 million. To satisfy the closing requirements, the defendants submitted fraudulent copies of cashier’s checks as proof of their required equity injection. Three defendants were arrested following the closing conference at the title company, prior to loan funding and the fourth was arrested at a later

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date. This case was a joint investigation with FBI and was initiated based on a referral from the SBA Houston District Office.

Fraud Involving False Tax Returns

Restitution and fines resulting from tax fraud referrals total nearly \$30 million.

Over the last 12 years, OIG has received more than 536 allegations that false tax returns were submitted in support of SBA applications (more than 98 percent for business or disaster loans). These fraud referrals involved applications totaling approximately \$130 million that were submitted to 57 SBA offices. To date, 172 individuals have been indicted on criminal charges, 154 adjudicated guilty, 7 indictments were dismissed, 1 defendant was acquitted, and 11 others have not yet gone to trial. Restitution and fines from those adjudicated guilty total nearly \$30 million. Because of the implicit credibility of Federal tax returns, SBA has traditionally relied heavily on information they contain in making its credit-related decisions, so falsification of “copies” of returns can have a significant impact on SBA’s consideration of those applications. During the last 6 months, OIG investigations of tax-return fraud generated two indictments, three convictions, and more than \$2.2 million in savings.

The following cases illustrate OIG’s work on fraud involving false tax returns.

Three Illinois men indicted for fraudulently inducing a non-bank participating lender and SBA into funding a \$355,000 SBA-guaranteed loan.

- Two former business owners of two gas stations and a dry cleaning business in Houston, Texas, agreed to pre-trial diversions. They were previously indicted on 1 count of conspiracy and 25 counts of making material false statements to SBA. The two were indicted along with a certified public accountant for fraudulently inducing a non-bank participating lender and SBA into funding a \$355,000 SBA-guaranteed loan for a service station. The principals allegedly falsified nine Federal income tax returns and six IRS tax return verifications, forged two fuel company leases, and falsified their \$85,000 capital injection. While awaiting trial, one of the owners conspired with three other individuals by submitting two additional fraudulent SBA loan guaranty applications to two Federal Deposit Insurance Corporation (FDIC) insured banks for a total of almost \$2.2 million. At the instruction of the U.S. Attorney’s Office, OIG notified the participant lenders that the defendant was apparently involved in a second scheme and the lenders declined the loans. OIG continues to conduct this investigation jointly with TIGTA.
- A Chicago, Illinois, real estate attorney pled guilty to two counts of conspiracy in connection with his participation in schemes to defraud SBA and a non-participating lender and to obstruct and impede justice. Additionally, a Chicago, Illinois, SBA loan packager and business broker was indicted for allegedly aiding the preparation and filing of fraudulent income tax returns with the IRS. This fourth superseding

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indictment added the defendant's name to those previously charged, including a restaurateur, the real estate attorney and two other attorneys, and a defunct Illinois corporation. The plea and charges were in connection with the purchase of a defunct Antioch, Illinois, restaurant. The scheme included a false capital injection by the borrower that enabled him to obtain a 100 percent financed \$1.25 million business loan and resulted in fraudulent inflation of the sales price, exposing SBA and the non-bank participating lender to additional loss and reduced recovery potential. As part of the alleged conspiracy, the packager participated in preparing and submitting a loan package to the non-bank participating lender that contained false and exaggerated claims of work and management experience, and included false income and personal financial statements. The packager also hired an accountant (a now deceased friend) to prepare allegedly bogus tax returns for the borrower that were used in the SBA loan package and later submitted to IRS. Previously, the five defendants were charged in an eight count indictment with one count of conspiracy, aiding and abetting, mail fraud, and wire fraud. The indictment also charged the real estate attorney with one count of obstruction of justice and a second count of conspiracy in connection with allegedly fabricated documents produced to OIG by the real estate attorney and others in response to grand jury subpoenas. OIG initiated this investigation based on referrals from SBA's Illinois District Office.

Other Types of Fraud

The following cases illustrate OIG investigations involving fraud to obtain business loans.

- The former president of a contracting company in Aurora, Illinois, was sentenced to a prison term of 12 months and 1 day with a 2-year term of supervised release. The defendant was ordered to make complete restitution in the amount of \$345,820. She previously pled guilty to one count of making a material false statement. The plea agreement resulted from a criminal-information that was filed earlier and relates to a \$400,000 SBA-guaranteed loan that was obtained by the defendant's company through an SBA participating lender. The purpose of the loan was to obtain working capital for her company. During the loan application process, she signed an affidavit stating that she was individually, and as a corporation, current on all Federal and state taxes. According to information gathered by the SBA Illinois District Office, at the time she signed this affidavit, she and the company had tax debt totaling more than \$1 million. This investigation was worked jointly with FBI and was initiated based on a referral from the SBA Illinois District Office.

Former contracting company president in Illinois sentenced to 12 months and 1 day in prison and a 2-year term of supervised release.

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- A Portland, Oregon, businessman and guarantor of an SBA-guaranteed loan made to a restaurant was indicted on six felony counts. The indictment charged that he made material false statements on business loan applications to the SBA-participating lender in support of a loan for \$697,200, and a second loan for \$168,995. The indictment also charged that he made material false statements on a loan application to another SBA participating lender for a \$169,500 SBA-guaranteed loan, and that he made material false statements on a second loan application for \$196,875 to the first lender for the purchase of his residence. Additional counts of the indictment charged that he used false Social Security numbers (SSN) to obtain the loans and that he failed to disclose prior bankruptcies, judgments, other business interests, and previous criminal history. This case was a joint investigation with FBI and was initiated based on a referral from the SBA Oregon District Office.
- The owner of a commercial painting company in Berthoud, Colorado, was sentenced to 1 day of incarceration, 120 days of home detention, 5 years of supervised release, and 150 hours of community service. In addition, she must pay \$83,423 in restitution and seek psychological treatment. She previously pled guilty to one count of making a false statement to a federally-insured financial institution and one count of bankruptcy fraud. OIG's joint investigation with FBI determined that the defendant failed to disclose approximately \$250,000 in business debt and two pending lawsuits on her \$100,000 LowDoc loan application. In addition, she used part of the loan proceeds for personal expenses, while failing to pay business debts. OIG initiated this investigation based on a referral from SBA's Colorado District Office.
- The former president of a mergers and acquisition company in Cary, Illinois, was charged in an information on one count of making false statements to SBA, in connection with a \$954,000 SBA-guaranteed loan. The purpose of the loan was to purchase a restaurant maintenance and repair business. As part of the loan application, he submitted an SBA Personal Financial Statement that failed to disclose a significant number of liabilities, including approximately \$87,000 in debt to a bank and a \$30,000 personal loan from his brother-in-law. The case was a joint investigation with FBI and was initiated based on a referral from the public.

The following cases illustrate OIG investigations involving acts after business loans were approved.

- A Columbus, Ohio, businessman pled guilty to one count of making false statements to an FDIC-insured financial institution. The man was previously charged in an information with one count of making false statements to a federally-insured financial institution in connection with

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a \$337,500 SBA-guaranteed loan to a graphic arts and book binding business he owned. SBA loan proceeds were to be used to purchase machinery and equipment for the business. However, OIG's investigation revealed that he intentionally prepared and submitted false invoices to the participating lender bank and SBA to obtain the loan, and used loan proceeds to pay for unauthorized business and personal debts. OIG initiated this investigation based on a referral from the bank and SBA's Columbus District Office.

SBA works with FBI to investigate a Texas businessman who committed bank fraud by influencing a bank to fund \$105,340 in proceeds from an SBA-guaranteed loan.

