



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



Fall 2001

A Report to Congress

April 1, 2001 – September 30, 2001

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, 2001, to September 30, 2001.

Fiscal Year 2001 was proven a year of solid accomplishment by this Office. Looking at the standard productivity measures for OIG activities, we see that the Office issued reports on 27 audits and 3 inspections. OIG investigations resulted in 50 indictments and 41 convictions for criminal violations. The Office brought its collective experience to bear in reviewing 221 legislative, regulatory, policy, and procedural proposals concerning SBA and Government-wide programs. Overall, OIG dollar accomplishments from all activities totaled over \$46 million. All of this was accomplished with an appropriation of \$11.9 million (after rescission) and an average staff level of 106.

We continue to focus our efforts on several key areas identified in our strategic plan: financial management, information systems and computer security, lender oversight, high-risk issues, and new SBA initiatives. Particularly noteworthy during this 6-month period were OIG reports on SBA's computer security program, oversight of the preferred lender program, Operation Cleansweep III (character verification checks for loan applicants), and management challenge discussion groups. Discussions of these reports, including OIG recommended actions and SBA's response, can be found in the body of this semiannual report.

Since September 11, 2001, SBA OIG has joined with other OIGs and law enforcement agencies to start addressing the horrific events of that day and the terrorist activity behind them. Our hearts and sympathy go out to the victims and their families; the citizens of New York, Pennsylvania, Virginia, and Washington, DC; and the small businesses across America who have been so profoundly affected by these acts. We will continue to do all we can to protect the integrity of SBA's programs, thereby aiding the victims of these events.

I would like to express my deep appreciation for the ongoing support and interest of SBA's new Administrator and SBA's senior staff. Without their willingness to assist us and take action on our recommendations, we would not be effective. Overall, we are pleased to report that SBA is making progress on many of the key issues facing the Agency. We look forward to working in partnership with Administrator Barreto and the entire SBA team in continuing to address these challenges so that we can make a positive difference in the way Agency programs are being delivered to our customers, the small business men and women of America.

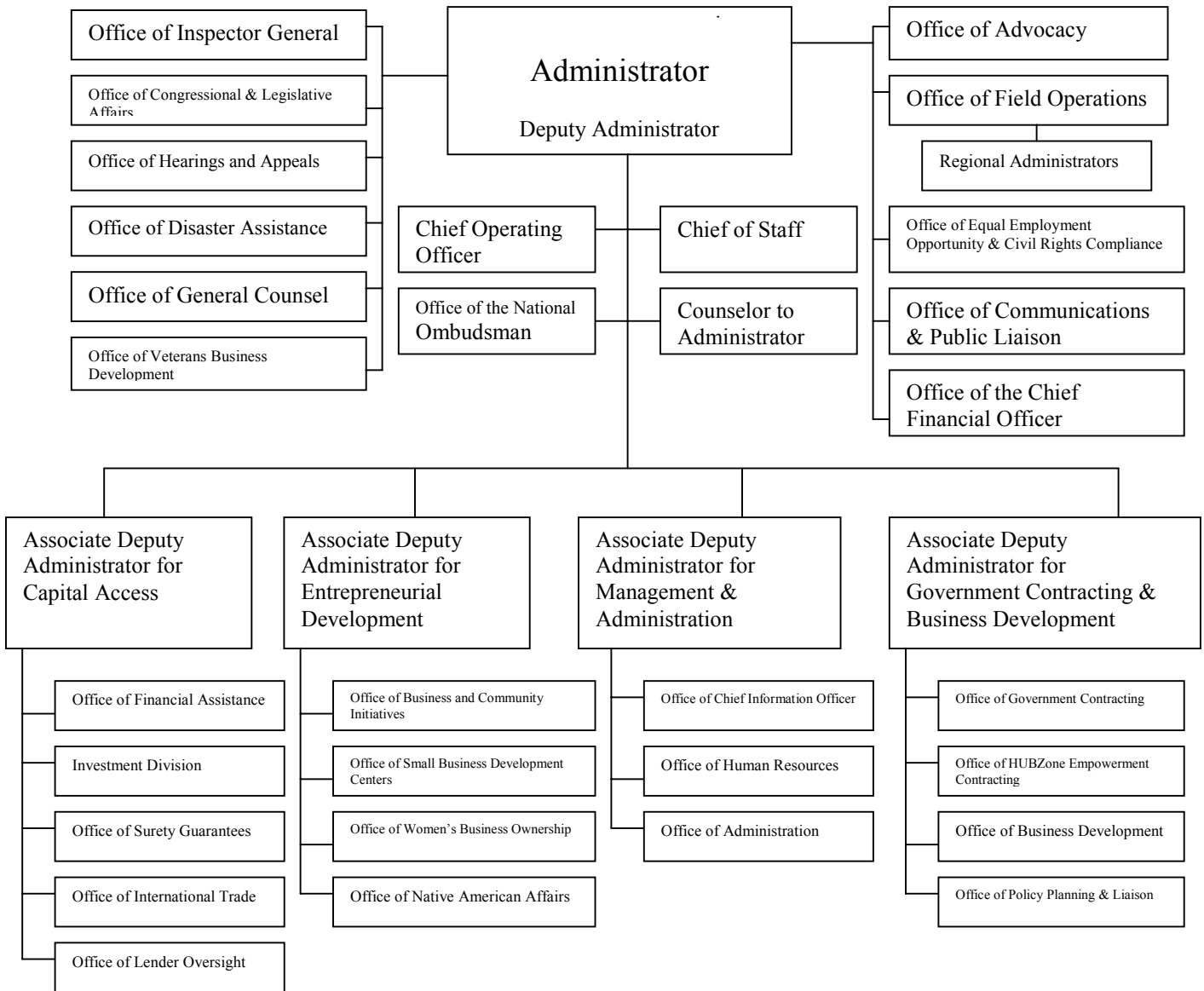


Phyllis K. Fong
Inspector General

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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 help Americans 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 had an FY 2001 appropriation of \$899.5 million and has 4,190 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 over \$150,000, and 85 percent for loans of \$150,000 or less except for Export Working Capital

SBA Overview

program (EWCP) loans, which have a 90 percent guarantee. Under Section 7(a) of the Small Business Act (The Act), SBA is authorized to offer a variety of specialized products and processes including the Certified and Preferred Lender (CLP and 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 Act also authorizes SBA to guaranty debentures used to fund long term fixed asset purchases for developing small businesses. The Small Business Investment Company (SBIC) program provides supplemental funding to licensed SBICs who make equity-type investments in small business. 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. In FY 2000, the Office of Lender Oversight (OLO) was established to effectively coordinate oversight of the Agency's lending programs. In addition to financial assistance programs, the Office of Capital Access (OCA) also oversees the Surety Guarantee (SG) program, and an International Trade 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), Tribal Business Information Centers (TBIC), One Stop Capital Shops (OSCS), 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) Management and Technical Assistance. 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

SBA Overview

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's Strategic Plan articulates the office's vision to improve SBA's programs by identifying key issues facing the Agency, ensuring that corrective actions are 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. We strive to provide a work environment in OIG that is conducive to excellent performance by our employees. The three goals in the Strategic Plan are 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 provide the broad framework of our mission from which we further concentrate 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) other selected high-risk issues; and (5) new Agency initiatives. A summary of our Strategic Plan is provided on the inside cover of this report.

The next section of this chapter details significant OIG accomplishments in the five areas of strategic focus.

Financial Management Systems

FY 2000 SBA Management Letter

Five conditions identified during the audit of SBA's FY 2000 financial statements.

OIG issued the FY 2000 SBA Management Letter outlining five conditions identified during the audit of SBA's FY 2000 financial statements, which resulted in an unqualified opinion. The conditions were not required to be included in the auditors' final report since they were nonmaterial weaknesses. The conditions identified related to: (1) subsidy models for budget estimates and financial statement re-estimates; (2) personal property and equipment; (3) expired appropriations; (4) foreclosed property records and valuation; and (5) loan accounting records and servicing. The Chief Financial Officer (CFO) generally agreed with the findings and recommendations and described corrective actions taken and planned to address the five conditions.

Information Systems and Computer Security

SBA's Computer Security Program

OIG issued an advisory report on SBA's computer security program as mandated by the Government Information Security Reform Act (GISRA) for 2001. GISRA requires an independent evaluation of the Agency's computer security programs. OIG concluded that while SBA generally maintains a

Significant Activities and Management Challenges

satisfactory information security program for its high priority financial management and general support systems, improvements were needed. SBA has not conducted computer security testing, has no formal computer security program monitoring to ensure that corrective actions are implemented, and does not have adequate disaster recovery and contingency planning. These vulnerabilities will require continued management emphasis in information security with the appropriate underlying resources to ensure that the security and continuity of SBA systems will be improved. The report included recommendations to the Chief Information Officer (CIO) to establish a security system testing program, upgrade computer security monitoring capabilities, and fully implement disaster recovery and contingency planning along with several other recommendations to strengthen SBA's administration of the computer security program. The CIO agreed with the recommendations in the report.

UNIX Operating Systems

UNIX operating systems do not have adequate operational controls to prevent or detect unauthorized access.

