

# **SEMIANNUAL REPORT OF THE INSPECTOR GENERAL**

## **FOR THE PERIOD**

**October 1, 1995, To March 31, 1996**

### **FOREWORD**

Pursuant to Public Law 95-452, the Office of Inspector General (OIG) is required to prepare a Semiannual Report of its activities for the Congress of the United States. This Semiannual Report, transmitted to the Congress by the Administrator of the Small Business Administration (SBA), covers the full range of OIG activities from October 1, 1995, to March 31, 1996.

Over the reporting period, the OIG closed 56 investigative cases and obtained 36 indictments and 25 convictions. The office also issued 12 audit reports, completed 1 inspection report, and identified \$54 million in potential recoveries and fines, management avoidances due to investigative activities, disallowed costs agreed to by management, and recommendations that funds be put to better use. These OIG accomplishments enabled the Agency to make more funds available to qualified small businessmen and businesswomen who are eligible for SBA financial assistance.

SBA's loan portfolio continues to grow at a remarkable pace and is currently projected to reach \$42 billion by the end of FY 1997. Unless the Congress acts to correct the OIG's current resource deficiencies, its ability to provide sufficient oversight of this growth will continue to be severely constrained. For example, the OIG's current inventory of SBA cases referred to other law enforcement agencies stands at 122 and involves \$22 million in Government funds at risk. The rate of subsequent indictments and convictions in these referred cases is, however, only 10% of the rate achieved in OIG-managed cases. When juxtaposed with the OIG's investigative performance, the efficiency and effectiveness of the referral process clearly pales in comparison.

In short, the OIG is not receiving an optimal measure of deterrence from these referrals, nor is the Government realizing as much revenue, in terms of fines and recoveries, as it could.

Whether the customer is the Congress, the SBA Administrator, Agency program personnel, or the American taxpayer, the OIG is not able to be as responsive as it should be. While the office's

investigative inventory carries 328 active cases, which translates into some 1,298 subjects under investigation and represents about \$355 million of Government funds at risk, large areas of the country are not being covered at all, or inadequately at best, because of the limited numbers of OIG investigative and audit personnel available to the Inspector General. Similarly, the shortage of both audit and inspection personnel in the Nation's capital means that many of the performance audits and inspections being requested by senior program managers must also go unaddressed.

Specifically, what is not being done? Where are the significant gaps in coverage? In my professional judgment, the OIG should be providing the SBA Administrator and the Congress with periodic assessments of how efficiently the Agency's field offices are being managed and how effectively their programs are meeting the needs of the small business communities they serve. Unfortunately, such labor-intensive reviews are not being done. Second, the OIG should be monitoring the SBA's administrative-support functions to ensure the integrity of the Agency's financial activities and the effectiveness of its general support to both its central office and field operations. Again, little or no oversight of the SBA's information systems, procurement and contract management activities, or other critical management functions has been done. The OIG should also be providing at least a modicum of oversight to a number of other SBA programs, i.e., business initiatives, technology, international trade, veterans and Native American affairs, women's business ownership, etc.; however, due to their relatively limited funding exposure, these programs have largely escaped OIG scrutiny. Finally, from an investigative perspective, OIG investigators continue to be concerned about their limited or lack of presence in New England, the Northwest, and the Southwest areas of the country and, like their audit and inspection colleagues, they are troubled by their inability to provide adequate coverage of the full range of SBA programs. Equally important, because of the time expended reacting to events, there is little time left for the investigators to provide a sufficient number of integrity and fraud awareness briefings to either the SBA's employees or its resource partners.

Given its limited resources, the OIG has no alternative but to establish its priorities carefully for those oversight requests it can honor and the types of cases it will pursue. This means that the SBA's business loan and disaster assistance programs, because of their large dollar volume, and its minority enterprise development [8(a)] activities, due to public interest, will continue to receive the lion's share of the OIG's attention. Unfortunately, the balance of the Agency's programs will continue to receive little or no independent oversight from the OIG.

Finally, on a more positive note, cooperation received from SBA's policy officials, senior executives, program managers, and employees during the conduct of OIG audits, inspections, and investigations has been excellent. The OIG's working hypothesis has proven itself once again: the more OIG employees work with program managers to improve the performance of the Agency during these times of downsizing and fiscal constraint, the more quickly the SBA will achieve its goal of becoming an efficient and effective agency in support of the Nation's small business community. Allowing for resource constraints, I trust the results reflected in this Semiannual Report to the Congress offer strong evidence that the OIG is meeting its

responsibilities to the best of its ability.

**James F. Hoobler**  
**Inspector General**

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## Executive Summary

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This report on the activities of the Office of Inspector General (OIG) of the Small Business Administration (SBA) is submitted pursuant to Section 5(b) of P.L. 95-452, the Inspector General Act of 1978, as amended. It summarizes OIG activities for the 6-month period from October 1, 1995, to March 31, 1996.

### Summary of Accomplishments

OIG audits, inspections, and investigations during this 6-month period achieved \$54,326,049 in potential dollar results, 36 indictments, and 25 convictions. The dollar results consist of (1) \$18,425,315 in potential recoveries, including judicially-awarded fines and restitution; (2) \$27,207,418 in management avoidances; (3) \$1,120,894 in disallowed costs agreed to by SBA's management; (4) \$6,472,422 in management commitments to use funds more efficiently; and (5) a one-time settlement of \$1,100,000 based on an OIG quality review of a CPA's report.

As noted in previous Semiannual Reports, the OIG alone could not have achieved the accomplishments set forth in this report to the Congress. The results for this period reflect the cooperation and support of other Federal audit, inspection, and investigative organizations such as the Federal Bureau of Investigation (FBI); U.S. Secret Service; Bureau of Alcohol, Tobacco and Firearms

(BATF); Postal Inspection Service; Internal Revenue Service (IRS); Office of the Comptroller of the Currency; Air Force Office of Special Investigations; Federal Protective Service; other Federal OIGs; Department of Justice (DOJ) prosecutors; and, most importantly, the actions of SBA program managers and employees. Indeed, much of our success is due to referrals made by conscientious Agency employees.

### OIG Mission for FY 1996

For the balance of FY 1996, the OIG will continue to focus its attention on SBA's two largest programs--Business Loans and Disaster Assistance. Their respective growth, as discussed extensively in the text of this report, has been tremendous over the last few years. While the number of dollars at risk in these two programs continues to grow, both the Agency and the OIG face a reduction in resources for management and oversight activities, respectively.

Both the Congress and the Office of Management and Budget (OMB)

demonstrated their concern over the Disaster Assistance program in 1994, when they made \$3 million available to the OIG for the purpose of disaster-related oversight. The OIG subsequently developed a strategy to guide disaster-related oversight activity and to make optimal use of these funds. Increased temporary staffing, located near disaster sites, now provides needed personnel to meet the oversight goals of the OIG's disaster plan. Planning is already underway to devise a strategy for continuing disaster-related oversight when the temporary funding runs out in mid-1997.

The OIG continues to build greater awareness of its mission with SBA employees, the Agency's customers, and its resource partners. The OIG's information dissemination activities have had a significant deterrent effect on fraud, while raising SBA program managers' interest in management improvement. The office continues to pursue this dual goal through attendance at SBA-sponsored events, the development and use of educational presentations, more creative use of key OIG reports and activities, and staff involvement in other initiatives designed to make the OIG more visible within the Agency and its client groups. One such example is the OIG's use of IGNet, an Internet-based forum for the inspector general community. Summaries of audit and inspection reports are being made available to the general public on IGNet, which is coordinated for the inspector general community by the SBA/OIG. These are relatively economical methods of reporting our work and they are having a substantial impact on the accomplishment of our mission and goals. The OIG is also becoming progressively more visible to SBA's resource partners

through the appearance of the Inspector General and other key OIG officials before the National Association of Guaranteed Government Lenders (NAGGL), the Intergovernmental Audit Forum, and other professional and trade organizations.

## **Highlights of the Past Six Months**

### **Efforts to Improve SBA Program Management**

Deputy Inspector General (DIG) Testifies Concerning Loan Packager Problems. The DIG testified before the Subcommittee on Government Programs of the Committee on Small Business of the United States House of Representatives on October 12, 1995. She discussed loan packager problems identified by the OIG and offered recommendations for alleviating certain recurring problems. She also discussed lender service providers and OIG efforts to detect and deter fraud generally in the business loan and disaster assistance loan programs.

#### DIG Testifies Concerning Problems in the Minority Enterprise Development Program.

The DIG also testified before the House Committee on Small Business on December 13, 1995. She identified systemic weaknesses in the Section 8(a) program, offered proposed solutions, and enumerated the steps taken by program managers to address the issues identified.

#### OIG Assists SBA Streamlining Initiative.

The OIG played an active role in the Agency's initiative to update, streamline, and rewrite its regulations in "plain

English.” This effort was a part of the administration’s Government-wide regulation simplification and streamlining effort. In addition to redrafting those portions of the Agency’s regulations that pertain to OIG activities, the OIG reviewed 39 drafts of regulatory revisions at various stages of the process and offered extensive comments. Details of specific recommendations are reported in the program area chapters. The OIG will play an equally active role in the Agency’s planned updating of all its Standard Operating Procedures during the balance of FY 1996.

Review of CPA Firm’s Practices Yields Substantial Monetary Settlement. A certified public accounting (CPA) firm paid SBA \$1.1 million to settle a dispute over the quality of the firm’s audits of a Small Business Investment Company (SBIC) which failed. After an OIG quality review of the responsible CPA’s audit working papers, SBA’s General Counsel and the Department of Justice negotiated the settlement agreement with the CPA firm.

Potential Bank Fraud Case Uncovered by Audit. A Section 7(a) lender agreed to pay SBA \$1.56 million to resolve allegations of fraud in the origination of a guaranteed loan. The issue was identified in an OIG audit and was investigated by the OIG’s Investigations Division before being referred to the Justice Department.

Audits Find Pattern of Eligibility Problems in Section 8(a) Program. The Auditing Division continued to find problems with the eligibility of companies in the Section 8(a) program. Findings in four audit reports issued in the past 6 months included the

improper brokering of products manufactured by large firms and the questionable “disadvantaged” status claimed by a millionaire. Each of these audits was requested by SBA program officials.

Inspection Assists SBA in Downsizing Government Contracting Program. At the request of the Agency, the Inspection and Evaluation Division examined the impact of declining Federal procurements, new acquisition legislation, and major reductions in field staff on SBA’s prime contracts and subcontracting programs. The report’s findings and recommendations concerning the deployment of field staff and the placement of program management controls were instrumental in the Agency’s decisions on the reorganization of these important functions.

## **Activities to Enhance Fraud Detection and Deterrence**

Inspector General Addresses National Association of Government Guaranteed Lenders Conference. The Inspector General (IG) addressed the annual conference of the National Association of Government Guaranteed Lenders (NAGGL) in Coronado, California. On October 26, 1995, he discussed the role of the OIG in the Agency’s loan programs and solicited the NAGGL membership’s assistance in reducing fraud in SBA’s business loan programs. Topics discussed included the OIG’s character background checks, the tax verification program, the character of recent criminal investigations, fraud training, and the general results of OIG investigations and audits.

Results of False Tax Return Cases Increase.

Over the last 5 years, the OIG has received 239 allegations that false tax returns were submitted in support of SBA business or disaster loan applications. These fraud referrals now involve loan applications submitted to 38 SBA district offices, totaling \$107 million and involving 930 individual subjects. To date, 61 individuals have been indicted on criminal charges: 51 have been found guilty, 1 indictment was dismissed in the negotiation of a defendant's guilty plea, and 9 others have not yet gone to trial.

#### Affirmative Civil Enforcement Program.

The OIG continues to expand the scope of its efforts to make optimal use of the Department of Justice's Affirmative Civil Enforcement (ACE) program. This U.S. Attorney program targets cases which might not be prosecuted criminally because of the minimal dollar amounts involved, absence of financial loss to the Government, or because other facts of the case might not support a criminal prosecution. Heretofore, our success with the ACE program was focused in nine states; however, during this reporting period, the OIG realized its first ACE results in Oregon.