- A Plano, Texas, businessman was sentenced to 4 months incarceration, 4 months home confinement, and 5 years supervised release. He was also ordered to pay \$99,191 in restitution to a bank in Oklahoma. He had pled guilty to a one-count charge of bank fraud for fraudulently influencing the bank to fund \$105,340 in proceeds from an SBA-guaranteed loan. The investigation revealed that he presented documents to the bank representing that his company had purchased equipment for \$131,675, when in fact no such purchase was made. The case was a joint investigation with FBI and was initiated based on a referral from the SBA Oklahoma District Office.
- The co-owner of a bed and breakfast in Sidney, Ohio, pled guilty to one count of conversion of collateral pledged to SBA. The owners, a husband and wife, were each indicted on one felony count of conversion of collateral pledged to the SBA. The indictment related to a \$200,000 SBA-guaranteed loan secured by the couple. The purpose of the loan was to purchase a house in Sidney, Ohio, that was to be converted to a bed and breakfast business. The SBA loan agreement collateral provisions specifically stated the borrower would provide as collateral the land and the buildings, including their inventory. The investigation revealed that after the couple defaulted on the SBA loan and filed for bankruptcy, they signed a contract to have the interior woodwork (trim, doors, and casings), an elaborate wood fireplace mantel, and a spiral staircase removed from the home and sold for \$10,000. This investigation was initiated based on a referral from the SBA Columbus District Office.
- The part-owner of a vitamin and herb production and packaging company in Provo, Utah, was charged in an information by the Utah County Attorney's Office with one count of pattern of unlawful activity, one count of forgery, eight counts of theft by deception, and eight counts of money laundering. OIG's joint investigation with the Utah County Sheriff's Office determined that the part-owner obtained a \$905,000 SBA-guaranteed loan in the name of a laboratory by falsely representing that he had authorization from the board of directors of that lab and that the board members were guaranteeing the loan. The defendant used the loan to purchase a building in his name and then represented to the board that they would be leasing a new building for their expansion from a disinterested third party. He then began collecting excessive

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lease payments from the lab under a fabricated name using a post office box. In addition, the Utah County Sheriff's Office investigation determined that he diverted over \$1.5 million in company funds under false pretenses and used the funds for unauthorized personal expenses. Information provided by OIG was instrumental in developing Utah County's already open investigation and securing the prosecution of the defendant. The case was initiated based on a referral from the SBA Utah District Office.

The following case illustrates an OIG investigation involving fraud by a business lender.

- The president of a Kansas bank, individually and as president, signed Compromise and Settlement Agreements agreeing that the bank would pay the U.S. \$250,000, release SBA from approximately \$570,505 in liability on nine outstanding SBA-guaranteed loans, and neither the president nor the bank would participate in any SBA loan program for 5 years. The president and the bank were charged in a civil fraud complaint that alleged false statements as well as breach of contract regarding an SBA-guaranteed loan the bank made to a foam core panel manufacturing plant. The plant defaulted on this loan and SBA paid the bank \$474,587 under the guaranty agreement. A joint investigation with the U.S. Secret Service resulted in indictments of two plant officials for making false statements about their ownership and officer positions. One of the officials pled guilty and the other died prior to trial. The related civil fraud suit was then filed charging that the bank president and the bank: 1) submitted a falsely redacted appraisal to SBA; 2) claimed the borrowers had excellent credit history when they had failed to obtain or review any credit report; and 3) falsely certified there had been no substantial adverse change in the financial condition of the borrower when, in fact, upon learning that the borrower would not be receiving a \$500,000 grant (the application for which was never disclosed to SBA), they demanded additional security for the SBA loan. Finally, the lawsuit alleged that the president and bank certified the lender had not received any Certificates of Deposit (CDs) in connection with this SBA loan, when in fact they had obtained undisclosed CDs totaling \$55,000. This civil fraud suit was litigated by the U.S. Attorney's Office in Wichita, Kansas. This case was initiated based on a referral from the SBA Kansas City District Office.

The following articles demonstrate OIG investigations where improper loans were made by business lenders.

- An SBA preferred lender agreed to release SBA of guaranty obligations on nine defaulted business loans totaling more than \$6.5 million. The loans in question were identified in an alleged fraudulent "flipping"

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SBA preferred lender agrees to release SBA of guarantee obligations totaling more than \$6.5 million based on OIG and FBI investigation.

scheme. The scheme involved individuals purportedly submitting fraudulent SBA loan applications, which inflated the value of gas stations, to obtain financing for 100 percent of the inflated purchase price. The Agency cost savings was the result of the joint FBI and OIG investigation, diligent efforts of the SBA Houston District Office, and the lender's decision to release SBA's liability.

- An SBA preferred lender agreed to cancel SBA's guaranty obligation on an SBAExpress loan made to a café owner. The defendant and her husband were each indicted on one count of insurance fraud by a District Court Grand Jury in Harris County, Texas. The investigation determined that the husband disclosed his criminal history in the loan application that should have made the loan ineligible under the SBAExpress loan program. The outstanding principal balance of the loan in liquidation was \$122,648. The bank's decision to release SBA of its 50 percent liability has resulted in a cost savings of \$61,324 to the Agency. The charges arose out of a fraudulent property insurance policy that the couple purchased to satisfy the closing requirements for a \$150,000 SBA-guaranteed loan. A fire destroyed the restaurant 3 days after the bank approved the loan. The couple concealed the extent of the fire from the bank and obtained disbursement of the loan. At the closing, the wife signed a general security agreement that required her to maintain collateral insurance at the restaurant premises. After proof of insurance was provided, the bank disbursed the loan proceeds, unaware that the couple was no longer operating the restaurant. Subsequently, the wife allegedly filed a fraudulent claim on the insurance policy and defaulted on the loan. Initially, the husband applied for the loan; however, his name was removed from the application because of his criminal history. OIG conducted this investigation jointly with the Bureau of Alcohol, Tobacco, and Firearms.

Proposed Agency Policy on Section 7(a) Guaranty Purchases

OIG reviewed and commented on the Agency's proposed Policy Notice on Section 7(a) guaranty purchases. The Agency developed the Notice in response to OIG's recommendations that stemmed from its on-going review of SBA-guaranteed loans and loan processing. OIG recommended that language be inserted stating that "a purchase review is a process that serves to minimize erroneous payments by ensuring only loans that were originated, closed, serviced, and liquidated in accordance with SBA policy, procedures, and regulations are purchased." OIG recommended that lenders be required to submit their credit memoranda and all supporting documentation for the memoranda as part of any purchase request to determine if the lender reasonably used its judgment to evaluate and document repayment ability. OIG further recommended that SBA obtain the lender's complete loan file, including an SBA Form 912, Statement of Personal History, for payment requests on all loans that default

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within 18 months of approval. Program officials adopted many of OIG's comments and are still considering others.

Disaster Loan Program

OIG finds that disaster assistance recipients were paid duplicate benefits from FEMA and SBA.

Review of Out-of-Sequence Payments

OIG issued a report that found SBA procedures for repaying agencies for advances needed improvement. To illustrate, OIG reviewed four North Carolina disaster home loans and found that borrowers previously received Individual Family Grant Program (IFGP) funds from the Federal Emergency Management Agency (FEMA). During loan origination, SBA determined that three borrowers were not eligible for the IFGP funds, since they were eligible for the entire disaster loan with SBA. To correct this duplication, SBA loan checks were prepared as co-payable to the borrowers and to the IFGP of North Carolina. The borrowers were supposed to forward these checks to FEMA to reimburse erroneous IFGP payments. However, two of the three borrowers who received co-payment checks totaling \$19,800 cashed the checks instead of repaying their IFGP payments. The Associate Administrator for Disaster Assistance was briefed on the report and agreed to take action to implement OIG's recommendations to: develop a more effective method of returning disaster loan proceeds to agencies that make "out-of-sequence" payments, provide FEMA with information concerning the two identified SBA disaster borrowers who have not returned the \$19,800 of incorrect disbursements, and in coordination with FEMA, provide information on similar co-payment checks to SBA borrowers receiving IFGP funds. This review was limited to ten borrowers, two of which did not return "out-of-sequence" payments

The following cases illustrate OIG investigations of fraud to obtain disaster loans.

- Both a Carolina Beach, North Carolina, music company and its owner pled guilty to one count of money laundering. The defendant, who was the former North Carolina Transportation Secretary, acting as attorney in fact for his father, obtained two disaster loans totaling \$617,200 for damages associated with Hurricanes Bonnie (1998) and Floyd (1999). The defendant's guilty plea was the result of a previous indictment on one count of mail fraud and six counts of wire fraud. The investigation disclosed that the principals, through the company, were operating an illegal gambling business that made it ineligible for disaster loans. The defendant also falsely claimed that equipment was damaged by the storms. Further investigation disclosed that loan proceeds were used to pay pre-disaster debt that violated the loan authorization agreements, and that the loan proceeds were either mailed or electronically

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transferred to the account of his father. The defendant's son also pled guilty to a one-count criminal-information for money laundering and agreed to testify against his father and grandfather in lieu of being indicted. Although the defendant's father was actively involved, he was not indicted due to the onset of Alzheimer's disease. The music company and the defendant also agreed to forfeit \$750,000 seized during this investigation. The indictment also included 268 counts associated with money laundering and illegal gambling pertaining to the FBI's part of the case. OIG initiated this investigation based on a request by the FBI and the U.S. Attorney's Office.