OIG audited 13 UNIX servers that support SBA high-priority computer systems. OIG concluded that the security settings and operational controls over the UNIX operating systems were not adequate to prevent or detect unauthorized access to programs and data, and did not comply with Federal and Agency information security requirements. Specifically: (1) access controls were not adequate to protect or detect unauthorized access to the UNIX operating systems; (2) required security documentation had not been properly prepared; (3) security settings and UNIX patch levels had not been maintained; and (4) system logs had not been consistently reviewed. As a result, there was an increased risk of unauthorized modification, loss, and disclosure of data and programs. The report includes 12 recommendations to improve the security of SBA's UNIX operating systems. The CIO generally agreed with the findings and recommendations in the report.

Lender Oversight

Small Business Lending Company Examination Reports

OIG issued an audit report on SBA's follow-up action taken in response to the Small Business Lending Company (SBLC) examination reports. The audit showed that SBA took several actions to improve oversight of the SBLC examination process, but additional actions are needed to fully ensure that SBLCs take timely corrective actions in response to examination findings and recommendations. OIG recommended that SBA: (1) develop and implement formal SBLC examination follow-up procedures; and (2) develop and promulgate internal control standards for the SBLC program similar to those required for lenders subject to examination by financial institution regulators. OCA agreed with both recommendations and plans to implement a systematic follow-up process and develop internal control standards for SBLCs.

Significant Activities and Management Challenges

Preferred Lender Program Oversight Process

OIG issued an audit report of the PLP oversight process. The audit, part of OIG's plan to evaluate SBA's lender oversight effort, was conducted to determine if SBA's oversight of the PLP program is in accordance with SBA policies and procedures.

Audit discloses that lender oversight needs improvement to ensure that lenders are selected properly and are in compliance with SBA guidelines.

OIG determined that program oversight needs improvement to ensure that lenders are properly selected for participation and to identify those not in compliance with SBA guidelines. Specifically, the audit disclosed that: (1) not all lenders were selected for review, and their past due, delinquent, and liquidation status loans were not always evaluated; (2) annual reviews did not assess financial and lender based risk factors; (3) lender evaluation worksheets allowed lenders who did not meet performance benchmarks to obtain passing scores and SBA district offices to impact scores; (4) annual reviews were not coordinated with the PLP renewal process; and (5) there was no documentation that non-bank lender safety and soundness examination results were considered during the renewal process.

OCA agreed with the recommendations concerning selecting lenders for review, scoring annual reviews, coordinating annual PLP reviews and lender renewal dates, and documenting safety and soundness examination results in the annual renewal process. They partially agreed with the recommendations concerning emphasizing performance benchmarks in the annual review scoring process and informing SBA district offices of safety and soundness examination results for non-bank lenders. They disagreed with recommendations concerning selecting loans for review and scoring lender evaluation worksheets.

Other Selected High-Risk Issues

Top 10 Management Challenges

OIG assesses the 10 most serious management challenges facing SBA.

In response to a congressional request, on December 1, 2000, OIG submitted a list and assessment of the 10 most serious management challenges facing SBA in FY 2001. The first four focus on Agency-wide issues that are critical to SBA's goal of modernizing the Agency, two concern lender oversight, three involve Section 8(a)BD program issues, and the last challenge addresses fraud deterrence.

In August, OIG provided an updated assessment of SBA progress on the challenges. The Agency appears to be making progress on 2 of the 10 challenges. These include managing for results and improving information system controls. Progress is more limited on four of the challenges—modernizing information systems, implementing human capital management

Significant Activities and Management Challenges

strategies, applying business loan guarantee purchase controls, and improving lender oversight. Further progress on preventing loan agent fraud and requiring criminal history checks of all borrowers may entail the passage of new legislative authority. No substantive progress has been demonstrated on the Section 8(a)BD program challenges—access to business development and contracts, clearer standards for economic disadvantage, and pass-through procurement activity. OIG is developing the list of FY 2002 challenges and plans to issue it in December 2001.

OIG Employees Support National Law Enforcement Effort

OIG participates in the law enforcement response to the September 11, 2001, events.

OIG has supported our national law enforcement response to the horrific terrorist acts in New York, Washington, D.C., and Pennsylvania on September 11, 2001. The support has included:

- Assigning two special agents to the investigative task force in New York and one special agent to assist the Federal Aviation Administration as a sky marshal;
- Coordinating with Federal Bureau of Investigation (FBI) offices as to available information on known or suspected terrorists and accomplices; and
- Assisting SBA Disaster Assistance program officials with fraud deterrence activities. OIG anticipates that additional audit and investigations resources will need to be devoted to oversight of the Disaster Assistance program as physical and economic injury disaster loan volume increases.

Operation Cleansweep III Report Issued

In April 2001, OIG published a report, entitled “Applicant Character Verification in SBA’s Business Loan Program,” summarizing the findings of Operation Cleansweep III. As indicated in its last semiannual report, this proactive investigation disclosed that 9.1 percent of Section 7(a) loans had borrowers who failed to fully disclose their criminal records. Borrowers who failed to disclose their criminal histories were 1.3 times as likely to become non-performing and result in purchase of the guaranty by SBA than those that disclosed their records or had no criminal histories. To begin addressing this problem and reduce losses to the Government, OIG is developing options to expand the program for verifying criminal history checks of business loan applicants.

Significant Activities and Management Challenges

Agency Initiatives

SBA Management Challenge Discussion Groups

OIG holds group discussions with Agency senior officials to determine potential management challenges.

OIG issued an inspection advisory memorandum entitled “Results of SBA Management Challenge Discussion Groups.” OIG held discussions in early FY 2001 with selected groups of senior officials from SBA Headquarters, regional, and district offices on potential management challenges facing the Agency and a new Administrator. While we found a strong sense of commitment to SBA's mission, we also found that the rapid changes the Agency has experienced have resulted in a number of concerns among some senior officials. The issues included the scope of the Agency's mission as it relates to changes in SBA's market, the regional field structure, centralization of functions and authority, workforce and program issues, and internal communication. The need for greater efforts to improve senior level communications was a constant in the meetings. In this memorandum OIG presents the issues raised and suggests some actions that might be taken to help address them. SBA has implemented some of the suggestions.

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, including (in the last 2 years) executing 26 arrest warrants, 4 search warrants, and 3 electronic monitorings. 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, processes Freedom of Information and Privacy Act requests, and manages OIG legislative and regulatory review functions.
- **Management and Policy Division** provides planning, information systems, budgetary, administrative, personnel, and communications services.

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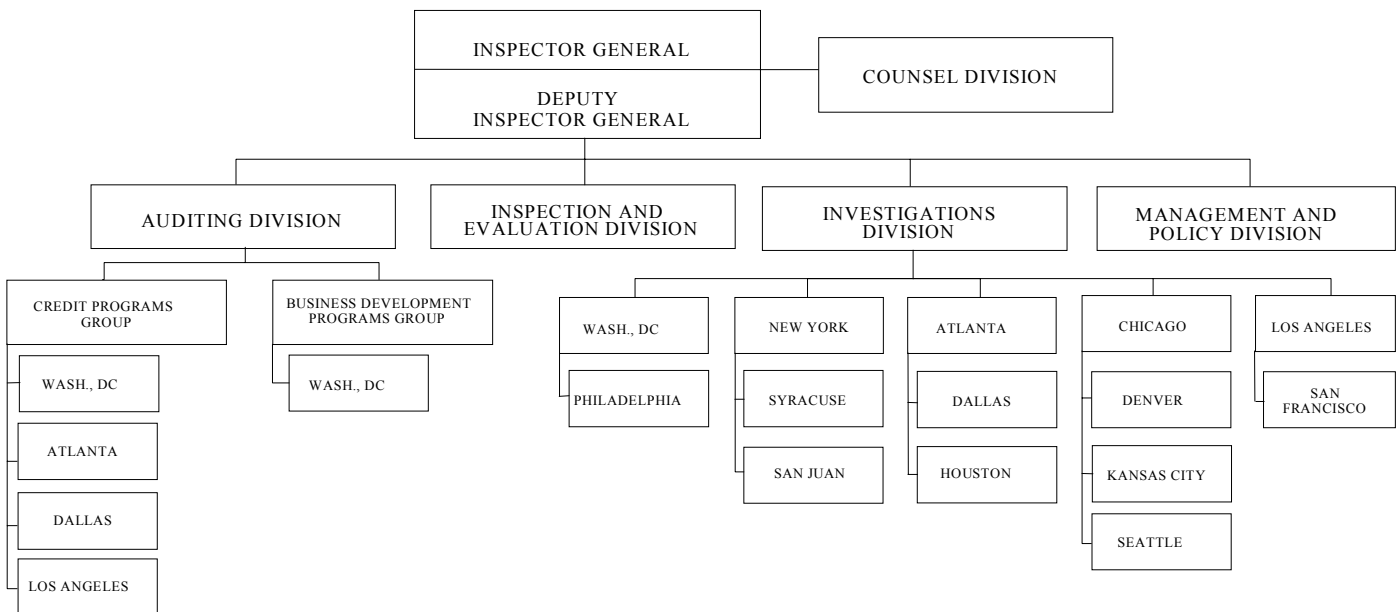
SBA/OIG has offices nationwide.