During the approximately 33 months the OIG has been involved with the ACE program, we have had a total of 44 successful cases, resulting in \$2,334,377 in civil penalties and \$718,258 in recoveries by SBA. Individual ACE outcomes are reported in the program area chapters, as appropriate.

Section 8(a) Case Yields Tenth Guilty Plea and Restitutions of Nearly \$12 Million. The former vice president of an engineering and design company with offices in Culver City, California, and Houston, Texas, pled guilty

to making a false statement to SBA to obtain Section 7(j) cooperative agreements in the San Diego, California, area. The company provided graphic designs and illustrations to a prime contractor for the Space Shuttle program.

In a further development, the investigation also substantiated that the company's chief executive officer (CEO) used a family trust and three associated corporations to bill inflated rents and other expenses to NASA subcontracts, including a Section 8(a) contract initiated in 1981 for \$4.4 million and extended through December 1989 with additional charges of \$6.4 million. Also included in the alleged conspiracy were a series of materially false statements made to secure and maintain Section 7(j) cooperative agreements totaling more than \$60,000, including repeated assertions that the company had an office in San Diego from which it continuously did business.

The vice president's guilty plea was the tenth resulting from this investigation, which included the SBA/OIG, the NASA/OIG, the IRS, the FBI, the Postal Inspection Service, and the Departments of Defense and Labor. The company executive was sentenced to 1 year probation.

Five other sentences resulting from this Federal task force investigation were handed down during the reporting period. The CEO of the Section 8(a) company was sentenced to 2 years imprisonment, 3 years supervised release, \$4,472,900 restitution, and fines and special assessments totaling \$23,950. He had pled guilty to 180 charges including conspiracy, mail fraud, false claims, money laundering, theft from programs receiving Federal funds, embezzlement from an



employee benefit plan, interstate transportation of stolen money, and obstruction of a Federal audit. The Section 8(a) company also pled guilty and was sentenced to pay \$7,496,455 restitution. Three defunct businesses also owned by the CEO had pled guilty to conspiracy and paid nominal fines.

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## Business Loan Program

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SBA's small business loan programs serve one of the most important missions of the Agency: to ensure that Federal funds and resources are used to help finance qualified small enterprises. Under the **Section 7(a) Guaranteed Loan Program**, SBA guarantees loans to small businesses that are unable to obtain private financing. These loans must be of such merit, or be so secured, as to reasonably ensure repayment to the lending institution. No loan may be made unless the financial assistance is not otherwise available on reasonable terms from elsewhere in the credit market. Under the guarantee plan, SBA agrees to purchase the guaranteed portion of the loan upon default by the small business. SBA's guarantee share of loans by private lenders averages about 80 percent.

More than 8,000 lenders have made at least one Section 7(a) loan in the past 5 years. Currently, approximately 29 percent of these loans are being made by participants in the Agency's **Certified Lender Program (CLP)** or its **Preferred Lender Program (PLP)**.

Lenders who are heavily involved in the SBA guarantee program and meet the Agency's criteria can participate through the **CLP**. Over 900 participating lenders, approved for the **CLP** program, are permitted to assume greater authorities and responsibilities in processing, closing, servicing, and liquidating loans. As a result, SBA can process loan guarantee applications in 3 days, rather than the 2 weeks that it may take for a thorough analysis by Agency staff. About 11 percent of all business loan guarantees are made through the **CLP** process.

As permitted by Section 7(a)(2) of the Small Business Act, SBA delegates even wider authority to preferred lenders, i.e., lenders who can commit the Agency to guarantee eligible business loans and decide the level of SBA participation. This program, with over 350 participants, reduces processing time on strong credit applications and uses the resources of SBA's best lenders to the maximum. About 18 percent of all business loan guarantees are made through the **PLP** process.

The **504 Loan Program** provides long-term, fixed-rate financing through certified development companies (CDCs) to small businesses to acquire real estate, machinery, and equipment for expansion of business or modernizing facilities. Typically, 504 loan proceeds

are provided as follows: 50 percent by an unguaranteed bank loan, 40 percent by an SBA-

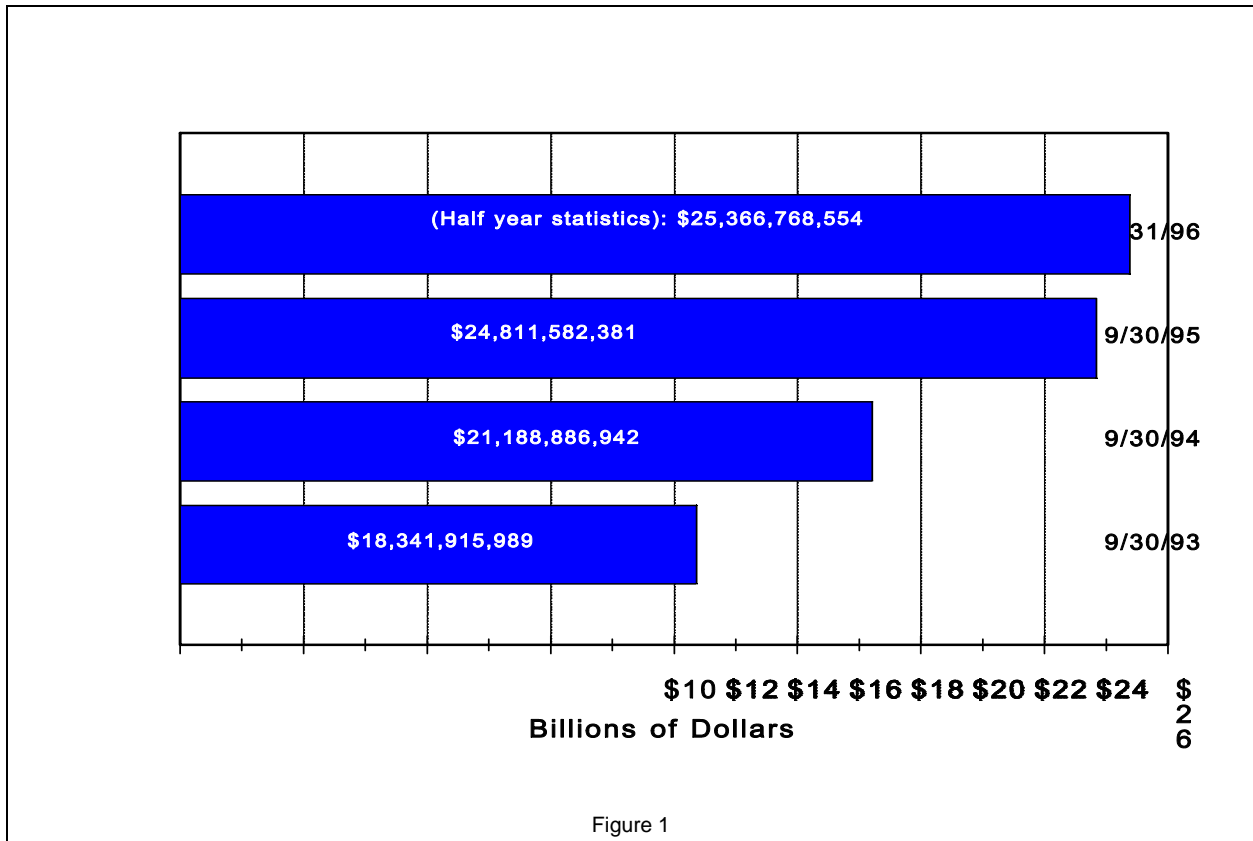
guaranteed debenture, and 10 percent by the small business customer. The maximum SBA debenture is \$1 million.

With the creation of the Agency's Low Documentation (**LowDoc**) application process, lenders are now able to use their own internal loan application documents, plus a single, two-sided SBA form to apply for an SBA guarantee on a loan of \$100,000 or less. The demand for this program is unprecedented; **49 percent of all SBA loan guarantee applications are now submitted through the LowDoc application process.**

## Summary of OIG Activity

The following summarizes OIG activities relating to SBA's business loan programs over the reporting period:

- Two audit reports were issued and seven audits were underway.
- Two program inspections are in progress.
- Business loan investigations resulted in 19 indictments and 18 convictions.
- Business loan investigations produced \$1,405,578 in court-ordered restitution, \$393,568 in other recoveries by SBA, and \$636,350 in civil penalties and fines.
- Office of Security Operations name check activity resulted in the declination of 19 business loans totaling \$4,208,650.
- Thirty business loan investigations were closed, leaving an inventory of 190 active cases. Due to workload demands, another 19 business loan cases were referred to other law enforcement agencies for investigation, giving us a total of 82 business loan referrals to monitor.
- Nine proposed regulations were reviewed.



## Efforts to Improve SBA Program Management

### Pennsylvania Bank Allows Loan Applicant to Conceal Information to Circumvent SBA's "Credit Elsewhere" Rule

An OIG audit revealed that a Reading, Pennsylvania, bank allowed a borrower to **conceal the ownership position and management involvement** of two wealthy backers to qualify for a \$1 million SBA-guaranteed loan. The loan defaulted and SBA honored its \$750,000 guarantee and experienced a net \$558,000 loss after the sale of collateral which had secured the loan.

A 46 percent owner of the applicant firm had \$6.5 million in personal liquid assets, which should have made the firm ineligible for a loan guarantee under the "credit elsewhere" rule. When the bank identified the owner's wealth as a bar to an SBA loan, he reduced his shareholder's stake on paper to 14.7 percent, just 2 days before the loan closed. Two weeks later, however, he restored his ownership position to the original 46 percent. In collusion with another 20 percent partner, he also made personal guarantees on a side loan (not an SBA-guaranteed loan), which created a prohibited preference in favor of the bank, by pledging available collateral to the side loan and not the SBA-guaranteed loan. Finally, the firm failed to report the

existence of another owner's share in the applicant firm to the SBA.

The audit report recommended that SBA deny liability on the loan and rescind the bank's Preferred Lender status. SBA's Philadelphia District Office proposed allowing the bank to transfer to SBA its interest in an insurance policy on the borrower's president and renewing the bank's status for 1 year instead of 2, with closer monitoring by SBA during the year. The OIG's Auditing Division considered this settlement proposal unacceptable and referred the case to the OIG's Investigations Division.

The ensuing investigation confirmed the findings of the audit and developed additional evidence. Subsequent to the investigation, the bank agreed to pay the Government \$1.56 million to settle allegations (without admitting guilt) of **fraud** in the bank's application for the SBA loan guarantee. Approximately \$950,000 will reimburse SBA for its payment and interest on the guarantee. The balance of the settlement (over \$600,000) will constitute a civil penalty, the proceeds of which will go to the U.S. Treasury. As another condition of the settlement, the bank has agreed to implement a compliance program to preclude similar problems in the future. The issue of the bank's Preferred Lender status has yet to be resolved by SBA.

#### **New York Borrower Used Loan Proceeds Inappropriately and Defaulted**

An OIG audit found that, contrary to SBA regulations, a New York borrower **inappropriately used \$181,000 in proceeds** from a \$700,000 SBA loan to

repay a shareholder and to retire unsecured debt. These payments contributed to a cash shortage and a default on the loan and forced SBA to pay a loan guarantee of \$556,683. The audit also found that the participating lender bank knew of the inappropriate use of funds some 4 months before notifying SBA. The auditors recommended that SBA admonish the lender for the late notification. Program management officials concurred, and a letter of admonishment was sent to the bank.

This audit was part of a larger review of early-defaulting loans. An OIG report discussing systemic issues associated with early defaults will be released at a later date.

#### **Lender Practices Inspection**

The OIG is conducting an inspection of credit risk management methods to assist SBA in (1) identifying Section 7(a) lenders whose practices are likely to pose a higher risk of loan defaults and (2) improving Section 7(a) lenders' credit risk management systems. The inspection team is examining the best practices of various oversight agencies and of a number of lenders in managing both SBA and non-SBA loans. The OIG expects to issue its report in June 1996.

#### **Loss Rate Inspection**

At the request of the SBA's Administrator, the OIG is also performing an inspection to determine whether the current methods used by SBA for calculating loss rates for Section 7(a) loans are valid. The inspection also examines the comparability of SBA's commercial loss rate to the loss rate of the private banking industry. The OIG expects

to issue its report in May 1996.