- A California physician attempting to start a practice in New York was indicted on three counts of false statements and one count of conspiracy. The charges were filed in connection with applications she submitted to FEMA and SBA for disaster funding pursuant to Hurricane Floyd, which allegedly damaged her mother's home in Cortland Manor, New York. The physician submitted an application to FEMA on behalf of her mother claiming that the Cortland Manor residence was their primary residence, when in fact they were living at an apartment rented in New York City. After receiving a grant of \$1,308, the mother falsely claimed to FEMA in an appeal for more funding that her daughter's (the physician) \$7,000 medical data scope was stored in the house and destroyed by the storm. The physician herself also applied for a business disaster loan from SBA in her own name for her medical practice, and she represented to SBA that she had approximately \$70,000 worth of medical equipment stored at the Cortland Manor residence that was ruined by the storm. The physician also claimed that she had opened a medical practice in Westchester, New York, and submitted a fraudulent lease to that effect. She was then approved for an \$88,400 loan, of which she received only \$10,000 due to her inability to keep the scheme going. The investigation revealed that there never was any medical equipment stored in the house, and that in fact the major item, a \$50,000 anesthesia machine, was damaged while it was being shipped to New York weeks before the hurricane. The physician was also charged with conspiring with her landlord to defraud SBA in connection with her mother's \$78,300 loan for the Cortland Manor residence after it was revealed that much of the damage to the house was pre-existing, and that the physician directed the landlord to alter invoices, which he then submitted to SBA to inflate the disaster loan disbursements. The physician was the second individual who was criminally prosecuted on this matter. The landlord previously pled guilty to a criminal-information charging him with wire fraud and two counts of bank fraud. The investigation was initiated based on a complaint by a member of the public.

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Small Business Investment Companies

The following narrative illustrates OIG investigations involving fraud in connection with SBICs.

Former pension plan manager arrested for embezzlement of employee benefit plan funds.

- The former pension plan manager for a New York City area utilities company was arrested by special agents of SBA and the U.S. Department of Labor (DOL/OIG) OIGs. The arrest was based on a sealed complaint charging him with embezzlement of employee benefit plan funds. According to the now-unsealed complaint, the defendant had misused a corporate credit card on more than 60 occasions. He double and sometimes triple billed for expenses and sought reimbursement for the same expenses from two or more sources, including the utility company and the plan brokers, thus defrauding the company pension plan. The defendant admitted using the money for personal expenses. He was responsible for recommending investments of the utility company pension funds made through various venture capital firms, including a New York City SBIC presently in receivership. The U.S. Attorney's Office, Eastern District of New York, asked OIG to join DOL/OIG in its ongoing investigation.

Surety Guarantees

Loss Adjustment Expenses Incurred on a Bonding Company

OIG issued a report on the loss adjustment expenses (LAE) incurred on a bonding company. The audit was conducted based on a complaint from the contractor, who believed the surety was charging his company unreasonable legal fees. OIG found that 98 percent of the LAEs claimed by the surety company for the SBA-guaranteed bonds were allocable, allowable, and reasonable. The surety company incurred and was reimbursed its guaranteed percentage by SBA for only \$1,547 of LAEs that were not specifically allocable to a claim for loss resulting from the breach of the terms of the bonded contract. The audit also disclosed that SBA did not give the surety company permission to close its files in a timely manner. As a result, the auditors made recommendations to the Acting Associate Administrator, Office of Surety Guarantees ((A)AA/OSG), to recover the Federal share of \$1,392 from the surety company for the unallowable LAEs and ensure file closures are approved expediently. The (A)AA/OSG agreed with the recommendations. Final action was completed on one of the two recommendations in this report on August 20, 2002. OSG agreed to take expedient action to approve file closures on requests from sureties to discontinue pursuit of recovery and the office revised SBA's policies and

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procedures accordingly to avoid incurrence of unnecessary LAEs in the future.

Entrepreneurial Development Programs

The following case is an example of fraud involving an Entrepreneurial Development program.

Grant for drug testing company in Florida terminated based on OIG investigation which disclosed a felony scheme.

- An SBA grant to a drug testing company in Pinellas Park, Florida, was terminated after an OIG investigation discovered addressed allegations that the company had made material false statements on its grant proposal. In the proposal, the president certified that none of the principals of the drug testing company had been convicted of a fraud-related crime in the past 3 years. The investigation disclosed, however, that the vice president had been convicted in Florida of a felony scheme with intent to defraud in August 1999. Pursuant to OIG's findings, the director of the grant program terminated the \$234,063 grant prior to the disbursement of any of the funds. The drug testing company subsequently submitted a request for reimbursement of \$122,764 for expenses it reportedly incurred during the first quarter of its grant period. Based on an OIG review of the documents the company provided to support its claim, SBA advised the company that its documentation was questionable and it would not be reimbursed without verifiable documentation. The company failed to respond and the program director advised OIG that none of the grant funds would be disbursed, resulting in a \$234,063 cost savings.

Government Contracting and Business Development Program

As a result of OIG investigations during this reporting period, a Section 8(a) Government contractor agreed to a permanent injunction barring him and/or any entity in which he might have a financial interest from doing business as a general contractor, subcontractor, vendor, or supplier with the Government. A second Section 8(a) Government contractor was suspended from receiving all Government contracts with the U.S. Department of Defense as a result of a joint investigation with DOL/OIG and FBI.

The following case illustrates OIG investigations of fraud in connection with the Section 8(a)BD program.

- Both the president of a Raleigh, North Carolina, construction company and the company pled guilty to a one-count charge of mail fraud. In

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order to induce disbursements of contract funds, the defendant submitted false payment certification requests under various Army, Navy, Postal Service, and U.S. Department of Veterans Affairs (VA) Section 8(a) contracts, stating that all subcontractors and vendors were paid. Under the plea agreement, the defendant acknowledged responsibility for the false statements that resulted in total losses of almost \$1.3 million on 10 separate Government contracts (3-Army; 2-VA; 4-Navy; 1-Postal Service). The Government lost an additional \$700,000, as a result of having to re-issue numerous task orders on several contracts that were not completed by the company. In addition, he and the company agreed to a permanent injunction (debarment) barring him and/or any entity in which he might have a financial interest from doing business as a general contractor, subcontractor, vendor, or supplier with the Government. OIG initiated this investigation based on a referral from Army Criminal Investigation Division in Raleigh, North Carolina.

Agency Management

OIG audits former SBA top-level executive's travel authorizations and requests for reimbursements and finds erroneous payments totaling \$9,653.34.

Former Regional Administrator's Travel

OIG issued a report on the travel of a former SBA regional administrator (RA). The audit was performed at the request of the Chairman of the Senate Small Business Committee at the time, and found that the former RA's travel did not always comply with travel regulations. The audit also identified erroneous payments totaling \$9,653.34, consisting of \$828.41 for excess travel costs due to indirect travel through his home town and \$8,824.34 for other unallowable travel payments. Since SBA allowed RAs to authorize their own travel and the documentation did not always establish whether the travel was essential, OIG concluded that SBA did not appropriately control such travel.

The former RA self-authorized travel for 258 duty days during a 2 ½ year period. During this timeframe, out of a possible 128 weekends, he traveled to, from, or through his home town on 52 weekends. On 20 of these weekends, the former RA's Travel Authorizations and/or Requests for Reimbursement noted he was conducting official SBA business in his home town, rather than solely traveling from or to his home town. While there is no prohibition against taking an indirect route while traveling, the travel regulations are clear that any excess cost must be borne by the traveler as a personal expense and the original trip must have an official Government purpose. The combination of the frequency of trips involving his home town, the inability to reconstruct satisfactory justification for some trips from travel documentation, the use of allowed self-authorization and self-approval of many of these trips, and the identification of instances of excess costs relating to trips through his home town gives the appearance that official Government travel was not appropriately controlled by SBA.

OIG Activities

Accordingly, OIG recommended that safeguards must be implemented to ensure that SBA has control over official Government travel and eliminate the appearance of, and possible actual, travel abuse. The report contained three recommendations to obtain reimbursement from the former RA for the unallowable travel payments and preclude this situation from recurring. The CFO and AA/FO agreed with the recommendations and SBA has taken steps to preclude this situation from recurring in the future. The former RA disagreed with most of the questioned costs.