OIG is headquartered in Washington, D.C. 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, 2001, our on-board strength was 106. The OIG FY 2001 appropriation was \$11.9 million (less a .22% rescission of \$26,297), and \$500,000 transfer for disaster assistance oversight activities.

OFFICE OF INSPECTOR GENERAL SMALL BUSINESS ADMINISTRATION



OIG Activities

This chapter includes details and results of audits, investigations, and inspections, as well as other significant OIG activities that do not fall under the strategic plan's five focus points. The material in this chapter is organized by major SBA program area. Many of the audits and inspections and other materials discussed in this section can be found at <http://www.sba.gov/IG/igreadingroom.html>.

Business Loan Programs

Over the years, OIG investigations of fraud in SBA's loan programs have identified trends or types of fraud. Three major trends in recent years are: (1) fraud involving borrowers who do not disclose criminal histories; (2) fraud involving loan agents; and (3) fraud involving false tax returns. The first two trends are reflected in SBA's Management Challenge 10.

OIG discovers three types of fraud in SBA's loan programs.

Fraud Involving Borrowers Who Do Not Disclose Criminal Histories

During this period, OIG investigations of criminal-record fraud in connection with SBA's business loan programs yielded one indictment, three convictions, and \$403,750 in court-ordered restitution to SBA and other victims. Summaries of some criminal history fraud investigations involving SBA loan programs are listed below.

- The January 2001 indictments of four residents of the Cleveland, Ohio, area have been adjudicated. A jury found the first resident guilty of both counts (making false statements to SBA and conspiracy to defraud the Government) on which she had been indicted. The second resident was sentenced to 4 months home confinement, 3 years probation, and \$46,500 restitution to SBA; he previously pled guilty to one count of making a material false statement. The third resident was sentenced to 4 months home confinement, 1 year probation, and \$107,250 restitution to SBA; he previously pled guilty to one count of making false statements to SBA. The one count of making false statements to SBA on which the fourth resident had been indicted was dismissed. All charges in the indictment (except the one to which the second resident pled guilty; see below) relate to an alleged scheme, devised by the first resident (a licensed real estate agent and business broker) to facilitate a \$326,000 SBA-guaranteed loan to the second resident for his purchase of a forklift sales and repair business in Parma, Ohio, from the third and fourth residents. The scheme to fraudulently provide the second resident with the funds for his required capital injection prior to the loan closing enabled all the defendants to benefit from the completion of the transaction. It essentially provided the second resident with 100 percent financing and resulted in inflation of the contract sales price, thereby

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exposing SBA and the participating lender to additional loss and reduced recovery potential. The benefit to the third and fourth residents was the sale of their business; the benefit to the first resident was her commission. This scheme to defraud SBA and the participating lender was also facilitated by each of the subjects' concealment of the transfer of funds from the third and fourth residents to the second resident, and their supporting false statements to the participating lender and SBA.

The count to which the second resident pled guilty charged him with certifying in the loan application he submitted to SBA and the participating lender that he had no criminal history. The investigation revealed that he had been arrested and charged with various crimes; these charges resulted in four convictions prior to his loan application, including one felony conviction for first-degree burglary. OIG initiated this investigation based on a referral from SBA's Cleveland District Office.

- The owner of a defunct Bronx, New York, photo studio was sentenced to 2 years in prison, 3 years on supervised release, and \$250,000 in restitution to SBA. A trial jury previously found him guilty of one count of making material false statements to obtain an SBA-guaranteed loan. The businessman had falsely stated in an application for a \$260,000 SBA-guaranteed loan that he was a U.S. citizen and that he did not have any prior criminal convictions. In fact, he was a resident alien facing deportation proceedings, had been convicted of alien smuggling, and was a Federal fugitive wanted by the U.S. Marshals Service on a parole warrant issued in 1989. SBA eventually charged off the \$249,166 outstanding loan balance. This investigation was initiated based on information provided by the U.S. Marshals Service.
- The president of a pet store in Stow, Ohio, was indicted on one count of bank fraud and one count of making false statements to SBA in connection with his \$100,000 LowDoc loan. During the application process, the president allegedly concealed approximately \$200,000 in debt and information regarding his criminal history. Prior to applying for the SBA loan, the president had been arrested on multiple offenses and charged with various crimes. One of these charges resulted in a felony conviction for carrying a concealed weapon. OIG initiated this investigation based on a referral from SBA's Cleveland District Office.

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 loan schemes that have resulted in financial losses to SBA and, ultimately, the taxpayers.

OIG Activities

During this reporting period, OIG investigations of this type of fraud resulted in two indictments, two convictions, and almost \$388,300 in restitution.

The following cases illustrate OIG investigations of fraud involving business loan agents.

Nineteen individuals indicted in an investigation of a Texas loan packager.

- The number of individuals indicted in an investigation centered on a Dallas, Texas, loan packager has risen to 19. Among the latest results, the packager pled guilty to one count of conspiracy and one count of making material false statements. The guilty pleas involved loan packages she prepared for two gas stations. The loans were for \$200,000 and \$355,000. Specifically, she conspired with others to provide false documents including Federal tax returns, tax return verifications, and capital injections. Overall, she prepared 39 SBA loan packages with a total loan value of over \$14.5 million. These loan packages contained 164 fraudulent tax returns, 49 fraudulent tax return verifications, false oil company and commercial leases, over \$1.75 million in bogus capital injections, and false inventory purchases. She also paid two Internal Revenue Service (IRS) employees to prepare the false tax return verifications to match the false tax returns she prepared. As part of her plea agreement, she agreed to cooperate fully in the prosecution of all additional subjects associated with the \$14.5 million in SBA-guaranteed loans.

Also, the owner of an auto service center in Irving, Texas, was found guilty on one count of conspiracy and five counts of making material false statements to induce a non-bank participating lender and SBA to fund a \$156,000 SBA-guaranteed loan. The owner and two of her associates were previously indicted for allegedly submitting 3 years of falsified tax returns and IRS tax return verifications, along with fraudulent documentation of their required capital injections and equipment purchases. Proceeds of the loan were used for personal expenditures not related to the business.

Finally, two men associated with a Dallas, Texas, restaurant were indicted on one count of conspiracy and nine counts of making material false statements to induce a non-bank lender and SBA to fund a \$258,000 SBA-guaranteed loan. The restaurant's proprietor and its seller allegedly submitted six falsified copies of tax returns, three fraudulent tax return verifications, and numerous other fraudulent documents in support of the loan application and a \$62,500 capital injection into the business.

- The principal owner of an Inglewood, California, loan brokerage firm was sentenced to 1 month in jail, 5 months home detention, 5 years

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probation, and \$388,300 restitution to SBA. He previously pled guilty to four counts of making false statements to a federally-insured financial institution and one count of subscribing to a false statement on a tax return. In the plea agreement, he admitted his role in the submission of four SBA-guaranteed loan applications containing altered tax returns. The loans totaled \$2.46 million, and losses to SBA and the participating lender bank exceeded \$2.3 million. He also admitted failing to report the company's gross receipts for 1991 and 1992, resulting in a total tax loss of approximately \$520,000. The company may have brokered as many as 160 SBA-guaranteed loans having an aggregate value of some \$60 million. OIG's examination of loan files disclosed evidence of such fraudulent activities as false personal financial statements, false tax returns, and manipulation of documents to falsely show that the borrowers made substantial initial cash injections. The investigation to date has resulted in the convictions of 15 borrowers for whom the company brokered loans; 2 loan brokers, including the above-described defendant; 1 tax preparer; and 1 bank official.

Fraud Involving False Tax Returns

OIG's investigation of fraud involving tax returns has generated court-ordered restitution of \$197,027 in the past 6 months.

Over the last 11 years, OIG has received more than 500 allegations that false tax returns were submitted in support of SBA applications (nearly 99 percent for business or disaster loans). These fraud referrals involved loan applications totaling approximately \$130 million that were submitted to 58 SBA offices. To date, 169 individuals have been indicted on criminal charges, 149 have been adjudicated guilty, 7 indictments were dismissed, 1 defendant was acquitted, and 12 others have not yet gone to trial. 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, investigations of this type of fraud generated court-ordered restitution of \$197,027.

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

- The president of a defunct dry cleaning business in Kansas City, Missouri, was sentenced to serve 18 months in prison and 5 years on probation and to pay \$197,027 in restitution, more than 57 percent of which was in connection with his SBA-guaranteed loan. He previously pled guilty to making false statements to a federally-insured bank in order to receive a \$98,235 SBA-guaranteed loan in 1998, on which he immediately defaulted. In the loan application package, he provided a false tax return for the business and falsely claimed that he had no criminal history. A suspicious activity report filed by the bank resulted in an investigation that determined that he also made false statements,

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used false Social Security numbers, and provided false tax returns to obtain five personal loans. He defaulted on all six of these loans.