### **Loan Packager and Lender Service Provider Regulations Reviewed**

As part of SBA's initiative to revise and streamline its regulations, the OIG reviewed 13 C.F.R. Part 103, which contains standards for persons conducting business with SBA. The review generally supported the proposed inclusion of loan packagers and lender service providers within the regulation's coverage, but the OIG made several recommendations concerning coverage of limited liability companies, suspension and revocation of agents, and disclosure of fees paid to agents.

### **Business Loan Program Regulations Reviewed**

The OIG reviewed the proposed extensive revisions to 13 C.F.R. Part 120, which consolidated several regulations into one comprehensive Part governing all SBA loan programs. Based on this review, recommendations were made concerning the application of "prudent lending standards" to guaranteed and conventional loans, reporting requirements for Section 503 companies, good character requirements for borrowers, use of a borrower's available personal resources, and inclusion of a business plan and personal financial statements in a business loan application.

### **Size Standards Regulations Reviewed**

The OIG reviewed the proposed changes to SBA regulations governing size standards (13 C.F.R. Part 121) and made recommendations concerning the affiliation rules, determinations of a concern's "primary

industry," certifications as to size, corrections of incorrect Standard Industry Classification (SIC) code designations, prevention of brokering, application of standards for the timber program, and clarification of protest procedures.

### **Activities to Enhance Fraud Detection and Deterrence**

#### **Latest Results from Affirmative Civil Enforcement (ACE) Program**

Over this reporting period, the OIG's participation in the Department of Justice's ACE program produced five successful business loan cases, resulting in \$955,000 in recoveries and \$627,500 in civil penalties. The four smaller cases involved fraudulent representations in applications for loans that were stopped before funds were disbursed. Two of those cases involved applications to a Federally-insured lender, and represent the OIG's first ACE results in Oregon. The fifth and largest case, which involved a Preferred Lender whose actions improperly caused SBA to honor a \$750,000 loan guarantee, was discussed earlier in this chapter.

#### **OIG Briefs Members of Lender Community**

In addition to investigating complaints of waste, fraud, and abuse involving SBA programs, the OIG's investigations staff made two presentations to groups of participating lenders. The Assistant IG for Investigations addressed approximately 250 lenders at the first annual SBA Texas Lenders Conference, and the Special Agent in Charge (Chicago) spoke to 35 attendees at a Denver, Colorado, meeting of the National Association of Government Guaranteed

Lenders. Both highlighted the benefits to be gained from enhanced cooperation between lenders and the OIG in combating waste, fraud, and abuse in the SBA's guaranteed loan programs.

### **California Landscaper Pleads Guilty to Making False Statements and Filing False Tax Returns**

The owner of a landscape maintenance company in Anaheim, California, pled guilty to a criminal information charging him with two counts of **making false statements in loan applications to Federally-insured financial institutions** and two counts of **filing false tax returns**. These charges stemmed from the second of two investigations. The first investigation also resulted in a guilty plea to a felony charge for **fraudulently applying for a \$400,000 SBA-guaranteed loan**. Suspecting that this was not the first time the businessman had used false documents to obtain bank loans, the prosecutor asked the OIG to examine the files of the business owner's other loans. This review identified two other bank loans which were obtained with tax returns containing false information; it also disclosed that the owner was under investigation by the IRS for other suspected crimes. The OIG then joined forces with the IRS in the second investigation, which resulted in the more recent charges and guilty plea.

### **Missouri Businessman Pleads Guilty to Mail Fraud**

A couple who were the president and secretary, respectively, of a water bottling company in New Bloomfield, Missouri, were indicted on three counts of **mail fraud**

against SBA. The husband subsequently pled guilty to one count of **mail fraud**; in return, the Government agreed to the dismissal of the other charges on which he and his wife had been indicted. The investigation showed that they made false statements to obtain a \$150,000 SBA-guaranteed loan, subsequently diverted loan proceeds to their own use, and sold or traded collateral after the business failed. The company made only one payment before defaulting on the loan. The OIG initiated this investigation based on a referral from SBA's St. Louis District Office.

### **Texas Restaurant Owner Sentenced for Making a False Statement**

An owner of an El Paso, Texas, restaurant pled guilty to one count of **making a false statement** to SBA. In return, the other four felony counts on which he had been indicted were dismissed by the court. He was sentenced to 5 months confinement in a halfway house, 3 years supervised probation, and \$98,951 restitution. A joint investigation with the FBI revealed that the owner had submitted false documents to both the participating bank and SBA to obtain a \$120,000 SBA-guaranteed loan. As part of the fraud scheme, he allegedly concealed his receipt of a 15 percent share in the small business as a fee for his preparation of the loan package. After the loan went into default, the man also provided false information in support of an "offer in compromise" to induce SBA to settle his liability for an unrealistically low amount. As a result of his actions, SBA and the participant bank face losses of about \$122,600 and \$11,400, respectively. The El Paso District Office referred these allegations to the OIG.

## Investigation of Southern California Loan Packager Yields More Results

One more borrower has been sentenced, and three additional borrowers have been indicted, as the latest results of the OIG's ongoing investigation of a southern California packager of SBA-guaranteed loans:

- The former owner of a small Asian grocery store in Long Beach, California, was sentenced to 15 months imprisonment, 5 years probation, and full restitution of \$397,188 to the participating lender bank and SBA. He was also ordered to assist a special law enforcement task force in Florida, where he currently resides. This sentence was the result of a guilty plea to two counts of **making false statements to a Federally-insured financial institution** in support of his loan application. He had received a loan in the amount of \$405,000.
- The former owner of a Paramount, California, marble and tile company and his wife were charged in an 11-count indictment. Seven counts charged the man with **making false statements on a loan application to a Federally-insured financial institution**, in connection with his \$300,000 SBA-guaranteed business loan. The four other counts charged both the husband and the wife with **mail fraud** in connection with residential loans for \$600,000 and \$256,000. The investigation found that the two operated a mortgage

company and used their positions to improperly obtain the two residential mortgages.

- The former owner of a retail jewelry company in Garden Grove, California, was indicted on one count of **making a false statement on a loan application to a Federally-insured financial institution** in connection with his \$100,000 SBA-guaranteed business loan. The investigation revealed that the store owner submitted false tax returns for the years 1987 through 1989, all of which significantly inflated his income.

These defendants were all identified in one of an ongoing series of joint OIG/FBI investigations examining the submission of false tax returns and false invoices as part of applications submitted to SBA's participating lenders by loan packagers. The OIG initiated this investigation based on a referral from SBA's Los Angeles District Office. The loan packager in this case has pled guilty for his part in the scheme.

### Two Georgia Businessmen Convicted for Conspiracy and Related Crimes

Two LaGrange, Georgia, businessmen were convicted on six and three felony counts, respectively. The first businessman, a restaurant owner, was convicted on one count of **conspiracy**, four counts of **making false statements** to SBA, and one count of **forging** a security of an organization; the second was convicted on two counts of **making false statements** to SBA and one count of **conspiracy**. The restaurant owner had received a \$400,000 SBA-guaranteed



loan for his restaurant from a non-bank lender in 1990. The investigation disclosed that he submitted several documents falsely claiming he was purchasing restaurant equipment when he had in fact already leased the equipment. This, consequently, left the SBA loan without a security interest in the equipment. The owner also forged an endorsement and negotiated a joint-payee loan disbursement check.

The second businessman's corporation sold land and a building for use as a site for the restaurant. The investigation found that the two men fabricated documentation of a capital injection into the restaurant, a requirement for SBA to guarantee the underlying loan. The restaurant owner was acquitted of three felony counts that charged him with setting fire to the restaurant and defrauding the company that insured it.

In another outcome of this investigation, the attorney for the real estate transaction admitted complicity in the scheme and pled guilty to one misdemeanor count of **theft of property from a Federally-insured financial institution**. The OIG began this investigation based on a referral from SBA's Atlanta District Office; the Bureau of Alcohol, Tobacco and Firearms joined the investigation after the possibility of arson was raised.

#### **New York Bank Executives Indicted on Conspiracy, Bank Fraud, and Other Charges**

The former president and chairman of the board of an SBA participating lender bank headquartered in Watertown, New York, and the bank's counsel were indicted on charges of **conspiracy, bank fraud**, and the

acceptance and payment of **money as an inducement and reward for bank transactions**. The investigation revealed that the president had agreed to refer the bank's legal work to the counsel's law firm in return for one-sixth of the legal fees collected. The president received more than \$332,000 from the scheme. In furtherance of the conspiracy, he caused the bank to make loans totaling \$1,879,500 to the bank's counsel and his associates, allowed other individuals to borrow money from the bank for transfer to the counsel, and permitted the counsel to represent both parties in connection with most of these loans. As a consequence of these arrangements, the loans, several of which were guaranteed by SBA, were not properly secured and not repaid. Having lost \$13 million in bad loans, the bank, which had been a major community lender to small business, was declared insolvent and seized by the Office of the Comptroller of the Currency (OCC) in 1993.

In a related development, an earlier guilty plea by a former vice president of the bank to charges of **bank fraud and illegal participation in bank transactions** was unsealed. The former bank officer admitted causing the bank to lend \$196,000 to a construction company which he and his wife owned. He also authorized other loans to customers of the company so they could purchase modular homes from the firm. Loans were also made to yet another company he owned, from which he received \$57,000 of the proceeds. The OIG investigation was conducted jointly with the OCC, the Resolution Trust Corporation, and the FBI and was based on a referral from the SBA's Syracuse District Office.

### **New York Bank Executive Convicted for Soliciting Illegal Commissions**

A former vice president of the New York City branch of an Argentine bank was convicted of three counts of **soliciting commissions for procuring loans** guaranteed by SBA. The \$20,000 in commissions were paid by 3 loan applicants in return for his assistance in obtaining loan approvals totaling \$930,000. The investigation, conducted jointly with the FBI, grew out of another OIG investigation.

### **California Clothiers Sentenced for Making False Statements**

A Los Angeles, California, clothing manufacturer/retailer and his wife were sentenced for **making false statements to Federally-insured lenders**. He was sentenced to 30 months imprisonment, 5 years supervised release, and restitution totaling \$652,043 to 5 banks, including \$400,500 for SBA's share of the remaining balance of the SBA-guaranteed loan for his sportswear business. His wife was sentenced to 6 months home detention, 5 years probation, and \$109,075 restitution to the bank that financed the purchase of her business--a shoe store in Culver City, California. These sentences were the latest results of a joint OIG/FBI investigation of the inclusion of false tax returns in applications submitted to SBA's participating lenders by loan packagers. The investigation, which disclosed that all of the couple's loan applications contained false tax returns, began in response to a referral from SBA's Commercial Loan Servicing Center in Fresno, California.

### **Three Ohio Businessmen Sentenced for**

### **Bank Fraud Scheme**

All 3 defendants in an OIG/FBI investigation of a \$400,000 SBA-guaranteed loan to a motor-manufacturing company in Mentor, Ohio, have been sentenced. Two of the men were personal guarantors of the loan. The first was sentenced to 4 months imprisonment, 3 years supervised release, and \$10,000 restitution; the second was sentenced to 1 day imprisonment, 3 years supervised release, \$32,500 restitution, and a \$250 fine. Both had pled guilty to **bank fraud**. The company's president was sentenced to 1 day imprisonment, 3 years supervised release, and a \$2,500 fine; he had pled guilty to **making a false statement in a loan application to a Federally-insured financial institution**. The investigation revealed that, over a period of nearly 3 years, the 2 investors carried out a scheme to defraud an SBA participating lender bank in Cleveland, Ohio. The businessmen submitted, as part of their SBA loan application, falsified individual tax returns and financial statements which overstated their adjusted gross income and personal net worth. The company's president participated in defrauding the bank by signing the Authorization and Loan Agreement, thereby representing that the use of the loan proceeds would be limited to the purchase of machinery, equipment, furniture, and fixtures, when he knew that the proceeds were actually being diverted to him and his co-defendants. The OIG initiated the investigation based on a referral from SBA's Cleveland District Office.

