



Office of Inspector General U.S. Small Business Administration

August 2006 Update

Disaster Loan Program

Texas Man Indicted for Filing False Disaster Claim.

On August 16, 2006, a federal grand jury in the Southern District of Texas returned an indictment against a Texas man, charging him with one count of making false claims. He allegedly filed a fraudulent application for Federal Emergency Management Agency (FEMA) benefits, claiming to have incurred damages at his primary residence as a result of Hurricane Rita. However, he was actually residing in the Houston, Texas, area at the time, and did not suffer any damages as a result of the hurricane. As a result of this false claim, he received \$2,000 in expedited benefits from FEMA. The SBA OIG received this referral from the SBA Customer Service Center (CSC) because the false claim for FEMA assistance also caused the man to be eligible for SBA disaster loan benefits. The CSC received a phone call from an individual who had received a disaster loan application package. The caller claimed that he never sustained any damages as a result of the hurricane, never applied for any disaster assistance, and never received any disaster funds. However, a CSC check of the FEMA database revealed that a \$2,000 hurricane assistance check had been set to a person at the same address as that given by the caller. The SBA OIG obtained a copy of the Treasury check issued to the individual for \$2,000, which was cashed at his bank. This case was worked jointly with the Department of Homeland Security (DHS) OIG.

Business Loan Programs

Former SBA Official Found Guilty. On August 22, 2006, a former SBA Assistant District Director (ADD) for the 8(a) Business Development Program, Puerto Rico and Virgin Islands District Office, was found guilty of bribery of a public official by a federal jury in the U.S. District Court, District of Puerto Rico. The

investigation determined that from 2000 to 2003, an SBA 8(a) contractor and president of an engineering firm made monthly cash payments to the ADD totaling in excess of \$30,000. In exchange for the payments, the ADD used his authority as the head of the SBA's 8(a) division in Puerto Rico to award over \$16 million in SBA 8(a) sole source contracts to the company.

In a related bribery case, the president of the engineering firm pled guilty to making illegal payments totaling approximately \$31,000 to a former manager of a restaurant company. The payments were made in exchange for the manager awarding the engineering firm more than \$1 million of electrical contracts on behalf of his company. In addition, the attorney for the engineering firm president interfered with and obstructed the investigation into illegal kickback payments made by his client.

The president of the engineering firm provided testimony in three trials which led to the conviction of the restaurant company manager, the attorney, and the former ADD. The subjects in this case have been sentenced in the U.S. District Court for the District of Puerto Rico, as follows.

- The president of the engineering firm was sentenced on August 25, 2006, to 12 months home confinement with electronic monitoring, 4 years probation, 400 hours of community service, a \$150,000 fine, and a \$100 special assessment fee. He previously pled guilty to one count of conspiracy.
- The attorney was sentenced on August 15, 2006, to 33 months in prison, 3 years supervised probation, 120 hours of community service, a \$300 special assessment fee, and the surrender of his law license. He was previously found guilty in a jury trial of conspiracy to commit offenses against the United States, attempting to influence the testimonies of

persons in an official proceeding, and attempting to corruptly obstruct, influence and impede an official proceeding.

- The engineering firm (a corporation) was sentenced on August 25, 2006, to 4 years probation, a \$150,000 fine and a \$400 special assessment fee. The judge also ordered the corporation to institute a compliance program and to go through an audit within 90 days. The corporation had previously pled guilty to one count of conspiracy.
- The restaurant company manager was previously convicted on one count of conspiracy and sentenced on November 15, 2005, to 1 year and 1 day imprisonment, 2 years of supervised release, and a \$100 special assessment fee.

These investigations were based on a referral from the Federal Bureau of Investigation (FBI) and were conducted jointly with the FBI and General Services Administration (GSA) OIG.

Agency Completes Final Action on One Recommendation Made the Audit Report – Audit of an SBA Guaranteed Loan (Report 4-26). The Agency reported that it has completed the following final action. The Office of Financial Assistance recovered \$235,008 from a lender. The OIG audit found that the lender made an SBA loan to an ineligible borrower, failed to obtain evidence that the borrower had injected the required amount of personal funds into the business, and failed to verify financial information submitted by the seller. All recommendations contained in the report have been completed.

Government Contracting and Business Development

Construction Company Owner/President Sentenced. On August 1, 2006, the owner/president of two construction companies pled guilty to a criminal information charging him with one count of making a material false statement. He was sentenced to 3 years probation and a \$5,000 fine. One construction company is currently a certified HUBZone business, and the other was formerly certified as a HUBZone company. On July 23, 2001, the owner/president submitted false references to the U.S. Coast Guard to

obtain a Federal HUBZone contract for the second company, which was HUBZone certified at the time. The plea resulted from an ongoing investigation of Federal contracting being conducted by the Department of Justice, Antitrust Division; DHS OIG; Department of Agriculture OIG; Department of Interior OIG; Defense Criminal Investigative Service; GSA OIG; Department of Veteran's Affairs OIG; Treasury Inspector General for Tax Administration; and the SBA OIG.

Agency Management

Agency Completes Final Action on One Recommendation Made in Management Advisory Report – SBA Needs to Implement a Viable Solution to its Loan Accounting System Migration Program (Report 5-29). The Agency has reported that it completed the following final action. The project director stated that the project committee is using the 1999 Booz, Allen, and Hamilton Loan Monitoring System Business Process Reengineering (BRP) study as a starting point for the BRP for the Loan Management and Accounting System (LMAS). Three recommendations contained in the report remain open.

Agency Completes Final Action on Two Recommendations Made in the Audit Report – Audit of SBA's FY 2005 Financial Statements – Management Letter (Report 6-10). The Agency reported that it completed the following final actions. (1) The Office of the Chief Financial Officer (OCFO) provided training for administrative, accounting, and budget personnel in Headquarters and Denver on the proper procedures for requisitioning services and obligating funds, and the procedures for the expeditious processing of invoices; and (2) an SBA notice on proper payment process procedures was published in May 2006. Twelve recommendations contained in the report remain open.

Agency Completes Final Action on Recommendation Made in Audit of SBA's 2005 FY Financial Statements (Report 6-04). The Agency reported that it completed the following final action. The OCFO, in coordination with the Office of Disaster Assistance, enhanced its monitoring process for undelivered orders. In June 2006, the OCFO adjusted the balance for overdue approvals (disaster loans made prior to February 1, 2006) and a similar adjustment will be made at the end of Fiscal Year 2006. Seven recommendations contained in the report remain open.

Statutory/Regulatory/Policy Reviews

In an effort to proactively identify and correct potential Agency inefficiency and management problems at the onset of policy and regulatory development, the OIG reviewed, cleared, and/or provided comments, as appropriate, on 5 Agency initiatives, including proposed legislation, Agency Standard Operating Procedures, and Agency notices containing directives to its employees.

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