- The president of a Glen Burnie, Maryland, real estate company was sentenced to serve 1 year and 1 day incarceration and 3 years on supervised release, and to pay a \$250 special assessment. The judge did not impose a fine or order restitution because the defendant has an approximately \$4 million outstanding debt to the IRS. He previously was found guilty of three counts of making material false statements and two counts of mail fraud in connection with a \$260,000 SBA-guaranteed loan. OIG's investigation established that on his SBA loan application and related documents, he listed the name, date of birth, and Social Security number (SSN) of his son, in lieu of his own. The defendant also submitted altered "copies" of income tax returns wherein he replaced his name and SSN with his son's. He used the fraudulent documents to obtain the loan from a non-bank participating lender to buy two parcels of commercial real estate. He also failed to disclose that he owed approximately \$3 million to IRS and others at the time he applied for the loan.

Other Types of Fraud

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

- Three Arizona men were indicted in connection with a \$1 million SBA-guaranteed loan to buy two fast-food restaurants. The president and secretary-treasurer of the borrowing company were each charged with aiding and abetting on five counts of mail fraud, one count of wire fraud, and four counts of making a false statement. The third man was charged with aiding and abetting on four counts of mail fraud, one count of wire fraud, and three counts of making a false statement. The third man allegedly assisted in creating a fraudulent promissory note for a bogus \$400,000 loan from him to the two borrowers to give the impression that the borrowers had greater debts that would require a larger loan. Prior to the loan closing, additional fraudulent documentation was created to show that the note had been paid down to approximately \$206,000 and that the remaining debt could be paid with \$150,000 in SBA-guaranteed loan proceeds and approximately \$56,000 in personal funds. The third man never received the \$56,000. However, at the loan closing, a \$150,000 check was issued from the SBA-guaranteed loan proceeds as his payoff of the fraudulent note. He in turn endorsed that check to one of the men and never received any benefit for his role in the fraudulent note. The men allegedly used the \$150,000 for their personal and business benefit. This investigation was based on a referral from OIG's Auditing Division.

OIG Activities

Construction company owner sentenced for conspiracy to commit money laundering in connection with an SBA-guaranteed loan.

- The owner of a now-defunct St. Croix, Virgin Islands, construction company was sentenced to 18 months incarceration, 3 years supervised release, and \$420,000 restitution to SBA. He previously pled guilty to one count of conspiracy to commit money laundering in connection with an SBA-guaranteed loan. In 1998, he and his now-deceased co-owner had been indicted on charges of conspiracy, bank fraud, making material false statements, and money laundering. The indictment charged that in applying for an SBA-guaranteed loan the two men had submitted a fraudulent business proposal and other documents listing \$420,000 worth of machinery to be purchased with the loan funds. The actual cost of the machinery was only \$120,000. The co-owners spent most of the loan funds on unauthorized expenses. The company failed, causing a loss of more than \$400,000 on the loan. SBA's Puerto Rico and Virgin Islands District Office referred this for investigation.
- A Virginia Beach, Virginia, chiropractor pled guilty to a one-count information charging him with making a false statement under oath in bankruptcy. He had submitted false equipment invoices and a false building lease in support of his application for a 1996 SBA-guaranteed loan of \$337,000 to purchase equipment. Upon receiving the two-payee disbursement checks for the loan, he forged the endorsement of the equipment company and deposited the checks into his personal account. He subsequently defaulted on the \$136,617 balance of the loan. His scheme was revealed when he filed for bankruptcy in 1999. The investigation was based on a referral from the U.S. Bankruptcy Trustee in Norfolk, Virginia.

The following cases illustrate OIG investigations involving fraud in connection with business loan default.

- A former president of a meat distribution business in Cumming, Iowa, was charged in a six-count superceding indictment. The two original counts, in connection with a \$1.4 million SBA-guaranteed loan he received to purchase the business, were concealing a material fact from SBA and bank fraud. These counts alleged that he wrote an insufficient-funds check and perpetrated a "check kite" to make it appear he had made a required \$300,000 equity injection, and converted vehicles pledged to the lender on this same loan. The superceding indictment added four additional counts that: (1) alleged he transported monetary instruments of more than \$10,000 outside the U.S. without filing a Report of International Transportation of Currency; (2) alleged he embezzled \$483,486 from the retirement plan of another meat distribution business he owned; (3) alleged he laundered the money he embezzled from that retirement plan; and (4) called for him to forfeit to the U.S. the money he allegedly obtained feloniously. The businessman

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defaulted on his loan, leaving an unpaid balance of more than \$1.25 million. OIG initiated this investigation based on a referral from SBA's Des Moines District Office.

- The president of a brake parts company in Tyler, Texas, and his wife were first indicted on 13 counts of bankruptcy fraud, 1 count of money laundering, and 1 count of conspiracy. Subsequently, a superseding indictment was filed which added four more counts of bankruptcy fraud, two counts of making false statements, one more count of conspiracy, and one more count of money laundering. The president allegedly created fraudulent invoices showing inventory of the business as being sold when, in fact, the merchandise was still in his possession. He then went on to file for both personal and corporate bankruptcy while allegedly using the company's inventory to start a second company. Both defendants allegedly executed their scheme by "check-kiting" assets through numerous accounts. The SBA loans obtained by them totaled \$500,000. OIG initiated this investigation based on a referral from SBA's Dallas/Fort Worth District Office.

Disaster Loan Program

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

- A Reno, Nevada, man pled guilty to one count of making material false statements to SBA. As part of the plea agreement, the Government agreed to dismiss the one count of mail fraud on which he had also been indicted. The defendant obtained a \$213,600 disaster home loan following floods in Washoe County, Nevada, in December 1996, and January 1997. His original disaster loan application had been declined because SBA was unable to verify his income tax return and could not determine his repayment ability. He requested reconsideration of his loan application and submitted new information regarding additional employment income. He claimed he was employed at a Reno restaurant for 10 months in 1996 and earned \$60,000; however, the investigation disclosed he was employed at the business for 3 months and earned only \$2,060. Based on his lies, SBA sent loan proceeds to a title company in Reno for his benefit.
- A Grand Isle, Louisiana, seafood company was sentenced to 5 years probation and a \$4,500 fine. The corporation pled guilty through its president to making false statements to influence SBA to disburse a \$325,600 disaster loan for the business. The seafood company admitted to submitting documents that failed to disclose that the corporation and its president had been indicted for, and subsequently pled guilty to, violations of the Lacey Act. OIG initiated its investigation based on an

Nevada man pleads guilty to one count of making material false statements in applying for an SBA disaster home loan.

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anonymous Fraud Line complaint and, as a result of the investigation, SBA canceled the \$145,600 undisbursed balance of the approved loan and recovered \$161,798 from the seafood company.

- An Albuquerque, New Mexico, woman was charged in a superseding indictment with an additional four counts of wire fraud, one count of mail fraud, and one count of impersonation of a Federal employee to fraudulently influence SBA to fund a \$40,000 disaster home loan. She had been indicted in January 2001 on three counts of mail fraud, one count of wire fraud, one count of filing false claims, one count of impersonation of a Federal employee, one count of making material false statements, and one count of false representation of an SSN. The defendant, using the name and SSN of a deceased acquaintance, applied for disaster assistance from SBA and the Federal Emergency Management Agency. She submitted numerous false documents in support of her damage claim; she also attempted to obtain information about her claim and investigation by posing as a representative of the U.S. Attorney's Office. The investigation determined that neither the defendant nor her deceased acquaintance ever resided at the address claimed in the disaster assistance application.
- A Paradise Valley, Arizona, couple has been adjudicated guilty of mail fraud. First, the wife pled guilty to all four counts on which she was previously indicted. Then, the husband was convicted on one of the four counts on which he was previously indicted. The couple had obtained a \$231,300 disaster home loan after the 1994 Northridge, California, earthquake. OIG's investigation revealed that the couple had submitted a series of false invoices to SBA indicating that various contractors had done work when in fact they had not. The couple also received two loan payment deferments from SBA. Both times they claimed they had no money or assets. The investigation later revealed that the couple owned five properties in the Phoenix, Arizona, area that were not disclosed to SBA. OIG initiated the case based on a referral from SBA's Santa Ana Loan Servicing and Liquidation Center.

Small Business Investment Companies

The following narratives illustrate OIG investigations of fraud by principals of SBICs.

- The president of a New York City SBIC was indicted on one count of misapplication of SBIC funds and four counts of embezzlement of SBIC assets. The indictment charged that he: (1) improperly negotiated for his personal use \$84,400 in checks drawn on the SBIC's bank account; (2) caused the illegal transfer of a Bedford, New York, parcel of real estate valued at \$363,613 from the SBIC without consideration to a

OIG Activities

second company that he solely owned; (3) caused the illegal transfer of a Dobbs Ferry, New York, property valued at \$361,296 from the SBIC without consideration to yet another company that he owned; (4) improperly caused \$33,869 in loan payments from a Westbury, New York, borrower to be diverted from the SBIC to the solely owned company and later converted to his own use; and (5) illegally caused \$119,096 in loan payments from a Raritan, New Jersey, borrower to be diverted to the solely owned company and converted to his own use. These and other actions of the defendant allegedly caused a loss to SBA of over \$1 million and forced SBA to liquidate the SBIC in December 1992. The executive subsequently pled guilty to one count of embezzlement of SBIC assets (count 3). As part of the plea agreement, the Government agreed to dismiss the other four counts on which he had been indicted. OIG based this investigation on a referral from SBA's Office of General Counsel (OGC).