### **Pennsylvania Restaurant Owner and Associate Plead Guilty to Conspiracy and Making False Statements**

A Downingtown, Pennsylvania, restaurant owner and his associate each pled guilty to one count of **conspiracy** and two counts of **making false statements** in connection with an application for a \$65,000 SBA-guaranteed loan. The OIG investigation found that the associate prepared and the owner signed and submitted false Federal income tax returns to the participating bank. The returns showed a net profit of more than \$40,000 for each of the years 1993 and 1994; however, the restaurant actually incurred losses in both years. On learning that the tax returns submitted as part of the application differed significantly from those on file with the IRS, SBA canceled the loan before any proceeds were disbursed. The discrepancies, which were detected by SBA's tax return verification program, were referred to the OIG by SBA's Philadelphia District Office.

#### **Pennsylvania Manufacturing Company Owner Sentenced for Mail Fraud**

OIG investigators presented evidence to the U.S. Attorney's Office for the Eastern District of Pennsylvania just prior to the sentencing of the owner of a Morton, Pennsylvania, tool and die manufacturer which contributed to his receiving a sentence of 1 year in prison. The owner had pled guilty to two counts of **mail fraud** in connection with a scheme to defraud the U.S. military through one of his companies. He had purchased the company in 1986 with a \$460,000 SBA-guaranteed loan, on which he defaulted in 1992. After receiving a target of investigation letter from an Assistant U.S. Attorney (AUSA) regarding the defense contract fraud, the businessman obtained a \$23,500 SBA-guaranteed loan in July 1994 for the tool and die manufacturing

company. In applying for the second loan, the owner submitted a false financial statement to the participating bank and failed to disclose that he had obtained and defaulted on the \$460,000 loan. As soon as the first payment came due, he defaulted on the new loan as well. When the OIG brought these facts to the attention of the AUSA prosecuting the contract fraud, it was decided that, although the Government could indict the man for the SBA fraud, the AUSA would arrange to include information about this second charge in the sentencing deliberation instead. The inclusion of the new scheme enabled the AUSA to recommend the maximum sentence under the applicable guidelines. This matter was referred to the OIG by SBA's Philadelphia District Office.

#### **New York Therapy Center Business Manager Pleads Guilty to Conspiracy**

The business manager of an East Islip, New York, chiropractic and physical therapy center pled guilty to a criminal information charging him with two counts of **conspiracy**. The man conspired with others to forward, to a nonbank participant in SBA's Section 7(a) program, two fraudulent financial statements for the purpose of obtaining a \$750,000 SBA-guaranteed loan for the clinic. He also participated in another fraudulent scheme involving the mailing of reimbursement claim forms to three large insurance companies for physical therapy never provided to the clinic's patients. The investigation had previously resulted in a guilty plea by the owner of the clinic to two counts of **conspiracy**. Between 1988 and 1994 (when OIG and FBI agents executed search warrants at his office and storage facility), the owner had

conspired to misrepresent that a licensed physical therapist or physician was rendering or overseeing patients' care. Because his loan was never disbursed, SBA incurred no loss. The OIG investigation was conducted jointly with the FBI and was initiated as a result of information provided by a private citizen.

### **Washington Fundraiser Pleads Guilty to Conversion of Collateral**

The former president of a fund-raising service company in Bellevue, Washington, was charged with and pled guilty to **conversion of collateral** pledged for a \$750,000 SBA-guaranteed business loan. The investigation revealed that he sold over \$360,000 of the company's accounts receivables pledged as collateral on the loan, and converted the proceeds to personal use. The OIG investigation was based on a referral from the Seattle District Office and was conducted jointly with the FBI.

### **New York Computer Store Owner Indicted for Bank Fraud and Making False Statements**

The owner of a corporation which once operated a chain of retail computer stores in upstate New York was indicted on nine counts of **bank fraud** and one count of **making false statements to SBA**. The investigation revealed that, to forestall the participating lender and SBA from calling his delinquent \$450,000 SBA-guaranteed loan, the businessman had grossly inflated the value of assets in a listing he submitted. He also allegedly defrauded another bank and a Federal credit union by processing more than \$40,000 in unauthorized charges against his customers' credit card accounts,

as well as to his personal credit cards, and depositing the resulting funds to his accounts at these lending institutions. The OIG and the FBI joined the investigation initiated by the Secret Service.

### **Washington Restaurant Owner Sentenced for Making False Statements**

The former owner of a restaurant in Sequim, Washington, was sentenced to 4 months home confinement, 3 years probation, a \$1,000 fine, and \$43,821 restitution to SBA. He had pled guilty to **making false statements** to SBA. The investigation disclosed that he had made numerous false statements to induce SBA to approve and disburse a \$45,000 Vietnam-Era Veteran direct loan. This matter was referred to the OIG by a loan officer in SBA's Seattle District Office.

### **South Dakota Rancher Indicted for Making False Statements and Witness Tampering**

An Eagle Butte, South Dakota, rancher was indicted on six charges of **making a false statement** to SBA and **making a false statement to a Federally-insured lender**, all to obtain a \$150,000 SBA-guaranteed loan. The SBA/OIG's joint investigation with the Department of the Interior (DOI) OIG determined that he did not disclose to SBA and the participating bank that he had failed to repay a previous \$30,000 loan guaranteed by DOI's Bureau of Indian Affairs (BIA). He also falsely stated that he had received a \$50,000 BIA grant. The man was also indicted on one count of **tampering with a witness** for attempting to persuade the participating bank's loan officer to remove the fraudulent BIA

document from his file. The rancher had recently been living in Canada, but after his indictment, he returned to the United States to face the charges. The DOI/OIG asked the SBA/OIG to join the investigation.

### **Pennsylvania Dog Groomer Charged with Bank Fraud and Making False Statements**

The owner of a dog grooming business in Allentown, Pennsylvania, was charged in a three-count criminal information with **bank fraud, making a false statement to SBA, and making a false statement to a Federally-insured lender.** The charges relate to her scheme to defraud SBA, a small business lending corporation (SBLC), and a bank in Emmaus, Pennsylvania, by submitting fictitious Federal income tax returns as part of her loan applications. The woman first applied to the SBLC for a \$107,000 SBA-guaranteed loan, which was initially approved but subsequently canceled due to discrepancies between the tax return information she submitted and that on file with the IRS. In an interview with an SBA/OIG special agent, she admitted that she then went to the bank and, using the same fictitious tax returns, applied for and received two non-guaranteed loans totaling \$100,000. This matter was referred to the OIG by the Financing Division of SBA's Philadelphia District Office.

### **California Food Supply Company Owner Charged with Making False Statements**

The former owner of a food supply company in Garden Grove, California, was charged in a criminal information with one count of **making false statements to a Federally-insured lender.** The joint OIG/FBI

investigation disclosed that she submitted false tax returns and a false equipment purchase contract to obtain SBA-guaranteed loans totaling \$420,000. Information provided by SBA's Santa Ana District Office in 1990, concerning fraudulent loan applications prepared by a southern California loan packager, led to this investigation.

### **California Restaurant Owner Sentenced for Making a False Statement**

An owner of a San Jose, California, restaurant was sentenced to 4 months home detention, 5 years probation, 100 hours community service, and \$60,000 restitution to a savings and loan. He had pled guilty to one count of **making a false statement to a Federally-insured lender.** The OIG's investigation, which revealed that the man submitted false tax returns as part of his SBA loan application, was based on a referral from the San Jose Financial Crimes Task Force, a multi-agency investigative unit examining a loan fraud scheme involving a number of individuals who purchased homes in the same housing development. The task force notified the SBA/OIG when it discovered that the business owner had failed to disclose his SBA-guaranteed business loan on his application for a home mortgage.

### **Missouri Novelty Company Owner Sentenced for Making False Statements**

A former partner in a Branson, Missouri, novelty company was sentenced to 15 months imprisonment, 3 years supervised release, and a \$50 special assessment. He had pled guilty to **making false statements to a Federally-insured lender.** The

company designed and produced novelty items such as T-shirts, glassware, and cedar products. The man overvalued his company's inventory and accounts receivable by more than \$240,000 each to obtain a \$1,250,000 line of credit and a \$775,000 SBA-guaranteed loan. The company made no payments on these loans before they defaulted. This investigation was conducted jointly by the FBI and the SBA/OIG. The case was based on a referral from SBA's Springfield Branch Office.

### **Former Missouri Bank Owner Sentenced for Making False Entries in Bank Records**

A former banker and business owner was sentenced to 3 years probation and a \$5,050 fine. He had pled guilty to **making or causing false entries** in the records of a bank in Mountain Grove, Missouri, of which he was an owner. The investigation showed that he used bank funds to pay approximately \$76,000 in expenses incurred by another bank, of which he was also an owner. The man then had these payments falsely recorded as expenses of the Mountain Grove bank. This investigation was conducted jointly with the FBI and included an inquiry into SBA-guaranteed loans involving this particular banker. The OIG initiated its investigation in response to a referral from SBA's Kansas City District Office.

### **Connecticut Manufacturers Indicted for Bank Fraud and Wire Fraud**

Two brothers, officers of a Chester, Connecticut, manufacturer of bent wire products, were indicted on charges of **bank fraud** and **wire fraud** in connection with

loans obtained through several Connecticut financial institutions. The investigation found that the brothers obtained a \$300,000 SBA-guaranteed loan by submitting false information in their loan application. Among other things, they allegedly did not disclose the existence of previous loans and falsely listed certain items of machinery and equipment as collateral. Having misstated their equity in certain assets, the brothers were also charged with using an interstate wire transfer as part of a scheme to defraud another bank of \$150,000. Finally, the indictment alleged that one brother fraudulently obtained \$150,000 from a third bank by submitting a forged letter stating that \$850,000 in equity funding had been arranged for their corporation. The joint OIG/FBI investigation was based on a referral from SBA's Hartford District Office.

### **Washington Auto Parts Executive Indicted for False Tax Returns**

The president of a Yakima, Washington, auto parts company was indicted on one count of **bank fraud** and one count of **making false statements to SBA** on an application for an \$80,500 SBA-guaranteed business loan. The OIG investigation found that, in support of his application, the businessman submitted tax returns that overstated his company's 1992 and 1993 income by \$114,391 and \$112,877, respectively. In addition, he included a 1994 tax return with his loan application which showed income of \$43,980, even though the company's 1994 tax return had not been filed with the IRS as of the date of the application. Although SBA canceled the loan before any funds were disbursed, the U.S. Attorney's Office pursued the prosecution because of the large

discrepancies between income information the loan applicant filed with the IRS and income information he reported to the participating bank. The OIG initiated the investigation based on a referral from the LowDoc Loan Division of SBA's Seattle District Office.

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## Disaster Loan Program

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

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

The need for SBA disaster loans is unpredictable. During FY 1995, SBA approved 45,041 loans for \$1.21 billion. During FY 1994, in the aftermath of the Northridge earthquake, Tropical Storm Alberto, the Great Midwest Floods, and other disasters, SBA approved 125,861 loans for an all-time record amount of \$4.16 billion. For the first 6 months of FY 1996, SBA approved 21,618 loans for \$611 million. Since the inception of the program, SBA has approved more than 1,320,000 disaster loans for more than \$23.5 billion. As of the end of FY 1995, the SBA disaster loan portfolio included more than 272,000 loans valued at over \$6.8 billion. The total available for FY 1996 disaster loans, including carryover and contingency funds, is approximately \$568 million.