SBA's Controls Over the Access, Disclosure, and Use of Social Security Numbers by Third Parties

OIG issued a report on SBA's controls over the access, disclosure, and use of SSNs by third parties. The audit was part of a collaborative Government-wide Presidential Council on Integrity and Efficiency (PCIE) initiative to assess controls over the use and protection of the SSNs that agencies collect from individuals. Specific objectives were to determine whether SBA: (1) makes legal and informed disclosures of SSNs to third parties; (2) has appropriate controls over other entities' access to and use of the SSNs that SBA has collected from individuals; (3) has adequate controls over access to individuals' SSNs maintained in its databases; and (4) has appropriate controls over contractors' access to and use of SSNs that SBA has collected from individuals.

OIG audit finds that while SBA is safeguarding and has adequate control over access to SSNs collected from individuals, contractor access needs to be controlled.

The audit found that SBA: (1) makes legal and informed disclosures of SSNs to third parties; (2) has appropriate controls over other entities' access to and use of SSNs that SBA has collected from individuals; and (3) has adequate controls over access to individuals' SSNs maintained in its databases. SBA does not, however, have appropriate controls over contractors' access to and use of SSNs collected from individuals. Accordingly, additional steps are needed to limit the risks of unauthorized disclosure of SSN information. OIG made a recommendation to the AA/A to correct this deficiency. The AA/A responded that she generally agreed with OIG's recommendations.

Internal Controls Over Colson Services Corporation's Contract as Central Servicing Agent (CSA) for SBA's Certified Development Company (CDC) Loan Program

OIG issued an independent auditor's report on internal controls over Colson Services Corporation's contract as CSA for SBA's CDC Loan program. The auditors performed testing and reconciliation procedures over transaction data for calendar year 2000 and found that controls were generally in place and effective. The audit identified areas where improvements can be made such as: (1) reconciliation procedures between Colson and SBA's Loan Accounting System (LAS) were not effective (SBA did not record \$22.7 million in CDC loans funded in May 2000); and

OIG Activities

(2) increased oversight of Colson's compliance with various contract terms is needed. There were several instances in which Colson did not adhere to contract terms and SBA was unaware of the noncompliance. These instances of noncompliance may have cost SBA and the CDC's thousands of dollars in lost interest earnings.

The report contains recommendations to the CFO and the Associate Deputy Administrator for Capital Access (ADA/CA). These recommendations were for improvements in reconciliations and increased oversight of the CSA. The CFO agreed with the recommendations directed to him. The Associate Administrator for Financial Assistance (AA/FA) responded on behalf of the ADA/CA. The AA/FA generally agreed that Colson was not complying with all contract terms and stated that the noncompliance was primarily because the contractual terms conflicted with banking regulations. The AA/FA disagreed that SBA should monitor contract compliance directly or modify the contract to require Colson to obtain an independent evaluation of contract compliance. This issue will be resolved during the audit resolution process.

SBA Employee Conduct Cases

- An SBA HQ employee was suspended for 15 days for: (1) being under the influence of alcohol on SBA premises; (2) knowledge of theft of Government property; (3) making false statements in an official matter; and (4) improper use of his Government identification and access card. The investigation that led to the suspension resulted from a referral to OIG that two computer monitors had been taken from SBA HQ. The Federal Protective Service, which had primary jurisdiction, conducted an investigation into the matter. Investigative results including Facscard records and the building security log showed that the employee and a companion entered SBA in the early morning on September 2, 2000, and left the building with two boxes. A security guard working at SBA HQ found a computer monitor on the sidewalk in front of the building. OIG special agents subsequently interviewed the employee and he admitted that his companion stole the monitors, but he denied any involvement in the theft.
- An SBA employee resigned while under investigation by OIG for making false statements during his hiring process and security background interview. The employee was permitted to resign after being advised that he was going to be terminated during his probationary period. In an effort to qualify for a higher starting salary, he falsely reported earning a salary in excess of \$100,000 at his prior employment with an internet start-up company. The investigation confirmed that he never received any compensation from this company. Based on his false statement, he was hired as a GS-13, step 10, rather than a GS-13, step 1. The investigation also revealed that he may have made false statements

OIG Activities

to obtain unemployment benefits from the District of Columbia Department of Employment Services. These matters have been referred to the U.S. Attorney's Office, District of Columbia, Superior Court, for prosecutorial consideration.

Data Quality Guidelines

OIG reviewed SBA's proposed data quality guidelines issued pursuant to the requirements of the Treasury and General Government Appropriations Act for Fiscal Year 2001 (the Data Quality Act) and OMB's Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies. OIG believes that SBA's initial definition of "SBA initiated or sponsored distribution" excluded information disseminated through or pursuant to an SBA-sponsored activity. We believed this exclusion was unwarranted because information prepared by an outside party and disseminated by SBA in a manner that reasonably suggests that SBA agrees with the information or information that SBA directs an outside party to disseminate on its behalf would seem to be the type of information distribution that SBA engages in through its cosponsorship activity. Moreover, SBA's standard operating procedure for cosponsorships already requires SBA to review and approve cosponsorship material, so it has already undertaken the duty of ensuring the quality and integrity of such information prior to its dissemination. Program officials agreed with our comments and included information disseminated through or pursuant to SBA-cosponsored activity within the coverage of its Data Quality Guidelines.

Proposed Legislation: General Services Administration Draft Bill on Meritorious Travel Claims

OIG reviewed and indicated its support for a draft bill that would provide the Administrator of General Services Administration (GSA) with permanent authority to settle claims by Federal employees stemming from travel while on official duty. Under current law, if a Federal employee has a travel claim that cannot be paid under existing law but GSA's Board of Contract Appeals believes the claim should be paid for equitable reasons, the only way for the employee to be paid is for the GSA Administrator to notify Congress and request a private relief bill. If enacted, the proposed legislation would give authority to the GSA Administrator to order payment in such cases. Congress authorized a pilot program, which apparently worked well but is expiring. Permanent authority to approve travel claims on equitable grounds would benefit Federal employees, eliminate the costs to agencies from having to spend time drafting legislation, and save Congress' time in considering private relief bills; thus, ultimately the taxpayer would benefit from these cost savings.

OIG Activities

Office of Inspector General

New Strategic, Operating, and Workforce Transformation Plans

OIG develops a new strategic, operating, and workforce transformation plan during FY 2002.

During the second half of FY 2002, OIG invested a significant amount of time and resources refocusing and redefining its priorities and developing a new strategic plan. The Office first redrafted its vision statement to assert itself as an effective catalyst to help SBA achieve the goal of having efficient, effective, results-oriented, integrity-based programs that maximize the use of safe and secure information technology in its operations, and have minimal losses from fraud, abuse, erroneous payments, and inadequate processes. In an effort to further integrate budget and performance measures, as well as meet the challenges of a changing small business environment, OIG also completed work on a new strategic plan. The new plan, covering FY 2003 – 2007, will help guide the Office to fulfillment of our vision and ultimately our mission.

SBA operates in a dynamic environment. OIG's ability to maximize its relevance and value to SBA is closely linked to how well the Office adapts its work within that changing environment and OIG's ability to affect change. Based on the Office's analysis of the key issues facing SBA and a review of OIG's own internal operations, OIG established the following five strategic goals.

1. Prevent fraud and unnecessary losses in SBA programs.
2. Improve the security over and the accuracy of SBA accounting and management information, including performance data.
3. Assist SBA in improving its small business development programs.
4. Assist SBA management in identifying and resolving persistent and emerging management issues.
5. Strengthen our ability to identify and have maximum impact on the most significant SBA issues.

OIG's strategic plan continues to emphasize prevention and deterrence of waste, fraud, and abuse, but now has a new focus on early identification of risks and management challenges, and a more integrated approach within and across all five of OIG's divisions.

OIG also devoted resources toward implementing a workforce transformation plan that focuses on aligning our human capital with our strategic goals. Both plans were transmitted to OMB and other OIG stakeholders in June and July 2002. As part of the restructuring and

OIG Activities

refocusing of the office, OIG has shifted to a biennial office-wide operating plan and reporting process.

OIG-Wide Annual Training Conference

OIG holds office-wide training conference.

In May 2002, OIG held its annual OIG-wide training conference. OIG provided training in areas such as: the Office of Special Counsel Whistleblower program; professional liability; diversity and positive work environments; quantitative methods in inspections; bankruptcy fraud; issues in SBA purchased denials of Section 7(a) guaranteed loans; suspension and debarment; effective communication and briefing techniques; OMB's erroneous payments' initiative; blood borne pathogens; and post-incident procedures and the legal and liability issues.