- The president of a now-defunct SBIC in New York, New York, was sentenced to 5 years supervised release (the first 8 months to be served as home confinement) and \$3,000 restitution to SBA. He previously pled guilty to one count of embezzling funds belonging to the SBIC. From October 1987, through November 1994, he had caused the SBIC to overpay, to the advantage of two private companies affiliated with him, approximately \$71,176 more than its rightful rent obligations at the site they jointly occupied. These actions significantly contributed to SBA's loss, which exceeded \$2.2 million. This investigation originated from a referral from SBA's OGC.

Surety Guarantees

Surety Company Audit

Audit finds that a surety company did not always comply with SBA regulations for underwriting and servicing bonds and processing claims.

OIG issued an audit report of a surety company and found that the surety correctly calculated and timely remitted fees to SBA. However, the audit found that the surety did not always comply with SBA regulations for underwriting and servicing bonds and processing claims. More specifically, the company did not: (1) maintain copies of invoices or other proof of claim to support claim payments for two bonds; (2) request and maintain status reports for one bond; and (3) notify SBA in a timely manner of the principal's default for one bond. As a result, OIG recommended that the Associate Administrator for Office of Surety Guarantees (AA/OSG) take appropriate actions to recover \$49,916.51 from the surety and advise the surety to implement policies and procedures to correct the deficiencies and ensure that it complies with SBA's requirements. The AA/OSG agreed with all of the recommendations.

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The following case illustrates OIG investigations of fraud by an applicant to the Surety Guarantee program.

- The president of a Birmingham, Alabama, construction company was indicted on one count of making a material false statement and two counts of making false statements to fraudulently influence SBA to guarantee five surety bonds totaling more than \$1.17 million. He allegedly denied having a criminal history on the SBA application. The investigation documented that he had been charged with, arrested for, and/or convicted of at least 29 criminal offenses. The construction company president also allegedly submitted a financial statement indicating ownership of two pieces of real estate with a total value of \$450,000. Not only did he not own these properties; their combined actual value was less than \$50,000. His company failed to complete any of the bonded contracts, and an SBA preferred surety insurance company paid \$324,170 on these bonds. This investigation was based on the findings of a surety bond audit by OIG's Auditing Division.

Entrepreneurial Development Programs

Women's Business Center

OIG issued an audit report on a women's business center in Vermont. SBA partially funds the center through a 5-year cooperative agreement with a Vermont college. The audit covered the first year and a half of the center's operations and focused on the financial aspects of the cooperative agreement. The audit identified issues related to: (1) inadequate financial management of the award; (2) insufficient cash match; (3) unallowable expenditures and in-kind contributions; and (4) inaccurate and inconsistent financial information submitted to SBA. As a result, OIG recommended that the college remit \$36,185 to SBA. The Associate Administrator for Office of Women's Business Ownership and the Acting Assistant Administrator for Administration ((A)AA/A) agreed with the findings and recommendations.

Government Contracting and Business Development Program

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

- The president of a Raleigh, North Carolina, general contracting business was indicted on seven counts of aiding and abetting mail fraud and two

OIG Activities

counts of aiding and abetting wire fraud. His business was indicted on the same charges. Both were charged with submitting falsely certified payment requests under various Section 8(a) contracts from the Army, Navy, Postal Service, and Department of Veterans Affairs. To induce disbursements of contract funds, allegedly the falsely certified requests stated that all subcontractors and vendors had been paid. Allegedly, through the fraudulent statements, the defendants diverted over \$900,000 that was due subcontractors and suppliers. The Government lost an additional \$700,000 by having to re-procure the completion of several contracts left incomplete by the business, which SBA terminated from the Section 8(a) program in 1997. OIG initiated this investigation based on a referral from the Army's Criminal Investigation Command.

- A defunct Philadelphia, Pennsylvania, Section 8(a) construction company and its president and vice president were sentenced for their roles in a fraud scheme. The vice president was sentenced to 33 months incarceration, 2 years supervised release, and a \$1,300 court fee. The president was sentenced to 1 year and 1 day incarceration, 3 years supervised release, and a \$1,500 court fee. The corporation was sentenced to 5 years probation and a \$5,600 court fee. The three defendants were also sentenced to pay over \$1.98 million restitution to the victims (subcontractors), for which they are liable jointly and severally. The president previously pled guilty to 15 felony counts in connection with alleged schemes to defraud SBA, the Department of the Navy, and the Department of Agriculture: 1 count of conspiracy to defraud the Government; 12 counts of false claims; 1 count of major fraud against the United States; and 1 count of making a material false statement. The false statement count related to his representing his assets at \$40,000 to SBA on the same day that he represented his assets at over \$1.6 million to a bonding company. The vice president was previously convicted of one count of conspiracy to defraud the Government, nine counts of false claims, two counts of making material false statements, and one count of major fraud against the United States. The two false statement counts relate to the vice president denying in the Section 8(a) application that he had a criminal history; in fact he had been arrested seven times and convicted three times. The other counts related to falsely reported payments to subcontractors and falsely submitted progress payment certifications. The company previously pled guilty to 1 count of conspiracy to defraud the Government, 12 counts of false claims, and 1 count of major fraud against the United States.
- A Poplar Bluff, Missouri, construction company and its president were indicted in connection with the Section 8(a) program. The indictment charged the president and his corporation with four counts of major fraud against the United States; it also charged the president with two counts of obtaining illegal kickbacks, three counts of mail fraud, and

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three counts of making material false statements. The investigation showed that the president used intimidation or threats against two employees of his company in order to obtain part of their compensation during a Government construction project. Further, he allegedly used the U.S. mail to obtain money from various insurance companies by false pretenses. Finally, he allegedly submitted false statements and fraudulent documents to SBA in a scheme to obtain Section 8(a) status and resulting contracts, falsely claiming to be Cherokee Indian and to have suffered consequent economic disadvantage. His Section 8(a) application also allegedly concealed his criminal record for assault. The indictment charged that the company was awarded contracts in excess of \$1 million with the Army Corps of Engineers, the Department of Defense, and the Department of Transportation because of its president's fraudulent representations.

Proposed Rule to Establish the Women-Owned Small Business Federal Contract Assistance Program

OIG recommends that the Agency should develop a more realistic definition of economic disadvantage.

OIG reviewed a proposed regulation that would establish new regulations implementing the Women-Owned Small Business Federal Contract Program authorized under Section 811 of the Small Business Reauthorization Act of 2000, Pub. L. 106-554. At the time the reporting period ended, OIG did not support the proposed regulation as we disagreed with its definition of economic disadvantage. This definition is modeled after that used in the regulations for the Section 8(a)BD program, which we believe to be flawed. We have cited SBA's use of this flawed definition for the past 2 years as a Top 10 Management Challenge facing the Agency, and we do not believe that this definition should be expanded to other Agency programs until a more realistic standard is developed and adopted. Our concerns are that the current standard does not appear to be based upon any empirical data, and may allow individuals into these programs who are not economically disadvantaged. OIG and the Office of GC/BD continue to negotiate this issue.

Agency Management

Paper Report Production

OIG issued an audit report entitled Paper Report Production. The audit revealed that the Agency's production of hard copy reports could be reduced. The Office of the Chief Information Officer's (OCIO) print facility uses at least 500,000 sheets of paper to print a variety of different reports. Many of the report recipients interviewed by OIG indicated that they use little, if any, of the information contained in the reports, while others stated they would prefer to receive reports in an electronic format.

OIG Activities

OIG recommended that OCIO coordinate with program offices and the Office of Administration to identify which reports can be discontinued or provided electronically, and to periodically review paper report production to eliminate unneeded printing. OCIO agreed with the recommendations.

Hired Car Service and Home-to-Work/Work-to-Home Transportation

In response to a congressional request, OIG completed a review of SBA's use of hired car services and home-to-work/work-to-home transportation provided to senior SBA officials. OIG reviewed this activity from FY 1998 through January 19, 2001, the timeframe in which the former Administrator and Deputy Administrator utilized the services. OIG identified areas where SBA's Office of Administrative Services (OAS) could improve its management over hired car service(s) and Government vehicles. OAS lacked adequate controls to ensure that SBA was paying the appropriate amount for hired car services and that Government vehicles were used only for official Government business. Also, OAS permitted non-Government employees to operate Government vehicles, which increased the liability to the Federal Government, and it did not enter into a contract for hired car services although the annual cost exceeded the amount whereby contracts are required. The (A)AA/A generally agreed with the findings and will take corrective measures.

Audit finds that the Agency could improve its management of car service(s) and Government vehicles.

Review of Sensitive Payments

Based on a request by OIG, Cotton & Company LLP expanded their review of sensitive payments started during SBA's FY 2000 financial statement audit. The review found that: (1) appropriated funds may have been used to pay for one trip for the former Administrator's political travel; (2) SBA paid some costs of personal travel by a former regional administrator; (3) SBA's travel order review process was not always thorough; and (4) SBA offices did not always comply with required procedures over sensitive payments. The report recommends changes in SBA's policies and procedures to help correct these problems. The CFO, (A)AA/A, and Acting General Counsel generally agreed with the 11 recommendations in the audit report and discussed actions taken and planned to correct the deficiencies.