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

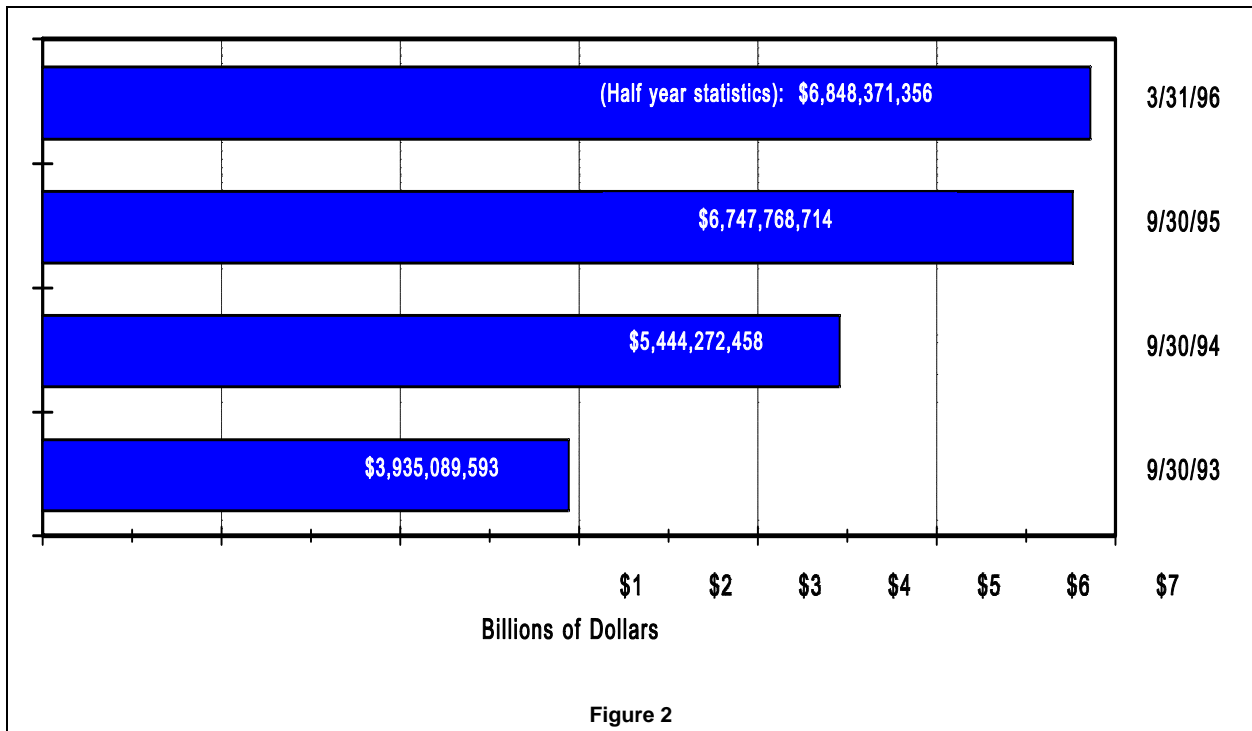
### Summary of OIG Activity



The following summarizes OIG activities relating to SBA's disaster loan programs during the reporting period:

- One audit report was issued during the reporting period and six audits were underway.
- Disaster loan investigations resulted in 14 indictments and 4 convictions.
- Disaster loan investigations produced \$1,225,999 in Federal court-ordered restitution to SBA, \$130,289 in other recoveries by SBA, and \$64,000 in fines and special assessments.

- Office of Security Operations name checks resulted in the declination of 11 disaster loans totaling \$498,768.
- Ten disaster loan investigations were closed, leaving an inventory of 84 active cases. Due to workload demands, another 6 disaster loan cases were referred to other law enforcement agencies for investigation, resulting in a total of 18 disaster loan referrals to monitor for performance.
- Two proposed regulations and one SOP were reviewed.



## Efforts to Improve SBA Program

## Management

### **Fraud Referrals Made by the California Audit Field Office**

The OIG Auditing Division's field office in Los Angeles, California, was the first SBA/OIG audit office staffed using special funding for disaster-related oversight. The funding was made available in the wake of the Northridge earthquake. One important function of this office is to refer instances of suspected fraud and abuse to the OIG's Investigations Division. In the course of assigned audits, Los Angeles auditors are particularly aware of their responsibility for identifying evidence of fraud.

The OIG audit staff has referred seven borrowers to the Investigations Division in Los Angeles to date. These borrowers had 14 disaster loans totaling \$1.2 million.

Situations that caused the referrals included:

- alteration of invoices to support progress payments,
- discrepancies between loan applications filed with the SBA and information filed with the IRS,
- inaccurate statements regarding collateral,
- closing of businesses and moving out of state after receiving disaster loans,
- diversion of loan proceeds to buy different properties,
- non-payment of invoices used to support progress payments,

- submission of "tax return" information not actually filed with the IRS,
- misrepresentation of personal income,
- misstatements of ownership and control information, and
- transfer of collateral to third parties after loans are approved.

### **Audit Finds Disaster-Funded SBA Employees Assigned to Non-Disaster Duties**

An audit conducted at SBA's Los Angeles District Office (LADO) revealed that about half of the office's disaster-funded loan servicing personnel were assigned primarily or exclusively to non-disaster duties in 1995. This finding was based on an OIG survey of 30 LADO employees. SBA's District Director responded to the audit finding by stating that the LADO was severely understaffed, and that the office was complying with an earlier policy that only required disaster-funded loan servicing employees to spend more than 50 percent of their time in support of disaster loan servicing. Since the adoption of disaster staffing standards in 1994, however, the 50 percent rule is no longer in effect. As a result of the audit, the Office of Financial Assistance clarified its guidance to specify that 40 hours of disaster loan servicing should be provided for every 40 hours worth of disaster funds used. In addition, the LADO revised its staffing assignments to conform to the guidance.

### **Disaster Loan Program Regulations Reviewed**

The OIG reviewed SBA's proposals to simplify and reorganize 13 C.F.R. Part 123, the regulations governing the disaster loan program. Based on the review, the OIG made several recommendations concerning disaster declarations, eligibility for home disaster loans, eligible refinancings, and mitigation provisions.

## **Activities to Enhance Fraud Detection and Deterrence**

### **Continuing Results from Southern California Disaster Loan Packager Fraud Case**

The joint OIG/Secret Service investigation of false disaster loan applications prepared by two southern California brothers acting as loan packagers has yielded five more sentencing, a guilty plea from the packager ringleader, and charges against three additional defendants:

- A Beverly Hills, California, resident pled guilty to eight felony counts; in return, the Government agreed to dismissal of the other counts on which he had been indicted. In pleading guilty, the loan packager admitted that he participated in **causing false documents to be submitted to a Government agency** by assisting others in the submission of false tax returns as part of six SBA disaster business loan applications totaling more than \$3.9 million. The disaster loan applications included claims of both physical and economic injury and spanned three Los Angeles-area disasters: the 1992 civil disturbance, the 1993 fires, and the 1994

Northridge earthquake. In addition, he admitted **making false statements to Federally-insured financial institutions** by submitting false tax returns with applications for four bank loans totaling approximately \$11.4 million. He and his fugitive brother were responsible for the submission of numerous false documents to SBA in disaster loan applications they packaged.

- A Los Angeles, California, resident was sentenced to 5 years probation, 1,500 hours of community service, and a \$2,500 fine. He was also ordered to make full restitution of \$46,900 to SBA before the end of his probation.

Following the 1992 civil disturbance in Los Angeles, he had applied for a \$126,000 economic injury disaster loan and received a total of \$46,900.

The investigation showed that, as part of his application, the man submitted a false tax return reporting income from the alleged business. In fact, the return had never been filed with the IRS, and the loan funds were actually used to start the business; consequently, he pled guilty to filing a **false claim** with SBA for his (then nonexistent) business. The application was prepared by the applicant's cousins--the two California loan packagers who are the main subjects of the investigation.

- Two brothers and business partners in a Van Nuys, California, carpet store were each sentenced to 4 years

probation, 800 hours of community service, and a \$5,000 fine; they are also jointly liable for full restitution to SBA of \$218,800. Each had previously pled guilty to one count of filing a \$225,000 **false claim** through the submission of false corporate and individual tax returns to SBA for an economic injury disaster loan. An SBA Disaster Assistance Area 4 loan officer had identified the brothers' loan application as being similar to those prepared by the loan packagers who remain at the center of the investigation. The OIG investigation showed, however, that while these applicants learned the process from the main subjects of the investigation, they had prepared their own false documents.

- A southern California gas station owner was sentenced to 5 years probation, 500 hours community service, and a \$50,000 fine. He had pled guilty to one count of **making false statements** to SBA in his applications for disaster assistance following the Northridge earthquake. The man applied for disaster loans totaling \$1.5 million for a gas station and mini-market in Calabasas, California. The OIG investigation revealed that, while company tax returns and financial statements included with the loan applications indicated gross sales totaling approximately \$7 million for each of the past 3 years, the returns filed with the IRS reported only a small fraction of that amount. In addition, while he claimed to SBA to be the

sole owner of the business, the investigation uncovered that the business was owned by a corporation in which he was only a minority shareholder.

- A Santa Monica, California, resident was sentenced to 18 months imprisonment, 3 years supervised release, and restitution of \$896,579 to a bank and \$58,600 to SBA. She had pled guilty to **filing a false claim** with SBA in connection with her application for a disaster loan and to **making false statements to Federally-insured lenders** by submitting bogus tax return information in loan applications to two California financial institutions. The woman had applied for a \$300,000 economic injury disaster loan for her non-existent clothing business, purportedly located in Los Angeles, California. She obtained only \$58,600 of the proceeds of the disaster loan, which went into default without a single repayment being made.
- A Northridge, California, man was charged in a criminal information with one count of **making a false statement to a Federally-insured lender**. To facilitate the approval of a \$241,500 home loan to his wife, the man submitted a false employment verification form, claiming that his wife was employed at a salary in excess of \$100,000 per year when, in fact, she was unemployed. The couple became subjects of the investigation after the Disaster Assistance Area 4 Office

questioned their application for a \$300,000 economic injury disaster loan for her fashion business following the 1992 Los Angeles civil unrest. SBA declined the application, and the OIG investigation later established that the business did not exist.

- Two owners of Los Angeles, California, clothing manufacturers were charged in criminal informations filed in connection with their applications for economic injury disaster loans following the 1992 Los Angeles civil unrest. One was charged with **knowingly converting SBA disaster loan proceeds to his own use and the use of others**. This charge emanated from his fraudulent application for a \$180,000 loan for his business. Because he applied for a loan for which he knew he was ineligible, his expenditure of the proceeds constituted conversion. The other owner was charged with **making a false statement to SBA**. In his application for a \$360,000 loan, he claimed to be the sole owner of the company when he actually owned only 65 percent. He concealed the minority owner's interest from SBA due to that owner's poor credit history.

The OIG opened the original investigation as a result of a tip from a concerned citizen and a referral from the Disaster Assistance Area 4 Office.

### **Three Indicted in Mississippi Fraud Conspiracy**

The proprietor of a tree farm and timber company in Hattiesburg, Mississippi, his wife, and his attorney were indicted on charges of **conspiracy** and making material **false statements** to influence SBA. All the charges relate to a \$222,400 economic injury disaster loan the owner received in 1993. Both he and his attorney were specifically charged with submitting, as part of the loan application, a personal financial statement falsely representing that the tree farmer owned certain real and personal property. That property, however, had previously been foreclosed upon and seized by creditors. The three defendants were also charged with submitting title documents falsified to support the fiction that the couple was mortgaging the 80-acre real property to SBA. Finally, the indictment alleged that the couple improperly negotiated joint-payee Treasury checks representing \$124,900 of the disaster loan proceeds. Evidence developed by the OIG's investigation also resulted in the owner's indictment by a Lamar County, Mississippi, grand jury on one count of **false pretense** for improperly negotiating one of the joint-payee Treasury checks. The OIG initiated the investigation based on a referral from SBA's Gulfport Branch Office.

### **Santa Barbara Resident Sentenced for Making False Claims**

A resident of Santa Barbara, California, was sentenced to 15 months imprisonment, 3 years supervised release, and \$3,600 restitution to a Federal credit union in California. He had pled guilty to 3 counts of an 11-count felony indictment: **making a false claim to SBA, misuse of a Social Security number, and making a false**

**statement to a Federally-insured lender.** In return, the Department of Justice agreed to dismissal of the other counts. The man claimed to have lost an Isuzu Trooper containing valuable tools in the California floods of January 1995. The investigation, conducted jointly with the FEMA/OIG, disclosed that the vehicle had been repossessed more than a year before the disaster. The investigation further established that the borrower had used five bogus Social Security numbers and a variety of spellings of his name to apply for four loans. The man had been in Federal custody since his arrest. This matter was referred to the SBA/OIG by the Disaster Assistance Area 4 Office.