Office of Security Operations

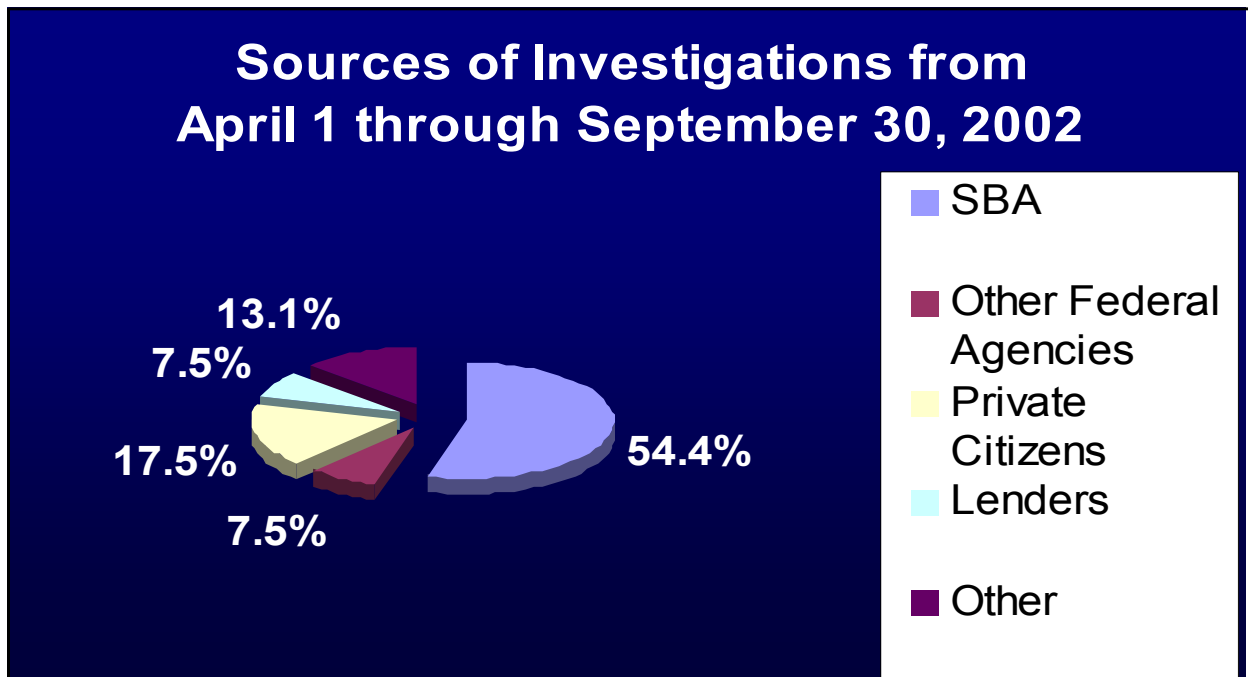
Pursuant to provisions of the Small Business Act and the Small Business Investment Act, SBA requires applicants for assistance to meet certain character standards before participating in Agency programs. OIG's Office of Security Operations (OSO) provides a vital service to help SBA ensure that Agency program participants meet the standards by processing name checks and, where appropriate, fingerprint checks on applicants. To make character eligibility determinations, OSO makes use of its on-line connection with FBI's Machine Readable Data system. When program applicants appear to be ineligible for assistance based on character, OSO makes referrals to program officials for adjudication. During this reporting period, OSO made referrals that resulted in SBA's business loan program managers declining 73 applications and disaster loan program officials declining 13 applications, totaling more than \$21.8 million and nearly \$.95 million respectively, for character reasons. Those declinations made available that amount of credit for applicants in whom SBA can have confidence of repayment. In addition, officials of SBA's Section 8(a) and surety bond programs declined, respectively, 13 applications for certification and 3 applications for guaranty. Almost \$242 million in loans have been declined during the last 10 years due to character eligibility.

OSO also performs background checks to comply with Federal regulations that require Agency employees to have security clearances appropriate for their positions. During this reporting period, OSO initiated 64 background investigations and issued 41 security clearances. OSO also reviewed and adjudicated 92 background investigative reports in accordance with Executive Order 10450 and OMB Circular A-130, and coordinated with SBA's Office of Disaster Assistance to ensure the timely adjudication of 34 derogatory background investigative reports forwarded for review and appropriate action.

OIG Activities

OIG Fraud Awareness Briefings

During the reporting period, OIG conducted 13 briefings to more than 550 SBA employees, lenders, and other resource partners as part of its mission to educate its customers on identifying waste, fraud, and abuse. During this reporting period (as the chart below indicates) nearly 55 percent of the investigations initiated by OIG originated from within the Agency in the form of referrals either from program heads or other SBA employees. 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. The shift in SBA's role from primarily reviewing and processing loans to increasingly providing oversight of lending practices, has caused OIG to change its briefing strategy. Because continued success will depend increasingly on lender referrals, OIG has expanded its integrity-awareness briefing program to include participating lenders and other interested parties.



OIG Activities

Direct Investigation Time by Program Area April 1 through September 30, 2002

Program Area	Direct Time %	Number of Investigations*	
		Closed**	In Progress
Capital Access	75%	30	219
Disaster Assistance	11%	42	68
Government Contracting and Business Development	11%	7	28
Agency Management	3%	10	15
Entrepreneurial Development	***	0	2
Total	100%	89	332

* Includes civil cases ** Includes cases canceled *** Less than ½ percent

Direct Audit Time by Program Area April 1 through September 30, 2002

Program Area	Direct Time %	Number of Audits	
		Issued	In Progress
Capital Access	45%	9	10
Disaster Assistance	7%	1	1
Government Contracting and Business Development	10%	1	1
Agency Management	35%	5	9
Entrepreneurial Development	3%	1	6
Total	100%	17	27

Statistical Highlights

FY 2002 6-Month Productivity Statistics April 1 through September 30, 2002

Office-wide Dollar Accomplishments	Totals
A. Potential Investigative Recoveries and Fines	\$8,179,179.00
B. Loans Not Made as Result of Investigations and Name Checks	\$31,329,290.00
C. Disallowed Costs Agreed to by Management	\$13,882.35
D. Recommendations that Funds Be Put to Better Use Agreed to by Management	<u>\$371,970.97</u>
Total	<u>\$39,894,322.32</u>

Efficiency and Effectiveness Activities

A. Reports Issued	19
B. Recommendations Issued	86
C. Dollar Value of Costs Questioned	\$11,045.34
D. Dollar Value of Recommendations that Funds Be Put to Better Use	\$2,261,519.15

Follow-up Activities

A. Recommendations Closed	51
B. Disallowed Costs Agreed to by Management	\$13,882.35
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management	\$371,970.97
D. Unresolved Recommendations	84

Legislation/Regulations/SOPs/Other Reviews

A. Legislation Reviewed	69
B. Regulations Reviewed	23
C. Standard Operating Procedures Reviewed	12
D. Other Issuances Reviewed*	125

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

Statistical Highlights

Fraud Deterrence Activities

A. Total Cases	421
B. Closed Cases.....	89
C. Pending Cases.....	16
D. Open Cases.....	316
E. Subjects Currently Under Investigation.....	1,709
F. Cases Referred to FBI or Other Agencies for Investigation.....	14

Summary of Indictments and Convictions

A. Indictments from OIG Cases.....	19
B. Convictions from OIG Cases.....	15

Summary of Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations	\$8,179,179.00
B. Loans/Contracts Not Approved as a Result of OIG Investigations.....	\$8,582,697.00
C. Loans/Contracts Not Approved as a Result of the Name Check Program.....	<u>\$22,746,593.00</u>
Total:	<u>\$39,508,469.00</u>

SBA Personnel Actions Taken as a Result of Investigations

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

Program Actions Taken as a Result of Investigations

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

Summary of OIG Fraud Line Operation

A. Total Fraud Line Calls/Letters	1,110
B. Total Calls/Letters Referred to Investigations Division	11
C. Total Calls/Letters Referred to Program Offices or Other Federal Investigative Agencies	51
D. Total Calls/Letters with no Action Appropriate.....	1,048

Statistical Highlights

FY 2002 Full Year Productivity Statistics October 1, 2001 through September 30, 2002

