



Office of Inspector General U.S. Small Business Administration

August 2005 Update

Agency Management

Agency Completes Final Action on Recommendation Made in Audit of SBA's Computer Security Program.

The Agency reported that it completed the following final action: SOP 90 47, "Automated Information Systems Security Program," was modified to require that the Agency's system development methodology be used in the acquisition or development of new systems. Two other recommendations contained in the report remain open.

Business Loan Programs

Texas Men Plead Guilty. On July 28, 2005, a Texas man and his brother pled guilty to one count of conversion of government property. They were previously indicted by a Federal Grand Jury in the Southern District of Texas for one count of bank fraud and three counts of false statements to a financial institution. The first brother was also charged with an additional count of false claim to U.S. citizenship. All charges resulted from the first brother fraudulently obtaining a \$1 million SBA-guaranteed loan from one lender and a \$390,000 companion loan from another lender. During the course of the loan process, the other brother, who already had an SBA-guaranteed loan in the amount of \$632,000, assisted his brother with obtaining the loans. The second brother obtained required operating permits in his own name and paid all fees associated with his brother's loans. Also, the first brother represented that he utilized personal assets in excess of \$307,000 to purchase real estate that would be used for a food mart location. However, bank records indicated that he received the majority of the money from his brother. He also borrowed \$71,000 from the brother and represented it as his own personal cash in order to meet his required cash injection. As part of the plea agreement, the men agreed not to participate in any Federal commercial

loan program, act as a broker or advise anyone concerning how to obtain a Federal commercial loan, or provide funds to anyone attempting to obtain any type of Federal commercial loan. The second brother also agreed to pay a \$71,000 fine. Sentencing is scheduled for October 19, 2005.

Agency Completes Final Action on Two Recommendations Made in Review of the Microloan Program.

The Agency reported that it completed the following final actions: (1) SOP 50 10 Subpart G, "Policies Applying to the Microloan Program," is in clearance; and (2) a template is being used by intermediaries to provide quarterly reports to SBA. Three other recommendations contained in the report remain open.

Disaster Loan Program

Virgin Islands' Homeowners Indicted. On August 5, 2005, two men from the Virgin Islands were charged by superseding indictment on one count of conspiracy and eight counts of mail fraud. The indictment alleges that the men, co-owners of a house in St. Thomas, falsely represented to the SBA, the Federal Emergency Management Agency (FEMA), the Home Protection Roofing Program (funded by FEMA), and insurance companies that their house had sustained hurricane damage. In fact, the house had been damaged by a hurricane prior to their purchase of it. The men purchased the house in an "as is" condition with the prior hurricane damage. This investigation was based on a referral from the Department of Justice.

Other

Washington State Woman Indicted. On August 3, 2005, a Washington State woman was indicted by a Federal Grand Jury in the Western District of Washington on two counts of false personation of a Federal employee or

officer. A criminal complaint charging her with the same activity was previously filed on July 1, 2005, in U.S. District Court, Tacoma, Washington. She was arrested on July 5, 2005, with the assistance of the Federal Bureau of Investigation (FBI), Tacoma Police Department, and Pierce County Sheriff's Office. The SBA OIG investigation found that in April and May 2005, the woman submitted two Federal grant applications to the Washington State Office of Juvenile Justice in the name of "Small Business Administration (SBA) (RMR)," stating she was "Director." One application requested \$92,000, while the other did not define an amount. The grants were denied after the State contacted the SBA and verified that the woman was not an SBA employee. The woman had previously claimed to be affiliated with the SBA, Washington, D.C., for various personal reasons, including gaining online access to State of Washington computer databases, deleting prior arrests in Pierce County, Washington, and regaining custody of her daughter. The SBA OIG conducted this investigation based on a referral from SBA's Seattle District Office and the Washington State Department of Social and Health Services, Office of Juvenile Justice.

Statutory/Regulatory/Policy Reviews

In effort to proactively identify and correct potential Agency inefficiency and management problems at the onset of policy and regulatory development, the OIG reviewed, cleared, and/or provided comments, as appropriate, on 14 Agency initiatives, including proposed legislation, Agency Standard Operating Procedures, and Agency notices containing directives to its employees.

This monthly update is produced by the SBA OIG, Peter L. McClintock, Acting Inspector General.

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Theresa McCane, SBA OIG
409 Third Street SW., 7th Floor
Washington, DC 20416
E-mail: OIG@SBA.GOV
Telephone number (202) 205-6586
FAX number (202) 205-7382

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