#### **California Attorney Pleads Guilty to Bankruptcy Fraud and Misappropriation of SBA Collateral**

An attorney from Sylmar, California, pled guilty to a two-count criminal information charging him with **bankruptcy fraud** and **misappropriation of SBA collateral**. He subsequently resigned from the California bar and was sentenced to 4 months home confinement, 5 years probation, 200 hours of community service, and a \$1,000 fine. He admitted that he fraudulently transferred and concealed property pledged as collateral to SBA in anticipation of filing a bankruptcy petition on behalf of his client--the owner of a printing company in Valencia, California. The OIG initiated the investigation in response to a complaint made by the owner, who cooperated with the OIG throughout the investigation. During pre-bankruptcy meetings with her, the attorney proposed and ultimately executed a scheme whereby he took possession of some of the company's business assets, specifically large

printing presses and related machinery and inventory. In exchange, he paid the owner \$2,500 for the equipment, which she had pledged as collateral for the company's \$63,000 disaster loan. He anticipated substituting inferior printing equipment to meet the collateral requirement and intended to convert the exchanged property to his personal use. The illegally transferred property was subsequently recovered by SBA/OIG special agents following the execution of three search warrants.

#### **California Resident Sentenced for Theft of Government Funds**

A resident of Anaheim, California, was sentenced to 3 years probation, \$1,520 restitution to FEMA, and a \$500 fine. She had pled guilty to one count of **theft of Government funds**. The woman received funds from FEMA based on her claim that she lived in an apartment where she suffered personal property damage from floods. The investigation revealed, however, that at the time of the floods she had occupied a different apartment which did not sustain any damage. She submitted a similar claim to SBA which was appropriately rejected by a disaster assistance program official. The SBA/OIG initiated this investigation, which was conducted jointly with the FEMA/OIG and the Postal Inspection Service, after being contacted by a concerned citizen.

#### **Florida Veterinarian and Wife Indicted for Conspiracy and Making False Statements**

The president and owner of a corporation which operated veterinary clinics in Homestead and Miami, Florida, was indicted on one count of **conspiracy** and

two counts of **making false statements to SBA**. His wife was also indicted on the same counts. The company had received a \$106,100 loan to repair or replace machinery, equipment, inventory, and real property damaged by Hurricane Andrew. The SBA/OIG investigation disclosed that the couple submitted to SBA fictitious receipts, invoices, and copies of checks as documentation of expenditures they had not made and did not intend to make. The investigation was based on a referral from the FEMA/OIG.

#### **Florida Businessman Pleads Guilty to Making False Statements**

The president of a sports entertainment business in Belleair Beach, Florida, pled guilty to a one-count criminal information charging him with **making false statements to SBA**. The man had submitted Borrower's Progress Certifications to SBA which contained a number of false statements designed to induce disbursement of \$190,400 in business physical disaster loan proceeds. He had also submitted fraudulent copies of invoices, proposals, checks, and other documents purportedly corroborating his certification that he had replaced damaged video equipment for his business. In 1995, after being interviewed by an OIG special agent, the businessman voluntarily repaid the \$95,609 balance of the fraudulently obtained loan, as well as the \$19,393 balance of his economic injury disaster loan and the \$40,837 balance of his disaster home loan. This investigation was based on a referral from the Disaster Assistance Area 2 Office.

#### **Arizona Company Owner Indicted for Pursuing Fraudulent Schemes and**

#### **Artifices**

The owner of a machinery company in Buckeye, Arizona, was indicted by a Maricopa County, Arizona, grand jury on two counts of **pursuing fraudulent schemes and artifices**. The investigation revealed that, in an effort to obtain a \$56,100 business physical disaster loan and a \$327,600 economic injury disaster loan from SBA, the man had forged his estranged wife's signature on numerous loan documents. These charges were brought by the Arizona State Attorney General's Office after Federal prosecution was declined. The joint OIG/Secret Service investigation was initiated based on a referral by SBA's Phoenix District Office.

#### **Two Alabama Businessmen Indicted for Mail Fraud**

The owner of a real estate company in Enterprise, Alabama, and his accomplice were indicted on 12 counts and 1 count of **mail fraud**, respectively, in a scheme to obtain a \$186,800 SBA business physical disaster loan. The OIG's investigation found that, following a 1990 flood, the real estate company owner applied for the loan and fraudulently listed damaged properties that he did not own. While misusing the loan proceeds, he allegedly mailed claims and receipts showing that these assets were repaired or replaced. His accomplice's alleged part in the scheme involved falsifying repair receipts to justify SBA's issuance of a \$12,800 joint-payee Treasury check; the accomplice subsequently endorsed and negotiated the check but the co-payee never received any of the proceeds. The investigation was based on a referral from SBA's Birmingham District

Office.



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## Small Business Investment Companies

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The primary business of **Small Business Investment Companies (SBICs)** is to provide a source of equity capital and long-term loans to new or expanding small businesses. SBICs are profit-making corporations that make investments in small businesses. SBICs finance small firms in two general ways: (1) straight loans and (2) equity-type investments which give the SBIC actual or potential ownership of a portion of a small business' equity securities. Many SBICs also provide management assistance to the companies they finance.

SBA licenses, regulates, and provides financial assistance to SBICs, which are privately owned, operated, and capitalized. The Small Business Investment Act (SBI Act), as amended, authorizes SBA to purchase or to guarantee the timely payment of all scheduled interest and principal on debentures issued by such companies. Under Section 301(d) of the SBI Act, SBA also licenses **Specialized SBICs (SSBICs)** to help those small businesses owned and managed by socially or economically disadvantaged persons. As of the end of FY 1995, there were 277 licensed, active SBICs, including 90 SSBICs, with private capital of \$3.5 billion and leverage of \$1.07 billion for total capital of \$4.57 billion. In addition, there were 186 SBICs in liquidation owing SBA over \$480.8 million. In FY 1995, the program level for investment companies, including participating securities, was \$355.4 million.

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

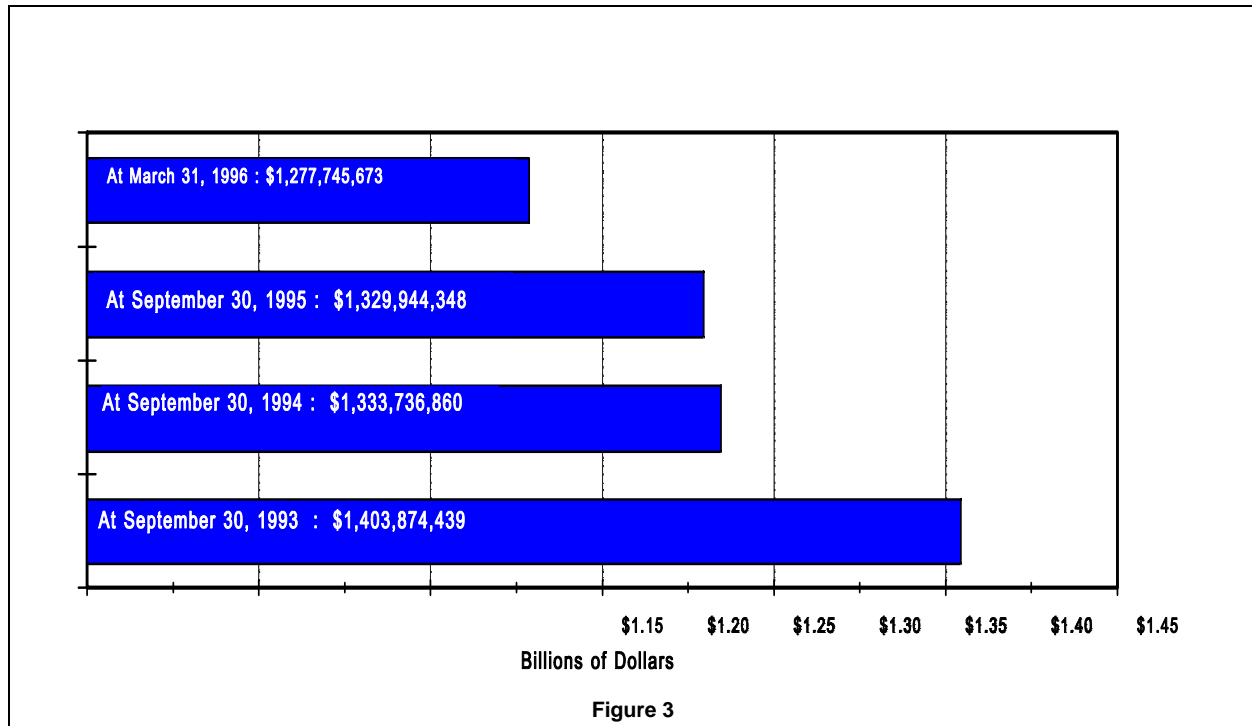
### Summary of OIG Activity

The following summarizes OIG activities relating to the SBIC program during the reporting period:

- SBIC investigations produced \$886,208 in recoveries by SBA.
- Three SBIC investigations were closed, leaving an inventory of 13 active cases. Three SBIC cases which, due to workload demands, had previously been referred to other law enforcement agencies for

investigation, continued to be monitored.

- Three proposed regulations were reviewed during the period.



## Efforts to Improve SBA Program Management

### SBA Receives \$1.1 Million from CPA Firm to Settle Dispute over Audit Quality

A certified public accounting (CPA) firm paid SBA \$1.1 million to settle a dispute over the quality of audits it conducted on a Small Business Investment Company (SBIC) for the 2 years prior to the SBIC's failure.

The SBIC failed when many of its investments lost substantial value, and the resulting decrease in asset value was not

reflected in the financial statements audited by the CPA firm. The OIG's Auditing Division conducted a quality review of the CPA working papers and concluded that there was substandard work, especially in portfolio valuation. The CPA firm relied wholly on subjective portfolio valuations by the SBIC and permitted troubled debt to be carried at original value, contrary to SBA regulations. An independent expert retained by SBA concurred in the OIG's finding of substandard audit work.

Based on the OIG review, SBA's Office of General Counsel (OGC) requested the Department of Justice to review the case for

negligence and for possible False Claims Act violations by both the SBIC and its CPA firm. The settlement agreement was negotiated by OGC, the Department of Justice, and the CPA firm to avoid possibly protracted litigation.

### **SBIC Regulations**

As part of SBA's initiative to update and streamline its regulations, the OIG reviewed the proposed changes to SBA regulations governing the SBIC program (13 C.F.R. Part 107). Recommendations concerning a good character requirement for officers and directors were made; a fingerprint card requirement was also suggested for certain SBIC owners.

### **Activities to Enhance Fraud Detection and Deterrence**

#### **Minnesota SBIC President Settles Civil Suit with SBA**

The former president of a Minneapolis, Minnesota, SBIC agreed to pay \$500,000 to settle a civil suit. After SBA, acting as receiver for the company, found indications that the man had diverted approximately \$440,000 of the SBIC's assets, OGC asked the OIG to investigate the matter. The OIG found that the OIG investigation, which documented that the executive had **misapplied** even more of the company's assets than originally suspected, ". . . contributed in large measure to the successful resolution of the civil case."

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## Surety Bond Guarantees

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

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

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

SBA can guarantee bonds for contracts with a face value of up to \$1.25 million. In FY 1995, SBA contingent liability for new final bond guarantees, including those issued under the PSB program, was \$965 million. The appropriated guarantee authority level for FY 1995 surety bond guarantees was \$1.767 billion; in FY 1996 it is \$1.8 billion. In the first half of FY 1996, SBA contingent liability was \$350 million.

### Summary of OIG Activity

The following summarizes OIG activities relating to SBA's surety bond guarantee program during the reporting period:

- One surety bond investigation remained active at the end of the reporting period.
- One surety bond investigation

continued to be monitored. Due to workload constraints, it had previously been referred to another law enforcement agency for investigation.