Office-wide Dollar Accomplishments	Totals
A. Potential Investigative Recoveries and Fines	\$17,571,031.00
B. Loans Not Made as Result of Investigations and Name Checks	\$63,420,121.00
C. Disallowed Costs Agreed to by Management	\$102,312.36
D. Recommendations that Funds Be Put to Better Use Agreed to by Management	<u>\$742,600.47</u>
Total	<u>\$81,836,064.83</u>

Efficiency and Effectiveness Activities

A. Reports Issued	35
B. Recommendations Issued	121
C. Dollar Value of Costs Questioned	\$13,882.35
D. Dollar Value of Recommendations that Funds Be Put to Better Use	\$2,812,367.65

Follow-up Activities

A. Recommendations Closed	131
B. Disallowed Costs Agreed to by Management	\$102,312.36
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management	\$742,600.47
D. Unresolved Recommendations	124

Legislation/Regulations/SOPs/Other Reviews

A. Legislation Reviewed	76
B. Regulations Reviewed	37
C. Standard Operating Procedures Reviewed	23
D. Other Issuances Reviewed*	209

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

Statistical Highlights

Fraud Deterrence Activities

A. Total Cases	*489
B. Closed Cases.....	157
C. Pending Cases.....	16
D. Open Cases.....	316
E. Subjects Currently Under Investigation.....	1,709
F. Cases Referred to FBI or Other Agencies for Investigation.....	17

* OIG converted to a new Investigations MIS system. Based on numbers generated by this system, there is a discrepancy in the total cases for the full-year.

Summary of Indictments and Convictions

A. Indictments from OIG Cases.....	*42
B. Convictions from OIG Cases.....	47

*OIG obtained 2 indictments during the first half of the reporting period that were not reported in the March 2002 SAR.

Summary of Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations.....	\$17,571,031.00
B. Loans/Contracts Not Approved as a Result of OIG Investigations.....	\$27,658,669.00
C. Loans/Contracts Not Approved as a Result of the Name Check Program.....	*\$34,732,914.00
Total:	<u>\$80,991,152.00</u>

*The 6-month statistic reported in the Spring SAR was incorrect.

SBA Personnel Actions Taken as a Result of Investigations

A. Dismissals	0
B. Resignations/Retirements.....	3
C. Suspensions	1
D. Reprimands	0

Program Actions Taken as a Result of Investigations

A. Suspensions.....	4
B. Debarments.....	1
C. Removals from Program.....	1
D. Other Program Actions.....	1

Summary of OIG Fraud Line Operation

A. Total Fraud Line Calls/Letters	1,755
B. Total Calls/Letters Referred to Investigations Division	15
C. Total Calls/Letters Referred to Program Offices or Other Federal Investigative Agencies.....	101
D. Total Calls/Letters with no Action Appropriate.....	1,639

Inspector General Act Statutory Reporting Requirements

The specific reporting requirements 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	23-24, 31
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	3-33
Section 5(a)(2)	Recommendations with Respect to Significant Problems, Abuses, And Deficiencies	3-34
Section 5(a)(3)	Prior Significant Recommendations Not Yet Implemented	45
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	46-52
Section 5(a)(5) And 6(b)(2)	Summary of Instances Where Information Was Refused	None
Section 5(a)(6)	Listing of Audit Reports	42
Section 5(a)(7)	Summary of Significant Audits	3-30
Section 5(a)(8)	Audit Reports with Questioned Costs	43
Section 5(a)(9)	Audit Reports with Recommendations that Funds Be Put to Better Use	43
Section 5(a)(10)	Summary of Reports Where No Management Decision Was Made	44
Section 5(a)(11)	Significant Revised Management Decisions	None
Section 5(a)(12)	Significant Management Decisions with Which OIG Disagreed	None

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APPENDIX I
Audit and Other OIG Reports Issued
April 1 through September 30, 2002

TITLE	NUMBER	ISSUE DATE	QUESTIONED COSTS	FUNDS FOR BETTER USE
Capital Access				
Audit of Borrowers with Prior Defaulted Loans	2-19	5/28/02		\$667,500.00
Audit of SBA-Guaranteed Loan	2-21	8/5/02		\$93,689.00
Audit of SBA-Guaranteed Loan to RSC Enterprises, Inc.	2-23	8/7/02		\$197,751.97
Audit of LAEs on Quality Trust, Inc.	2-24	8/19/02	\$1,392.00	
SBA's Experience with Defaulted Franchise Loans	2-27	9/16/02		
Audit of Internal Control Over Colson Services Corporation's Contract as Central Servicing Agent for SBA's Certified Development Company Loan Program	2-29	9/16/02		
SBA-Guaranteed Loan to Earth Treasures, Inc.	2-30	9/24/02		\$84,911.18
Impact of Loan Splitting on Borrowers and SBA	2-31	9/30/02		
Audit of SBA-Guaranteed Loan	2-32	9/30/02		\$450,559.00
Audit of Early Defaulted Loans	2-35	9/30/02		\$747,308.00
Program sub-total	10 reports		\$1,392.00	\$2,241,719.15
Disaster Assistance				
Review of Out-of-Sequence Payments	2-26	9/3/02		\$19,800.00
Program sub-total	1 report		\$0	\$19,800.00
Government Contracting and Business Development				
7(j) Management and Technical Assistance Program	2-33	9/30/02		
Program sub-total	1 report		\$0	\$0
Entrepreneurial Development				
Georgia District Office Sponsorship Activities	2-25	8/26/02		
Program sub-total	1 report		\$0	\$0
Agency Management				
FY 2001 Financial Statements Management Letter	2-17	4/12/02		
FISCAM	2-18	5/6/02		
Modernizing Human Capital Management	2-20	5/29/02		
Travel of Former Regional Administrator	2-22	8/7/02	\$9,653.34	
SBA's Information Security Program	2-28	9/12/02		
Use of Social Security Numbers	2-34	9/30/02		
Program sub-total	6 reports		\$9,653.34	\$0
TOTALS (all programs)	19 reports		\$11,045.34	\$2,261,519.15

APPENDIX II - Part A
Audit Reports with Questioned Costs
April 1 through September 30, 2002

		REPORTS	RECs*	COSTS**	
				QUESTIONED	UNSUPPORTED
A.	For which no management decision had been made by March 31, 2002	1	1	\$2,837.01	\$0
B.	Which were issued during the period	2	2	\$11,045.34	\$0
	Subtotals (A + B)	3	3	\$13,882.35	\$0
C.	For which a management decision was made during the reporting period	3	3	\$13,882.35	\$0
	(i) Disallowed costs	3	3	\$13,882.35	\$0
	(ii) Costs not disallowed	0	0	\$0	\$0
D.	For which no management decision had been made by September 30, 2002	0	0	\$0	\$0

* Recommendations

** 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
April 1 through September 30, 2002

		REPORTS	RECs*	RECOMMENDED FUNDS FOR BETTER USE
A.	For which no management decision had been made by March 31, 2002	2	2	\$180,219.00
B.	Which were issued during the period	7	7	\$2,261,519.15
	Subtotals (A + B)	9	9	\$2,441,738.15
C.	For which a management decision was made during the reporting period	3	3	\$377,970.97
	(i) Recommendations agreed to by SBA management	3	3	\$371,970.97
	(ii) Recommendations not agreed to by SBA management	0	0	\$5,400.00
D.	For which no management decision had been made by September 30, 2002	6	6	\$2,063,767.18

* Recommendations

APPENDIX II - Part C
Audit Reports with Non-Monetary Recommendations
April 1 through September 30, 2002

		REPORTS	RECOMMENDATIONS
A.	For which no management decision had been made by March 31, 2002	7*	34*
B.	Which were issued during the period	12	71
	Subtotals (A + B)	19	105
C.	For which a management decision was made (for at least one recommendation in the report) during the reporting period	10	38
D.	For which no management decision (for at least one recommendation in the report) had been made by September 30, 2002	13	67

* Adjusted to reflect 8 recommendations (audit report 2-12) which were not included in the Spring 2002 SAR and 5 recommendations (audit report 1-19) where management decisions had been made on 2/16/02.

APPENDIX II – Part D
Issued Audit Reports with Overdue Management Decisions
September 30, 2002

TITLE	NUMBER	ISSUED	STATUS
PLP Oversight Process	1-19	9/27/01	Negotiating with program officials.
Asset Sale Due Diligence Contract	2-16	3/29/02	SBA officials are working with outside contractor to determine appropriate management response.