Proposed Legislation: H.R. 2547, Erroneous Payments Recovery Act of 2001

OIG reviewed H.R. 2547, the "Erroneous Payments Recovery Act of 2001," which would require certain executive agencies to implement and carry out a cost-effective program for identifying any errors made in paying

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contractors and for recovering any amounts erroneously paid to contractors. OIG supported the proposed legislation, but recommended the addition of language requiring Government officials performing recovery reviews to immediately report to their agency's IG any indication of fraud or other criminal activity that is discovered during their reviews.

Review of SBA's Plan for Hiring Persons with Disabilities

OIG reviewed SBA's plan for hiring persons with disabilities, which supports President Bush's "New Freedom Initiative." OIG was supportive of the plan that calls for SBA to actively recruit, hire, and train persons with disabilities and to develop strategies to ensure that reasonable accommodation needs are met. However, the proposed plan uses a list of disabilities that has not been updated since August 1987, as its definition of "persons with disabilities." Under this definition, a person who self-certifies that he/she has a disability that is not among those on the list is not considered a person with a disability even if he/she is currently receiving Federal or State disability benefits. Since the purpose of the President's initiative is to tear down barriers for all who are disabled, OIG recommended adopting a broader definition of a "person with a disability" to ensure that all who are limited in one or more major life activities are provided with an opportunity to work to their full potential.

Office of Inspector General

Ten Most Significant Performance Measures and Underlying Data

OIG submits to Congress an assessment of what we consider to be SBA's 10 most significant performance measures and the data underlying those measures.

At the request of the Chairman of the House Government Reform Committee, on May 11, 2001, OIG submitted an assessment of what we consider to be SBA's 10 most significant performance measures and the data underlying those measures. For the request, OIG used the measures in SBA's FY 2002 Performance Plan because they improve substantially on the measures in the FY 2000 Performance Report. Our assessment was based primarily on five OIG audits and two inspections that reviewed GPRA implementation, and the validity and reliability of underlying performance data of selected major Agency programs.

In addition to identifying the 10 most significant performance measures for achieving SBA's mission, OIG also indicated: (1) the extent to which the performance measure is a useful indicator of performance; (2) whether the data or information underlying the measure is valid and accurate; and (3) what actions SBA is taking, or plans to take, to resolve measure and data problems.

OIG Activities

OIG believes that, of the 10 measures, 4 are useful in indicating program performance, 4 are somewhat useful, and 2 are not useful. To respond to the FY 2001 management challenge to improve the "managing for results process," SBA is developing specific guidance concerning the preparation of organizational performance goals and indicators. In the audits and inspections relating to the 10 measures identified in this report, OIG found data validity and accuracy problems that SBA has also agreed to address.

Officewide Training Conference

OIG held an officewide training conference in May 2001. All OIG employees attended and took part in various division-specific training sessions and seminars. The conference proved to be an excellent opportunity for OIG to better define its mission and goals, and to further improve its workforce and resources.

OIG Fraud Awareness Briefings

OIG conducted several briefings for SBA's 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 illustrates) over 57 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. However, we have recognized the shift in SBA's role from primarily reviewing and processing loans to increasingly providing oversight of lending practices; accordingly, we have changed our briefing strategy. Much of our past success resulted from referrals from conscientious SBA employees; our continued successes will depend more on lender referrals. OIG has therefore expanded its integrity-awareness briefing program to include participating lenders and other interested parties. During this reporting period we conducted the following briefings:

- Presentations to 410 attendees at lenders training sessions in San Diego, San Francisco, and Santa Ana, California, and Puerto Rico;
- A presentation to 34 attendees at a disaster-fraud awareness meeting for State and local law enforcement officers in Oakland, California;
- A presentation about SBA to 4 professional staff of the Nuclear Regulatory Commission's OIG; and
- An integrity awareness briefing to 35 SBA employees in Chicago.

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Office of Security Operations

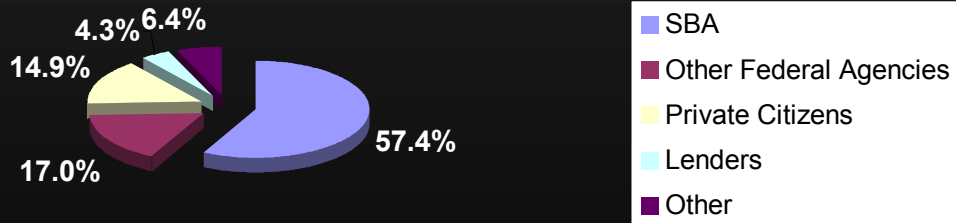
OIG continues to make referrals that result in SBA declining loans in both the business loan and disaster loan programs. OIG also continues to perform background checks and security clearances for Agency employees.

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) helps 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 52 applications and disaster loan program officials declining 5 applications, totaling \$18,033,330 and \$92,000 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, four applications for certification and one application for guaranty. Almost \$208 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 26 background investigations and issued 9 security clearances. OSO also reviewed and adjudicated 77 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 31 derogatory background investigative reports forwarded for review and appropriate action.

OIG Activities

Sources of Referrals in OIG Investigations from April 1, 2001, to September 30, 2001



Direct Audit Time by Program Area April 1, 2001, to September 30, 2001

Program Area	Direct Time %	Number of Audits	
		Issued	In Progress
Capital Access	46%	3	6
Disaster Assistance	10%	0	3
Government Contracting and Business Development	1%	0	0
Agency Management	41%	6	5
Entrepreneurial Development	2%	1	1
Total	100%	10	15

OIG Activities

Direct Investigation Time by Program Area April 1, 2001, to September 30, 2001

Program Area	Direct Time %	Number of Investigations*	
		Closed**	In Progress
Capital Access	67%	27	229
Disaster Assistance	13%	8	108
Government Contracting and Business Development	7%	6	37
Agency Management	13%	7	29
Entrepreneurial Development	***	0	2
Total	100%	48	405

* Includes civil cases

** Includes cases canceled

*** Less than ½ percent

Statistical Highlights

FY 2001 6-Month Productivity Statistics April 1, 2001, through September 30, 2001

Office-wide Dollar Accomplishments	Totals
A. Potential Investigative Recoveries and Fines.....	\$3,625,931
B. Loans Not Made as Result of Investigations and Name Checks.....	\$18,182,958
C. Disallowed Costs Agreed to by Management.....	\$250,287
D. Recommendations that Funds Be Put to Better Use Agreed to by Management	<u>\$4,530,161</u>
Total	<u>\$26,589,337</u>

Auditing Division Activities

A. Audit Reports Issued.....	10
B. Audit Recommendations Issued.....	85
C. Dollar Value of Costs Questioned.....	\$88,431
D. Dollar Value of Recommendations that Funds Be Put to Better Use	\$0

Audit Follow-up Activities

A. Audit Recommendations Closed.....	42
B. Disallowed Costs Agreed to by Management.....	\$250,287
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management	\$4,530,161
D. Unresolved Audit Recommendations	80

Inspection and Evaluation Division Activities

A. Reports Issued.....	1
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Legislation/Regulations/SOPs/Other Reviews

A. Legislation Reviewed	5
B. Regulations Reviewed.....	19
C. Standard Operating Procedures Reviewed.....	8
D. Other Issuances Reviewed*	74

* 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

Investigations Division Activities

A. Total Cases.....	453
B. Closed Cases	48
C. Pending Cases	13
D. Open Cases	392
E. Subjects Under Investigation.....	1,839
F. Cases Referred to FBI or Other Agencies for Investigation.....	8

Summary of Indictments and Convictions

A. Indictments from OIG Cases	18
B. Convictions from OIG Cases	12

Summary of Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations.....	\$3,625,931
B. Loans Not Approved as a Result of OIG Investigations.....	\$57,628
C. Loans Not Approved as a Result of the Name Check Program	<u>\$18,125,330</u>
Total:	<u>\$21,808,889</u>

SBA Personnel Actions Taken as a Result of Investigations

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

Program Actions Taken as a Result of Investigations

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

Summary of OIG Fraud Line Operation

A. Total Fraud Line Calls/Letters.....	799
B. Total Calls/Letters Referred to Investigations Division for Evaluation.....	12
C. Total Calls/Letters Referred to Program Offices or Other Federal Investigative Agencies.....	91
D. Total Other Calls/Letters	696

Statistical Highlights

FY 2001 Full Year Productivity Statistics October 1, 2000, through September 30, 2001

Office-wide Dollar Accomplishments	Totals
A. Potential Investigative Recoveries and Fines	\$11,630,313
B. Loans Not Made as Result of Investigations and Name Checks	\$25,716,960
C. Disallowed Costs Agreed to by Management.....	\$3,622,085
D. Recommendations that Funds Be Put to Better Use Agreed to by Management	<u>\$5,984,419</u>
Total	<u>\$46,953,777</u>
Auditing Division Activities	
A. Audit Reports Issued.....	27
B. Audit Recommendations Issued	146
C. Dollar Value of Costs Questioned	\$520,673
D. Dollar Value of Recommendations that Funds Be Put to Better Use	\$11,061,994
Audit Follow-up Activities	
A. Audit Recommendations Closed	124
B. Disallowed Costs Agreed to by Management.....	\$3,622,085
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management	\$5,984,419
D. Unresolved Audit Recommendations	80
Inspection and Evaluation Division Activities	
A. Reports Issued.....	3
Legislation/Regulations/SOPs/Other Reviews	
A. Legislation Reviewed	6
B. Regulations Reviewed	41
C. Standard Operating Procedures Reviewed.....	15
D. Other Issuances Reviewed*	159