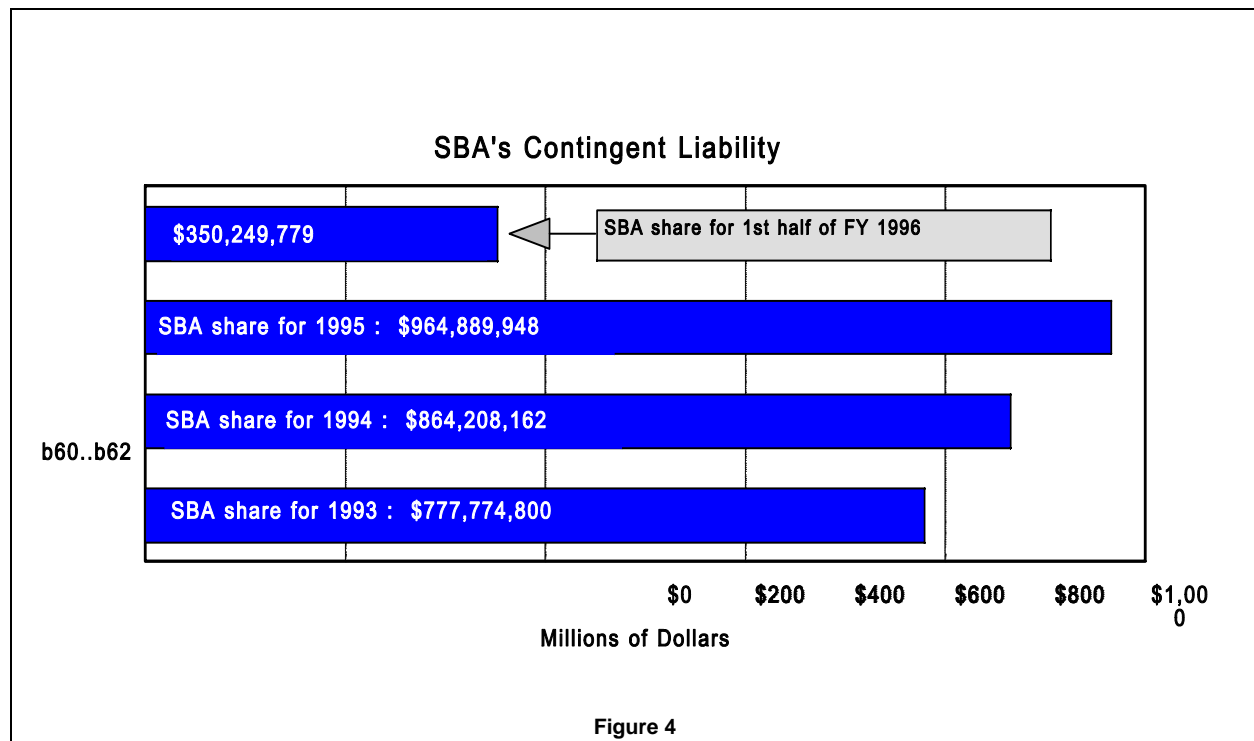
- Three proposed regulations were reviewed.

## Efforts to Improve SBA Program Management

### SBA Legislative Proposal

The OIG reviewed SBA's proposed legislative package for FY 1997 and recommended inclusion of the OIG's legislative proposal concerning audits of preferred surety bond companies. Briefly, this proposal would amend Section 411(g)(3) of the Small Business Investment Act to

replace the present requirement for an annual **audit** of participating sureties with an annual **review**. This would relieve the OIG of the requirement to conduct such audits, while allowing the Office of Surety Guarantees to conduct appropriate management reviews commensurate with the level of activity and risk posed by each surety. The OIG would retain its authority under the Inspector General Act to perform both internal audits of the surety bond guarantee program and external audits of participating sureties on its own initiative or in response to requests from program officials. The expected result of these proposed changes would be better utilization of limited OIG audit resources, as well as more effective annual review of participating sureties' activities. If enacted, this proposal would enable both the OIG and the program office to concentrate on those sureties with the most activity and/or risk.



## **Surety Bond Regulations**

The OIG reviewed SBA's proposals to simplify and reorganize 13 C.F.R. Part 115, the regulations governing the surety bond program. Based on our review, we made several recommendations concerning brokering and subcontracting, as well as retention of claims records for audit and investigative purposes.

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## Government Contracting Programs

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SBA provides assistance to small businesses in obtaining a fair share of Federal Government contracting opportunities. SBA also works with each department or agency to establish procurement goals for contracting with small, small-disadvantaged, and women-owned businesses. The Agency's government contracting programs include **Prime Contracts, Subcontracting Assistance, Certificate of Competency, Natural Resources Sales Assistance,** and the **Procurement Automated Source System.**

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

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

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

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

The **Procurement Automated Source System (PASS)** is SBA's computerized inventory of U.S. small businesses that are interested in Federal procurement opportunities, either directly with the Government or with prime contractors. Both Federal agencies and large prime contractors use PASS as a resource in identifying small businesses for procurement opportunities.

## Summary of OIG Activity

The following summarizes OIG activities relating to SBA's Government contracting programs during the reporting period:

- One inspection report was issued.
- Government contracting investigations produced a \$162,500 recovery by SBA.
- No Government contracting investigations were closed; six remain active.
- Due to workload constraints, one additional Government contracting case was referred to another law enforcement agency for investigation, giving the OIG a total of two referrals to monitor.
- Five proposed regulations were reviewed, as were six SOPs.

## Efforts to Improve SBA Program Management

### **SBA's Government Contracting Programs Must Adjust to Federal Procurement Changes and Limited Resources**

An OIG inspection found that dramatic changes resulting from declining Federal procurements, reductions in Federal contracting staff, and new acquisition legislation make the future of SBA's prime contracts and subcontracting functions increasingly uncertain. Moreover, the

programs are becoming more national in scope at a time when SBA program staff is being reduced markedly. While this OIG inspection was in progress, SBA began to streamline the two programs and reduce the prime contracts field staff by almost 40 percent. Recognizing the Agency's commitment to streamlining its contracting programs, we issued this report to provide assistance to SBA's management. The inspection report includes: (1) an examination of external constraints affecting program performance, (2) a review of the deployment of field personnel, and (3) ways in which SBA's Office of Government Contracting (GC) might maximize program performance with reduced resources.

To adjust quickly to the changing procurement environment, the OIG recommended that GC exercise central oversight of the prime contracts and subcontracting programs. Under the SBA proposals pending at the time, district directors would have been made responsible for managing the field staff. Because these programs, which help small businesses obtain their fair share of Government contracts, are national in scope, we expressed concern about the district directors' ability to adopt and adhere to national goals. The Agency subsequently decided to retain central control of the prime contracts and subcontracting programs. Other recommendations include suggestions for focusing SBA's reviews of prime contractors' achievement of subcontracting goals more effectively and expanding current efforts to integrate all reporting software.

### **Very Small Business Size Standard Reviewed**



The OIG reviewed SBA's proposed final rule and internal procedural notice implementing the new very small business size standard (13 C.F.R. Part 121) and concurred with its publication. The review made one substantive recommendation on this proposal. Section 121.413(a)(1) of the proposed regulation defines an eligible concern as one that, among other things, ". . . has average annual receipts for its preceding three fiscal years that total not more than \$1,000,000." This seems to require that a small business have an average annual income of less than \$333,333. Section 304(j)(4)(B) of the statute, however, provides that a concern is eligible if it ". . . has average annual receipts that total not more than \$1,000,000." The OIG therefore recommended that the regulation be revised to state that a business must have "average annual receipts, for each of its preceding three fiscal years, that total not more than \$1,000,000." (New language underscored.) Based on the OIG's comments, GC revised its rule to clarify that an eligible concern shall have "average annual receipts of not more than \$1,000,000." This new language is consistent with Section 121.104(b)(1), that specifies the period of measurement for determining annual receipts.

## Activities to Enhance Fraud Detection and Deterrence

### Largest Government Contracting Result from Affirmative Civil Enforcement (ACE) Program

During this period, the OIG's participation in the Department of Justice's ACE program produced the largest result to date in the Government contracting program. An OIG investigation documented that a Government contractor **falsely certified that the company was a small business** to receive three awards under procurements reserved for small businesses. While denying any allegation that it knowingly submitted a false size certification, the company agreed to pay the Government \$162,500 to resolve its potential liability under the False Claims Act. The OIG joined the investigation at the request of one of the procuring agencies for the awards.

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## Minority Enterprise Development

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**Section 7(j)(10)** of the Small Business Act established the **Minority Small Business and Capital Ownership Development Program** for the purpose of promoting greater access to the free enterprise system for socially and economically disadvantaged individuals. Under the Act, SBA provides business development assistance to small business concerns that are at least 51 percent unconditionally owned, controlled, and managed by one or more socially and economically disadvantaged individuals and that meet other eligibility requirements. Firms may participate in the program for a maximum of 9 years and must take steps to enhance their competitiveness during this period to be prepared to compete in the private sector upon graduation from the program.

One of the business development tools available to participant firms is access to Federal contracting opportunities authorized by **Section 8(a)** of the Small Business Act. Under the Section 8(a) program, SBA contracts with other Government agencies to provide goods and services, and subcontracts the performance of these contracts to program participants. As of September 30, 1995, there were more than 5,900 approved program participants. In FY 1995, Section 8(a) program participants received approximately 6,600 contracts and over 25,000 modifications with an aggregate value in excess of \$5.8 billion. Generally, Section 8(a) contracts with estimated values, including all options, of more than \$5 million (manufacturing) or \$3 million (all other industries) must be competed among eligible Section 8(a) program participants. The vast majority of the contracts awarded under the program, however, have estimated values below these thresholds and are awarded on a sole-source basis.

Under the **Section 7(j) Management and Technical Assistance Program**, which is housed in the Office of Minority Enterprise Development, SBA funds services by private or public organizations to provide a broad range of management and technical assistance to certified Section 8(a) firms, socially and economically disadvantaged individuals whose firms are not participants in the Section 8(a) program, low-income individuals, and small businesses located in areas of low income or high unemployment. The Section 7(j) program uses cooperative agreements with private sector organizations and institutions of higher learning to deliver assistance in three categories: (1) Task Order Services are used to provide one-on-one assistance to eligible companies in accounting, marketing, and industry-specific services; this is the largest Section 7(j) assistance category. (2) On-going Services provide seminars and

workshops in management and technical assistance. (3) The Minority Business Executive Program provides executive development training opportunities in an academic setting to selected executives of Section 8(a) companies. Due to a reduction in FY 1996 Section 7(j) funding, however, SBA expects that these services will be limited.

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

## Summary of OIG Activity

The following summarizes OIG activities relating to SBA's minority enterprise development programs during the reporting period:

- Four audit reports were issued in this program area; two audits were in progress.
- Minority enterprise development investigations resulted in two indictments and one conviction.
- Minority enterprise development investigations produced \$11,969,355 in court-ordered restitution, \$24,575 in fines and special assessments, and \$22,500,000 reduction in financial risk.
- Office of Security Operations name checks resulted in the declination of nine applications for the Section 8(a) program.

- Two minority enterprise development investigations were closed, leaving an inventory of 16 active cases. Due to workload demands, 1 other minority enterprise development case was referred to another law enforcement agency for investigation, and, at the end of the reporting period, we still had 12 minority enterprise development referrals to monitor.
- Two proposed regulations were reviewed.

## Efforts to Improve SBA Program Management

### OIG Deputy Inspector General Testifies on Section 8(a) Issues Before the House Committee on Small Business

The OIG's Deputy Inspector General (DIG) testified before the House Committee on Small Business on December 13, 1995. The testimony addressed major systemic problems in the Minority Enterprise Development (Section 8(a)) program, which

the OIG had identified in its investigations and audits, and offered proposed remedies. In cases of participant fraud, the DIG reported that due diligence on the part of responsible SBA employees would frequently have prevented the fraud, or would have contributed to discovery sooner. Unfortunately, some fraud referrals have been declined by the Department of Justice because the Agency knowingly permitted violations of its own policies and regulations.

In the audit area, the OIG has identified three problem areas demonstrating major systemic weaknesses: eligibility, competition, and brokering. An audit of 50 larger companies serviced by five SBA offices around the country concluded that participants remained in the program even though they had accumulated substantial wealth or had overcome impediments to obtaining access to financing, markets, and resources. The failure to graduate those Section 8(a) companies that are successful is a contributing factor to the concentration in the award of contracts. As of December 1995, the largest 200 companies, out of approximately 5,700 participating in the program, commanded 50.4 percent of the contracts in terms of dollar value, with an average of \$70 million for each of the 200 companies. The DIG stated that the single most important measure that could be taken to minimize eligibility abuse, simplify program administration, and reduce concentration would be to establish a ceiling on the dollar amount of contracts that a participating company could receive.