APPENDIX II - Part E
Significant Audit Reports Described in Prior Semiannual Reports
Without Final Action as of September 30, 2002

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target
43H006021	8(a) Continuing Eligibility	9/30/94	10/30/94	10/30/02
87H002017	NOAA Computer Contracts	6/18/98	11/19/01	7/31/02
9-23	Survey of Electronic Records Management	9/15/99	11/30/99	4/15/03
0-14	7(a) Service Fee Collection	3/30/00	8/22/00	9/30/03
0-15	SBA's Proposed Systems Development Methodology	3/30/00	9/29/00	9/20/02
0-19	SDB Certification Program Obligations & Expenditures	6/30/00	3/30/01	9/30/02
0-25	GPRA - SBIC Program	9/7/00	12/27/00	11/1/02
0-26	GPRA - Surety Bond Guarantee Program	9/25/00	1/30/01	10/31/02
0-28	Rhode Island District Advisory Council	9/29/00	***	5/31/02
0-29	MBELDEF Cosponsorship	9/30/00	***	9/30/02
0-30	SBA Administration of MBELDEF	9/30/00	3/26/01	**
0-31	Boscart Construction, Inc.	9/30/00	***	**
1-01	GPRA - 7(a) Business Loan Program	12/4/00	***	12/31/02
1-09	SBA's Planning and Assessment for Implementing PDD 63	3/26/01	9/27/01	10/30/02
1-11	GPRA - MSB/COD Program	3/27/01	9/28/01	**
1-12	SBA's Information Systems Controls - FY2000	3/27/01	***	**
1-14	Paper Report Production	8/3/01	12/21/01	11/30/02
1-15	FY 2000 Financial Statements - Management Letter	8/15/01	10/1/01	9/14/02
1-16	SBA's Follow-up On SBLC Examinations	8/17/01	9/25/01	12/31/03
1-19	PLP Oversight Process	9/27/01	8/27/02	12/31/02
A1-05	SBA's Use of Government Cars and Hired Car Services	9/27/01	1/15/02	8/30/02
1-20	Agreed-upon Procedures Report on Sensitive Payments	9/28/01	12/18/01	**
1-21	SBA's UNIX Operating Systems	9/28/01	1/28/02	6/30/03
A1-06	Evaluation of SBA's Computer Security Program	9/28/01	***	**
2-04	SBA's FY 2001 Financial Statements	2/27/02	***	**
2-12	Improvements in the SBLC Oversight Process	3/20/02	8/27/02	**

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

APPENDIX III
Six Month Arrested/Indicted/Convicted Summary

State	Program	Alleged Violation(s) Prosecuted	Arrested/ Indicted/ Convicted/	Investigated Jointly With. . .
CA	DL	A physician practicing in California, attempting to start a practice in New York, was indicted on three counts of false statements and one count of conspiracy. The charges were filed in connection with false applications that she submitted to FEMA and SBA for \$88,400 in disaster relief funding pursuant to Hurricane Floyd. *	Medical physician indicted	None
IL	BL	To obtain a \$1.25 million SBA-guaranteed bank loan, an SBA loan packager and business broker aided the preparation and filing of fraudulent income tax returns which were used in the SBA loan package and later with the IRS. *	SBA loan packager and business broker indicted	None
IL	BL	Another defendant in above case fabricated documents produced to SBA/OIG by the attorney and others in response to grand jury subpoenas.	Real estate attorney pled guilty	None
IL	BL	To obtain a \$400,000 SBA-guaranteed loan a businesswoman signed an affidavit stating that she was individually, and as a corporation, current on all Federal and state taxes, when she and the company had a tax debt totaling more than \$1 million.	Businesswoman pled guilty	FBI
IL	BL	Former president of a mergers and acquisition company submitted an SBA Personal Financial Statement, in connection with a \$954,000 SBA-guaranteed loan, that failed to disclose a significant number of liabilities. *	Businessman charged	FBI
KY	BL	A company vehicle was individually titled to the businessman, with the proceeds from the sale of the vehicle retained for his personal use. The guarantor along with the president submitted fraudulent invoices, to obtain a \$250,000 SBA-guaranteed loan, claiming that they purchased equipment.	Businessman and guarantor pled guilty	None
NY	SBIC	Former pension plan manager for a utilities company embezzled employee benefit plan funds for personal expenses. He was responsible for recommending investments of a utility company's pension funds made through various venture capital firms, including a New York City small business investment company in receivership. *	Pension plan manager arrested	DOL/OIG
NC	DL	A music company and its owner pled guilty to one count of money laundering. The defendant, acting as attorney for his father, obtained two disaster loans totaling \$617,200 for damages associated with Hurricanes Bonnie and Floyd. The guilty plea was the result of a previous indictment on one count of mail fraud and six counts of wire fraud. The investigation disclosed that during this time period, the principals, through the company, were operating an illegal gambling business that made it ineligible for the disaster loans. The defendant also fraudulently claimed that machinery and equipment were damaged by the storms and misused loan proceeds to pay off pre-disaster debt. *	Business owner pled guilty	FBI

APPENDIX III
Six Month Arrested/Indicted/Convicted Summary
April 1 through September 30, 2002

State	Program	Alleged Violation(s) Prosecuted	Arrested/ Indicted/ Convicted/	Investigated Jointly With...
NC	8(a)BD	Construction company and its president pled guilty to a one-count charge of mail fraud and acknowledged responsibility for submission of false payment certifications (false statements) that resulted in total losses of almost \$1.3 million on 10 separate Government contracts. He and the company agreed to a permanent injunction barring him and/or any entity in which he might have a financial interest from doing business with the Government. *	Construction company president pled guilty	None
OH	BL	Businessman intentionally prepared and submitted false invoices to the participating lender bank and SBA to obtain a \$337,500 SBA-guaranteed loan and used the proceeds to pay for unauthorized business and personal debts. *	Businessman charged	None
OH	BL	Husband and wife defaulted on their \$200,000 SBA-guaranteed loan then had collateral, almost all of the woodwork from the first floor of their bed and breakfast, removed, and sold for personal benefit. *	A couple indicted	None
OR	BL	Businessman made false statements on four SBA-guaranteed loans with two participating lenders. Additionally, he used false social security numbers and failed to disclose prior bankruptcies, judgments, other business interests, and previous criminal history. *	Businessman indicted	FBI
PA	8(a)BD	A former SBA Section 8(a) program participant conspired to making material false statements and representations to SBA by falsely stating he did not control a Section 8(a) certified construction firm, when in fact he ran the company. Additionally, he caused fictitious financial statements to be mailed to an insurance company who relied on the false financial statements to issue bonding to the construction company. As a result of the construction company's defaults on contracts, the insurance company paid over \$2.9 million to subcontractors and suppliers in payment bonds and incurred an additional \$3 million in losses on performance bonds to have the contracts completed.	Section 8(a) program participant charged in information	NCIS, VA/OIG, DCIS, USCS
TX	BL	Defendants submitted a loan package with fraudulent personal financial statements and a false purchase contract that inflated the price of the motel from \$2 million to \$2.7 million. Fraudulent copies of cashier's checks were submitted as proof of their required equity injection. *	Loan broker and two clients indicted	FBI
TX	BL	In connection with the above case and along with the other defendants, another businessman submitted false documents. *	Businessman indicted	FBI
TX	BL	The couple concealed from the lender the extent of a fire that destroyed their restaurant 3 days after the bank approved the loan and provided a fraudulent property insurance policy to satisfy the closing requirements for a \$150,000 SBA-guaranteed loan. The husband's name was removed from the application because of his criminal history.	A couple indicted	ATF
TX	BL	The principals falsified nine Federal tax returns, six IRS tax return verifications, forged two fuel company leases, and falsified their \$85,000 capital injection in connection with a \$355,000 SBA-guaranteed loan for a service station. *	Two businessmen agreed to pre-trial diversions	TIGTA

APPENDIX III
Six Month Arrested/Indicted/Convicted Summary

State	Program	Alleged Violation(s) Prosecuted	Arrested/ Indicted/ Convicted/	Investigated Jointly With. . .
UT	BL	The part-owner obtained a \$905,000 SBA loan to purchase a building in the name of a laboratory by falsely representing that he had authorization from the board of directors of the lab and that they were guaranteeing the loan. The businessman represented to the board that they would be leasing a new building from a disinterested third party and collected excessive lease payments from the lab under a fabricated name via a post office box. *	Businessman charged	Utah County Sheriff's Office
VA	BL	The president of a defunct soap company had previously made false statements to obtain a \$290,000 SBA-guaranteed loan and left the country. He and his attorney agreed to coordinate his return with the U.S. Attorney's Office and SBA/OIG.	Company president arrested	None

* This case is further discussed in the narrative section of this report.