* 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

Investigations Division Activities

A. Total Cases	478
B. Closed Cases	73
C. Pending Cases	13
D. Open Cases	392
E. Subjects Under Investigation	1,921
F. Cases Referred to FBI or Other Agencies for Investigation.....	25

Summary of Indictments and Convictions

A. Indictments from OIG Cases	50
B. Convictions from OIG Cases	41*

Summary of Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations	\$11,630,313
B. Loans Not Approved as a Result of OIG Investigations.....	\$115,347
C. Loans Not Approved as a Result of the Name Check Program	<u>\$25,601,613</u>
Total:	<u>\$37,347,273</u>

SBA Personnel Actions Taken as a Result of Investigations

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

Program Actions Taken as a Result of Investigations

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

Summary of OIG Fraud Line Operation

A. Total Fraud Line Calls/Letters.....	1,358
B. Total Calls/Letters Referred to Investigations Division for Evaluation.....	21
C. Total Calls/Letters Referred to Program Offices or Other Federal Investigative Agencies	189
D. Total Other Calls/Letters	1,148

* The first 6-month statistic and the second 6-month statistic do not equal the full year statistic because one case was not recorded before the release of the Spring 2001 SAR.

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	22, 24
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	4-28
Section 5(a)(2)	Recommendations with Respect to Significant Problems, Abuses, And Deficiencies	4-28
Section 5(a)(3)	Prior Significant Recommendations Not Yet Implemented	38
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	39-43
Section 5(a)(5) And 6(b)(2)	Summary of Instances Where Information Was Refused	None
Section 5(a)(6)	Listing of Audit Reports	35
Section 5(a)(7)	Summary of Significant Audits	4-24
Section 5(a)(8)	Audit Reports with Questioned Costs	36
Section 5(a)(9)	Audit Reports with Recommendations that Funds Be Put to Better Use	36
Section 5(a)(10)	Summary of Reports Where No Management Decision Was Made	37
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 Reports Issued
April 1, 2001, to September 30, 2001

TITLE	NUMBER	ISSUE DATE	QUESTIONED COSTS	FUNDS FOR BETTER USE
Capital Access				
SBA Follow Up on SBLC Examinations	1-16	8/17/01		
Farmington Casualty	1-18	9/21/01	\$49,917	
PLP Oversight Process	1-19	9/27/01		
Program sub-total	3 reports		\$49,917	\$0
Entrepreneurial Development				
Women's Business Center	1-17	9/19/01	\$36,185	
Program sub-total	1 report		\$36,185	\$0
Agency Management				
Paper Report Production	1-14	8/3/01		
FY 2000 Management Letter	1-15	8/15/01		
Government Cars and Hired Cars	A1-05	9/27/01	\$2,329	
Unix Operating Systems	1-21	9/28/01		
Sensitive Payments	1-20	9/28/01		
SBA Computer Security Program	A1-06	9/28/01		
Program sub-total	6 reports		\$0	\$0
TOTALS (all programs)	10 reports		\$88,431	\$0

APPENDIX II - Part A
Audit Reports with Questioned Costs
April 1, 2001, to September 30, 2001

		REPORTS	RECs*	COSTS**	
				QUESTIONED	UNSUPPORTED
A.	For which no management decision had been made by March 31, 2001	2	4	\$735,822	\$0
B.	Which were issued during the period	3	4	\$88,431	\$0
	Subtotals (A + B)	5	8	\$824,253	\$0
C.	For which a management decision was made during the reporting period	1	3	\$250,771	\$0
	(i) Disallowed costs	1	2	\$250,287	\$0
	(ii) Costs not disallowed	1	1	\$484	\$0
D.	For which no management decision had been made by September 30, 2001	4	5	\$573,4482	\$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, 2001, to September 30, 2001

		REPORTS	RECs*	RECOMMENDED FUNDS FOR BETTER USE
A.	For which no management decision had been made by March 31, 2001	3	3	\$11,061,994
B.	Which were issued during the period	0	0	\$0
	Subtotals (A + B)	3	3	\$11,061,994
C.	For which a management decision was made during the reporting period	3	3	\$11,061,994
	(i) Recommendations agreed to by SBA management	3	3	\$4,530,161
	(ii) Recommendations not agreed to by SBA management	1	1	\$6,531,803
D.	For which no management decision had been made by September 30, 2001	0	0	\$0

* Recommendations

APPENDIX II - Part C
Audits Reports with Non-Monetary Recommendations
April 1, 2001, to September 30, 2001

		REPORTS	RECOMMENDATIONS
A.	For which no management decision had been made by March 31, 2001	10	30
B.	Which were issued during the period	10	81
	Subtotals (A + B)	20	111
C.	For which a management decision was made (for at least one recommendation in the report) during the reporting period	12	36
D.	For which no management decision (for at least one recommendation in the report) had been made by September 30, 2001	9	75

APPENDIX II – Part D
Issued Audit Reports with Overdue Management Decisions
September 30, 2001

TITLE	NUMBER	ISSUED	STATUS
Dixieland Events/Tamingo Farms	0-05	2/16/00	Recover \$485,051 from the lender

APPENDIX II - Part E
Significant Audit Reports Described in Prior Semiannual Reports
Without Final Action as of September 30, 2001

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target
43H006021	8(a) Continuing Eligibility	9/30/94	10/30/94	11/15/01
53H004006	Loan Servicing and Debt Collection	3/31/95	4/30/95	12/31/01
75H011026	Business Loan Guarantee Purchases	9/30/97	8/15/00	12/31/01
88H002017	NOAA Computer Contracts	6/18/98	3/1/99	11/15/01
9-11	Non-Tax Delinquent Debt	7/28/99	8/13/99	12/31/01
9-15	Disaster Home Loan Servicing Centers	8/3/99	9/20/99	12/31/01
9-23	Survey of Electronic Records Management	9/15/99	11/30/99	11/30/01
0-05	Dixieland Events/Tamingo Farms	2/14/00	*	*
0-11	NADI Manufacturing, Inc.	3/28/00	6/13/00	12/30/01
0-14	7(a) Service Fee Collections	3/30/00	8/22/00	10/31/00
0-15	Systems Development Methodology	3/30/00	9/29/00	9/30/02
0-19	SDB Business Certification Program	6/30/00	3/30/01	3/31/02
0-25	GPRA – SBIC	9/7/00	***	**
0-26	GPRA – Surety Bond Program	9/26/00	1/30/01	3/31/02
0-28	Rhode Island District Advisory Council	9/29/00	***	**
0-29	MBELDEF Cosponsorship	9/29/00	***	11/15/01
0-30	SBA Administration of MBELDEF	9/30/00	3/26/01	**
0-31	Boscart Construction Inc.	9/30/00	***	**

* At least one recommendation remains open.

** 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...
AL	SBG	Construction executive fraudulently influenced SBA to guarantee five surety bonds totaling \$1.17 million. On SBA application, he denied having criminal history; in fact, he had been charged with, arrested for, and/or convicted of 29 criminal offenses. He also reported ownership of two pieces of real estate with total value of \$450,000. He did not own these properties, and their combined actual value was less than \$50,000. His company failed to complete any of bonded contracts, and SBA preferred surety insurance company paid \$324,170 on these bonds. *	Executive indicted	None
AZ	BL	In connection with \$1 million SBA-guaranteed loan to buy two fast-food restaurants, friend helped create fraudulent promissory note for bogus \$400,000 loan from him to two borrowers to indicate that borrowers had greater debts that would require large loan. Prior to loan closing, additional fraudulent documentation was created to show that note had been paid down to about \$206,000 and that remaining debt could be paid with \$150,000 in SBA-guaranteed loan proceeds and about \$56,000 in personal funds. Friend never received \$56,000 but, at loan closing, \$150,000 check was issued from SBA loan proceeds as his payoff on fraudulent note. He in turn endorsed check to one borrower and never received any benefit for his role in fraudulent note. Men used \$150,000 for personal and business benefit. *	Three men indicted	FBI
CA	DL	Couple obtained \$231,300 disaster home loan following Northridge earthquake by submitting false invoices; received repayment deferments by concealing ownership of real estate properties. *	Wife: Pled guilty Husband: Convicted	None
IA	BL	To obtain \$1.4 million SBA-guaranteed loan to purchase business, former president of meat company wrote insufficient-funds check and perpetrated "check kite" to make it appear that required equity injection was made; concealed undisclosed promissory note to seller; converted vehicles pledged to bank on same loan. Subsequently charged with unreported international transportation of currency, embezzlement of \$483,486, money laundering. *	Superseding indictment of president	FBI, USCS, PWBA
MO	8aBD	President of Section 8(a) construction company used intimidation or threats against two company employees to obtain part of their compensation during Government construction project; used U.S. mail to obtain money from insurance companies by false pretenses; submitted false statements to SBA to obtain Section 8(a) status and resulting contracts, falsely claiming to be Cherokee Indian and to have suffered consequent economic disadvantage. Section 8(a) application also concealed his criminal record for assault. Company received \$1 million in Federal contracts due to president's fraudulent representations. *	President and corporation both charged	FBI, DOL/OIG