Program codes: BL=business loans, DL=disaster loans, 8(a)BD=Section 8(a) business development, SBIC=small business investment companies

Joint-investigation Federal agency acronyms: ATF=Bureau of Alcohol, Tobacco, and Firearms DCIS=Defense Criminal Investigative Service; DOL/OIG=Department of Labor OIG; FBI=Federal Bureau of Investigation; NCIS=Naval Criminal Investigative Service; TIGTA=Treasury Inspector General for Tax Administration; USCS=Customs Service; VA/OIG=Veterans Affairs Department OIG

APPENDIX IV
Six Month Sentencing Summary
April 1 through September 30, 2002

State	Program	Alleged Violation(s) Prosecuted	Confinement Time and Dollar Results (Criminal Restitution/Fines/Etc.)	Investigated Jointly With . . .
AZ	BL	President and his partner, along with a friend, created a fraudulent \$400,000 promissory note, in connection with a \$1 million SBA-guaranteed loan, to give the impression that the president and his partner, individually and through the corporation had a greater debt obligation, which would justify a larger loan from the lender. The friend received a \$150,000 check at the closing and then endorsed the check to the president.	President received 5 years probation, 1½ years halfway house confinement, \$906,000 restitution (jointly with secretary-treasurer)	FBI
AZ	BL	Secretary-treasurer of company of above case schemed with the company president and a friend to defraud SBA.	Secretary-treasurer received 5 years probation, \$906,000 restitution (jointly with president)	FBI
AZ	BL	The couple devised a “no money down” plan for clients interested in purchasing a business at 100 percent financing who would have otherwise not qualified for the loan. The scheme inflated the purchase price to cover the actual selling price plus the down payment or cash injection. The couple also arranged for third party injectors to loan the required down payment to the borrowers to falsely prove they had the cash injection. After closing the couple received an inflated commission and arranged for a portion of the commission to be wired back to the third party injectors.	Husband: 70 months in prison, 3 years probation Wife: 3 years probation Both defendants jointly: \$4.8 million restitution	FBI
AZ	BL	Businessman claimed on his Personal Financial Statement that he had \$140,000 worth of stock in restaurants and that he had \$471,949 in earned fees in connection with a \$900,000 SBA-guaranteed loan to purchase six fast food restaurants. He allowed his brokerage firm to obtain a temporary cash injection from a third party. The defendant obtained a real estate sales license so that he could receive a commission for the sale of the six franchises he purchased through the business brokerage firm. A portion of the commission was to be used to repay the third party that made his cash injection.*	90 days community confinement in a halfway house, 90 days home detention, 3 years supervised release \$5,000 fine, \$172,000 restitution	FBI
CO	BL	Owner failed to disclose approximately \$250,000 in business debt and two pending lawsuits on her \$100,000 LowDoc loan application. Additionally, part of the loan proceeds was used for personal expenses, while failing to pay business debts. *	1 day incarceration, 120 days home detention, 5 years supervised release, 150 hours community service, \$83,423 restitution and seek psychological treatment	FBI

APPENDIX IV
Six Month Sentencing Summary
April 1 through September 30, 2002

State	Program	Alleged Violation(s) Prosecuted	Confinement Time and Dollar Results (Criminal Restitution/Fines/Etc.)	Investigated Jointly With. . .
IL	BL	Contracting company president signed an affidavit, in connection with a \$400,000 SBA-guaranteed loan, whereby she attested that she was individually, and as a corporation, current on all Federal and state taxes, when at the time both she and the company had a tax debt totaling over \$1 million. *	12 months and 1 day in prison, 2 year supervised release, \$345,820 restitution	FBI
KS	BL	Bank president and bank, in connection with an SBA-guaranteed loan to a foam core panel manufacturing plant, submitted a falsely redacted appraisal to SBA, claimed the borrowers had excellent credit history when they had failed to obtain or review any credit report, falsely certified there had been no substantial adverse change in financial condition of the borrower, when upon learning that the borrower would not receive a \$500,000 grant, they demanded additional security for the SBA loan. *	Settlement agreement that bank would pay \$250,000, release SBA from guaranty liability of approximately \$570,505, president nor would bank participate in any SBA loan program for 5 years	USSS
KY	BL	Former employee of a roadside construction company co-owned by his brother, allowed a company vehicle to be individually titled to him with the proceeds from the sale of the vehicle retained by the former employee for personal use.	Employee received 3 years probation	None
MO	8(a)BD	President and Section 8(a) construction company intentionally devised a scheme to defraud and obtain money from insurance companies that insured the company's property and equipment. A previous indictment charged that the defendants participated in illegal kickbacks, mail fraud, false statements to SBA, and major contract fraud against the U.S.	President was placed on probation for 3 years, ordered to pay a \$30,000 fine, \$108,771.12 in restitution (\$95,000 to SBA), and a \$300 special assessment. Company was placed on probation for 5 years, ordered to pay a \$48,000 fine, \$90,771.72 in restitution (\$77,000 to SBA), and a \$600 special assessment. All counts other than mail fraud were dismissed	FBI, DOL/OIG

APPENDIX IV
Six Month Sentencing Summary
April 1 through September 30, 2002

State	Program	Alleged Violation(s) Prosecuted	Confinement Time and Dollar Results (Criminal Restitution/Fines/Etc.)	Investigated Jointly With. . .
NJ	BL	The defendants failed to purchase machinery and fixtures for which the \$500,000 SBA-guaranteed loan was intended, provided a forged landlord waiver in applying for the loan, and passed three forged checks to banks. The defendants also discharged chemical and industrial wastes associated with the process of metal plating.	President of original company: 18 months probation, \$4,000 fine, \$25,000 restitution State of New Jersey. Principal of original company: 18 months probation, \$3,000 fine, \$75,000 restitution to New Jersey. President of successor company: 5 years probation, \$4,000 fine, \$125,000 restitution to New Jersey. Successor company: \$5,000 fine	EPA, State of New Jersey-Division of Criminal Justice
NY	SBIC	Former SSBIC board member misappropriated SBA funds by extending loans to small businesses affiliated with the SSBIC's officers and directors; and concealed these improper loans by submitting fraudulent documents to SBA	6 years incarceration, followed by 3 years probation. The defendant was also ordered to pay \$11,659,499 in restitution to other Government agencies.	IRS, HUD/OIG, ED/OIG
OK	BL	Co-borrowers entered into a final settlement agreement with the U.S. Attorney's Office during a pending SBA/OIG investigation into the alleged conversion of collateral that was pledged.	Agreement to pay \$101,000 to SBA	None
PA	8(a)BD	President of a defunct Section 8(a) construction company falsely represented to SBA that he was the 100 percent owner of the construction company, and submitted false progress payment certifications on a \$1.6 million contract.	2 months in jail and 5 years on probation. He was also ordered to pay \$60,000 in restitution to the bonding company and a \$200 special assessment fee.	NCIS and VA/OIG
TX	BL	The husband (co-borrower) disclosed his criminal history in the loan application that should have made the loan ineligible under the SBAExpress loan program. *	Preferred lender agreed to cancel SBA's 50 percent guaranty obligation on an SBAExpress loan with a balance of \$122,648	ATF
TX	BL	Businessman presented documents to the bank representing that his company had purchased equipment for \$131,675, when no such purchase was made. *	4 months incarceration, 4 months home confinement, 5 years supervised release, \$99,191 restitution	FBI

APPENDIX IV
Six Month Sentencing Summary
April 1 through September 30, 2002

State	Program	Alleged Violation(s) Prosecuted	Confinement Time and Dollar Results (Criminal Restitution/Fines/Etc.)	Investigated Jointly With. . .
TX	BL	Nine defaulted SBA-guaranteed loans were identified in an alleged fraudulent "flipping" scheme. *	Preferred lender agreed to release SBA from guaranty totaling more than \$6.5 million	FBI
TX	BL	Former business owner repaid balance due on his loan as a result of a SBA/OIG investigation	Repaid \$181,351 to SBA and the non-bank participating lender	TIGTA

* This case is further discussed in the narrative section of this report.

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 TIGTA=Treasury Inspector General for Tax Administration; USSS=United States Secret Service; VA/OIG=Veterans Affairs
 Department OIG

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