State	Program	Alleged Violation(s) Prosecuted	Arrested/ Indicted/ Convicted/	Investigated Jointly With...
NC	8aBD	General contractor and its president charged with submitting falsely certified payment requests under various Section 8(a) contracts from Army, Navy, Postal Service, and Department of Veterans Affairs. To induce disbursements of contract funds, falsely certified requests stated that all subcontractors and vendors had been paid. Through fraudulent statements, defendants diverted over \$900,000 that was due subcontractors and suppliers. Government lost additional \$700,000 by having to re-procure completion of several contracts left incomplete by business, which SBA terminated from Section 8(a) program. *	President and corporation both indicted	Army
NM	DL	Using name and SSN of deceased acquaintance, woman obtained post-disaster assistance, including \$40,000 SBA home loan; submitted numerous false documents; also attempted to obtain information about claim and investigation by posing as representative of U.S. Attorney's Office. Neither she nor deceased acquaintance ever resided at address claimed in disaster-assistance application. Subsequently charged with additional counts of mail fraud, wire fraud, and impersonation. *	Superseding indictment of woman	FEMA/OIG
NV	DL	To obtain \$213,600 disaster home loan, man claimed he was employed 10 months and earned \$60,000; actually, he was employed for 3 months and earned only \$2,060. *	Man pled guilty	State attorney general
NY	SBIC	President of SBIC charged with: improperly negotiating for his personal use \$84,400 in checks drawn on SBIC's bank account; causing illegal transfer of parcel of real estate valued at \$363,613 from SBIC without consideration to second company he solely owned; causing illegal transfer of property valued at \$361,296 from SBIC without consideration to third company he owned; improperly causing \$33,869 in loan payments from borrower to be diverted from SBIC to his solely owned company and later converted to his own use; and illegally causing \$119,096 in loan payments from another borrower to be diverted to his solely owned company and converted to his own use. His actions forced SBA to liquidate SBIC. *	President indicted and pled guilty	None
NY	DL	Caretaker for mentally ill assisted elderly woman including managing her disaster loan application submission when hurricane damaged her home. He was arrested on charge of submitting altered invoices for work purportedly performed on her home; some were actually for work on properties he owned. His alleged false statements led to \$78,300 being loaned to elderly woman. He personally used much of loan proceeds to pay for repairs at his residences and to pay down debts.	Caretaker arrested	FBI
OH	BL	Pet store president obtained \$100,000 LowDoc loan. During application process, he concealed about \$200,000 in debt and information regarding his criminal history. Prior to applying for SBA loan, he had been arrested on multiple offenses, charged with various crimes, and convicted of felony of carrying concealed weapon. *	President indicted	None

State	Program	Alleged Violation(s) Prosecuted	Arrested/ Indicted/ Convicted/	Investigated Jointly With. . .
TX	BL	President of brake parts company created fraudulent invoices showing inventory of business as being sold when, in fact, merchandise was still in his possession. He then filed for both personal and corporate bankruptcy while using company's inventory to start second company. He and his wife executed scheme by "check-kiting" assets through numerous accounts. SBA loans obtained by them totaled \$500,000. *	President and wife both indicted	FBI
TX	BL	To obtain \$258,000 SBA-guaranteed loan (purportedly for purchase of restaurant), buyer and seller submitted six falsified copies of tax returns, three fraudulent tax return verifications, and numerous other fraudulent documents in support of loan application and \$62,500 capital injection. *	Both men indicted	TIGTA
TX	BL	To facilitate \$355,000 and \$200,000 SBA-guaranteed loans for her gas station clients, CPA/SBA-loan packager falsified 15 Federal tax returns, 9 IRS tax verifications, and numerous other documents (including required capital injections into businesses). *	Packager pled guilty	TIGTA
TX	BL	To obtain \$156,000 SBA-guaranteed loan, owner of auto service center submitted 3 years of falsified tax returns and IRS tax return verifications, along with fraudulent documentation of required capital injections and equipment purchases. Loan proceeds were used for personal expenditures. *	Owner convicted	TIGTA
VA	BL	Chiropractor submitted false equipment invoices and false building lease in support of his application for SBA-guaranteed loan of \$337,000 to purchase equipment. Upon receiving two-payee disbursement checks for loan, he forged endorsement of equipment company and deposited checks into his personal account. He subsequently defaulted on \$136,617 loan balance. *	Chiropractor charged and pled guilty	FBI

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

Program codes: BL=business loans, DL=disaster loans, 8aBD=Section 8(a) business development, SBG=surety bond guaranties, SBIC=small business investment companies

Joint-investigation Federal agency acronyms: DOL/OIG=Labor Department OIG; FBI=Federal Bureau of Investigation; FEMA/OIG=Federal Emergency Management Agency OIG; PWBA=Pension & Welfare Benefits Administration; TIGTA=Treasury Department Tax Administration OIG; USCS=Customs Service

APPENDIX IV
Six Month Sentencing Summary

State	Program	Alleged Violation(s) Prosecuted	Confinement Time and Dollar Results (Criminal Restitution/Fines/Etc.)	Investigated Jointly With. . .
CA	BL	SBA-loan broker caused submission of false tax returns in support of \$2.46 million in SBA-guaranteed loan applications and failed to report brokerage's gross receipts for 2 years. *	1 month incarceration, \$388,300 restitution	FBI, IRS
LA	DL	Application for \$325,600 disaster failed to disclose applicants' (seafood company and its president) criminal records. *	Corporation: \$4,500 fine	None
MD	BL	On documents to obtain \$260,000 SBA-guaranteed loan, listed name/date of birth/SSN of son in place of own; also failed to disclose he owed approximately \$3 million to IRS and others.*	1 year + 1 day incarceration	None
MI	BL	Businessman submitted false information to bank to obtain disbursement totaling over \$386,000 on his SBA-guaranteed line of credit loan.	1 day incarceration, \$136,516 restitution	USSS
MO	BL	To receive \$98,235 SBA-guaranteed loan, president of defunct dry cleaners made numerous false statements, including providing false tax return for business; also used false SSNs and false tax returns to obtain five personal loans, resulting in total lender losses of about \$197,000. *	18 months in prison, \$197,027 restitution	USSS, SSA/OIG, PIS
MS	DL	Assistant minister of church that received \$257,600 disaster loan to repair hurricane damage misappropriated \$75,000 of loan proceeds; submitted numerous false invoices to SBA in support of request for loan disbursements.	6 months home confinement, \$20,928 restitution	None
NY	BL	Photo studio owner in applying for \$260,000 SBA-guaranteed loan, lied to conceal that: 1) he had been convicted of alien smuggling and was Federal fugitive; and 2) he was resident alien facing deportation proceedings. *	2 years in prison, \$250,000 restitution	SSA/OIG
NY	SBIC	SBIC president embezzled and misapplied its funds, causing SBIC to overpay, to advantage of two private companies affiliated with him, \$71,176 more than rightful rent obligations at site they jointly occupied; delayed SBA's seizure of control of SBIC and significantly contributed to Agency's loss of more than \$2.2 million. *	8 months home confinement, \$3,000 restitution	FBI
OH	BL	Four individuals formed conspiracy to defraud Government, devised by licensed real estate agent/business broker to facilitate \$325,000 SBA-guaranteed loan for purchase of forklift sales/repair business; fraudulently provided funds for required capital injection prior to loan closing; inflated contract sales price; concealed transfer of funds between defendants. One defendant concealed his substantial criminal history. *	Broker: convicted Buyer: pled guilty, 4 months home confinement, \$46,500 restitution One seller: pled guilty, 4 months home confinement, \$107,250 restitution Other seller: charge dismissed	None

State	Program	Alleged Violation(s) Prosecuted	Confinement Time and Dollar Results (Criminal Restitution/Fines/Etc.)	Investigated Jointly With. . .
PA	8aBD	Construction corporation and president and vice president conspired to improperly obtain 8(a) contracts; VP also denied in SBA 8(a) application that he had criminal history; in fact, he had seven prior arrests and three convictions. President represented his assets at \$40,000 to SBA on same day he represented his assets at over \$1.6 million to bonding company. *	Vice president: 33 months in prison President: 1 year + 1 day incarceration Corporation: \$5,600 fine All three defendants jointly: \$1,987,924 restitution	USDA/OIG, DOL/OIG, Navy, Army, DCIS
VI	BL	To obtain \$432,000 SBA-guaranteed loan, construction executive submitted documents listing \$420,000 as value of machinery to be purchased with loan funds, when actual cost of machinery was only \$120,000. *	18 months in prison, \$420,000 restitution	FBI

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

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

Joint-investigation Federal agency acronyms: DCIS=Defense Criminal Investigative Service; DOL/OIG=Labor Department OIG; FBI=Federal Bureau of Investigation; IRS=Internal Revenue Service; PIS=Postal Inspection Service; SSA/OIG=Social Security Administration OIG; USDA/OIG=Agriculture Department OIG; USSS=Secret Service

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