OIG audits have also found excessive subcontracting/brokering. In contracts awarded under Standard Industrial

Classification (SIC) codes for services, Section 8(a) contractors provided significant amounts of equipment. These Section 8(a) contractors, however, were neither manufacturers nor regular dealers in the equipment, as required by SBA's regulations. Other improper subcontracting practices uncovered included lack of notification to SBA for increasing subcontracting subsequent to contract award, lack of monitoring of excessive subcontracting, and difficulty in measuring whether a company had subcontracted too much. A cap on the dollar amount of contracts that a Section 8(a) company could receive would alleviate many of these subcontracting problems.

The DIG also testified that the SBA has closed one major loophole, i.e., the use of indefinite delivery/indefinite quantity contracts, and that current Section 8(a) program managers recognize the problems identified by the OIG and are formulating solutions to them.

#### **Audit Discloses Washington, D.C., Section 8(a) Firm Did Not Meet "Regular Dealer" Test**

At the request of a New Jersey member of Congress, the OIG conducted an audit of a Section 8(a) company in Washington, D.C., to determine whether the company operated as a "regular dealer" of office supplies in accordance with the Government's requirements. A regular dealer is one who makes very substantial sales from stock maintained on hand, rather than one who serves merely as an intermediary for items supplied by other businesses or suppliers. The audit found that the **firm's Section 8(a) and non-8(a) sales from stock were not**

**substantial**, as only about .75 percent of the total office supply sales during the audited period were from stock on hand. The company's principal method of operation was to obtain orders and then purchase the items called for from either a manufacturer or a retailer for a commission or a markup on cost. The OIG recommended that SBA's Washington District Director not accept any current or future offerings for office supplies from the company until the company qualifies as a regular dealer. The Washington District Director disagreed with the finding and recommendation because he believes that recent legislation repealed the regular dealer requirement, and that the company's sales from stock could be considered substantial. Because the regular dealer requirement existed at the time of the violations, and other regulations still contain these requirements, the disagreement will be addressed through the Agency's audit resolution process.

#### **Business Owner Should Not Have Been Admitted to Section 8(a) Program**

The owner of a Section 8(a) company should not have been admitted to the 8(a) program because his prior business success demonstrated his ability to accumulate substantial wealth and overcome impediments to obtaining access to financing, markets, and resources. The Section 8(a) program is not intended to assist such companies. Prior to entering the Section 8(a) program, the owner accumulated and lost, due to business reasons, substantial wealth. Based on the owner's claimed net worth, he was, at one point, a multimillionaire. Also, prior to entering the Section 8(a) program, the owner held a significant percentage of stock of a

bank holding company in which he was a director. He also was Chairman of the Executive Committee of the bank. The auditors concluded that the firm should be terminated from the Section 8(a) program. The Agency has not yet responded to the recommendation.

#### **Minority Enterprise Development/Small Disadvantaged Business Status Regulations Reviewed**

The OIG reviewed the Agency's proposed changes to 13 C.F.R. Part 124, governing the Section 8(a) program, and made several recommendations. Our recommendations focused on tax verification requirements, good character requirements, awards of Section 8(a) contracts to wholesalers, SIC code designations, eligibility criteria, and program benefits.

#### **Activities to Enhance Fraud Detection and Deterrence**

##### **Colorado Construction Company Set-Aside Contract Rescinded**

The award of a \$22.5 million Small Disadvantaged Business (SDB) set-aside contract to a Denver, Colorado, construction company was rescinded because of an OIG investigation report. The company, a Section 8(a) participant, had been awarded this contract by Luke Air Force Base, Arizona. Shortly thereafter, a complaint was received that the owner was not disadvantaged, as he had claimed. At the time of this protest, the OIG and the FBI were investigating the man on a separate contracting-related allegation. The investigation determined that the company

owner submitted **false documents** to SBA, representing that he was born in Bombay, India, and was, therefore, presumed to be disadvantaged. Documents obtained during the investigation disclosed that he was born in Iran, a country of origin to which the presumption of disadvantage has not been accorded. Based on the investigation report, SBA determined that the construction company was ineligible for SDB set-aside contracts. SBA has further notified the company of the Agency's intent to terminate it from the Section 8(a) program.

### **Maryland Computer Service Company Owner Convicted on a Variety of Fraud Charges**

The owner of a computer support contractor in Landover, Maryland, was convicted in the District of Columbia of **bank fraud, wire fraud, making false statements to SBA, and misuse of Social Security numbers**. She was sentenced to 37 months imprisonment, 3 years probation, and \$700,000 restitution to the Treasury Department and to two financial institutions. To obtain her company's admission to the Section 8(a) program, the woman concealed two prior bankruptcies from SBA, used false Social Security numbers, and submitted bogus tax returns to SBA, i.e., returns which had not been filed with the IRS. She also inflated costs on Government contracts and used the extra funds for personal expenses. Additionally, she converted to her own use monies deducted from employees' paychecks for taxes, Social Security, and Medicare. The company owner also submitted false documents to a Federally-insured financial institution to obtain \$755,850 in loans to purchase land and build a home. SBA terminated the company from

the Section 8(a) program. Following a referral from SBA's Washington District Office, the SBA/OIG joined the Treasury Department OIG's ongoing investigation of the company.

### **Space Shuttle Contractor Case Yields Tenth Guilty Plea and Sentences of Nearly \$12 Million**

The former vice president of an engineering and design company with offices in Culver City, California, and Houston, Texas, pled guilty to a one-count criminal information for **making a false statement** to SBA to obtain Section 7(j) cooperative agreements in the San Diego, California, area. The company provided graphic designs and illustrations to a prime contractor for the Space Shuttle program.

The investigation also substantiated that the company's chief executive officer used a family trust and three associated corporations to bill inflated rents and other expenses to NASA subcontracts, including a Section 8(a) contract initiated in 1981 for \$4.4 million and extended through December 1989 for \$6.4 million. Also included in the alleged conspiracy were a series of materially false statements made to secure and maintain Section 7(j) cooperative agreements totaling more than \$60,000, including repeated assertions that the company had an office in San Diego from which it continuously did business.

The vice president's guilty plea is the tenth one resulting from this investigation, which included the SBA/OIG, the NASA/OIG, the IRS, the FBI, the Postal Inspection Service, and the Departments of Defense and Labor.

He was sentenced to 1 year probation, a sentence mitigated by his substantial cooperation with the investigation. In return for his guilty plea, the court dismissed the **conspiracy** charge on which he was originally indicted.

In a further development, five other sentences resulting from this Federal task force investigation were handed down. The chief executive officer of the company was sentenced to 2 years imprisonment, 3 years supervised release, \$4,472,900 restitution, and fines and special assessments totaling \$23,950. He had pled guilty to 180 charges including **conspiracy, mail fraud, false claims, money laundering, theft from programs receiving Federal funds, embezzlement from an employee benefit plan, interstate transportation of stolen money, and obstruction of a Federal audit**. Three of his other defunct businesses were charged special assessment fees of \$200 each, and the Section 8(a) company was sentenced to pay \$7,496,455 restitution. Each of the four corporations had pled guilty to **conspiracy**.

#### **Two Illinois Brothers Charged with Conspiracy to Defraud the Government and Obstruction of Justice**

Two brothers, the president of a Section 8(a) construction company in Villa Park, Illinois, and the principal accountant for the company, respectively, were charged in a criminal information with **conspiracy to defraud the Government and obstruction of justice**. The OIG's joint investigation with the Air Force Office of Special Investigations (AF/OSI) revealed that, from about August 22, 1990, through January 7, 1991, the brothers submitted fraudulent

claims to SBA and the Air Force pertaining to a Section 8(a) contract for landscaping on the Air Force Reserve Facility at O'Hare International Airport. During the course of the subsequent investigation, the brothers provided false testimony to a Federal grand jury and attempted to tamper with witnesses whose testimony was to be presented to the grand jury. The AF/OSI asked the SBA/OIG to join the investigation.

#### **Section 8(a) Owner Gives Gratuities, Withdraws from Program**

The chairman of a Section 8(a) firm, whose termination SBA had proposed, voluntarily withdrew from the Section 8(a) program. An OIG investigation found that the executive had provided a series of **gratuities** to an SBA employee who was responsible for providing Section 8(a) contract support to his corporation. A piece of equipment which was one of the gratuities was surrendered and became SBA property; the SBA's business opportunity specialist who had received the gratuities retired.





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## Economic Development

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SBA provides assistance to small business owners, managers, and prospective owners through its many counseling and training programs. SBA established the **Small Business Development Center (SBDC)** program to make management assistance and counseling widely available. SBDCs offer one-stop assistance to small businesses by providing a wide variety of information and guidance in easily accessible locations. The program is a partnership between the private sector; the educational community; and Federal, State, and local governments. There are SBDCs in all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, and Guam, with over 950 subcenters or service locations located at colleges, universities, vocational schools, chambers of commerce, economic development corporations, or downtown storefronts. In FY 1995, SBDCs provided counseling and training to nearly 570,000 clients.

The **Service Corps of Retired Executives (SCORE)** is another of the valuable business development resource partners of SBA. Composed of approximately 13,000 volunteers working in over 700 sites, SCORE provides counseling and training to current or prospective business persons. Counseling sessions are free to the public and training is provided at a low cost. Over 27,000 clients were assisted in FY 1995.

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

**Business Information Centers (BICs)** provide business owners with access to computers, software, databases, and other resources to assist them in starting and expanding their businesses. All BICs have at least one on-site counselor and can address the varied business start-up and growth issues encountered by small business owners. There are currently 29 BICs in operation, with a total of 45 planned by the end of FY 1996.

### Summary of OIG Activity

The following summarizes OIG activities relating to SBA's economic development programs during the reporting period:

- One audit report was issued in the economic development program area; two were in progress.
- One economic development investigation remained active at the end of the reporting period.
- One economic development investigation continued to be monitored. Due to workload constraints, it had previously been referred to another law enforcement agency for investigation.

## **Efforts to Improve SBA Program Management**

### **Management Problems Identified in California Small Business Development Center Audit**

**Program management and fund control problems** were identified in an audit of the California Small Business Development Center (SBDC). The program, which has 24 subcenters, receives \$5 million per year from SBA. Program management problems included reporting of inaccurate management information, lack of an advisory board, unfilled staff positions, and inadequate subcenter monitoring. As of January 1995, the SBDC had improperly retained \$1.3 million in Federal funds for the 1991-1993 period. The SBDC had not reported line item cost overruns to SBA. Program income reporting was found to be inaccurate and inconsistent. The audit recommended a number of corrective actions, all of which have been agreed to by both the SBDC and SBA's Associate Administrator for Small Business Development Centers. The SBDC has also deobligated most of the funds that were improperly encumbered.

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## **Agency Management and Financial Activities**

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

SBA's management and financial activities, represented by the Agency's total appropriation,

involved almost \$1.893 billion in FY 1994\*. SBA's FY 1995 actual appropriation used was \$798 million, including Section 7(a) and disaster carryover funds and released disaster contingency funds. FY 1995 appropriations available, including contingency funds, were \$939.5 million. Because final Agency appropriations have not been enacted for FY 1996, SBA has been operating at the Congressional conference level of \$590.6 million. This drastic reduction in funding reflects downsizing in accordance with the Administration's Reinventing Government efforts.

\* The unusually high level of funding in FY 1994 is attributable to the extraordinary cost of the Northridge earthquake.

## Summary of OIG Activity

- Three proposed pieces of legislation, 15 proposed regulations, and 10 proposed SOPs were reviewed.

The following summarizes OIG activities relating to SBA's administration and financial management activities during the reporting period:

- Four audits of Agency activities were issued; one other audit was underway.
- Integrity assurance investigations resulted in one indictment, one conviction, and \$1,526,893 in court-ordered restitution.
- Eleven integrity assurance investigations were closed, leaving an inventory of 17 active cases.
- Three integrity assurance investigations continued to be monitored. Due to workload constraints, they had previously been referred to other law enforcement agencies for investigation.

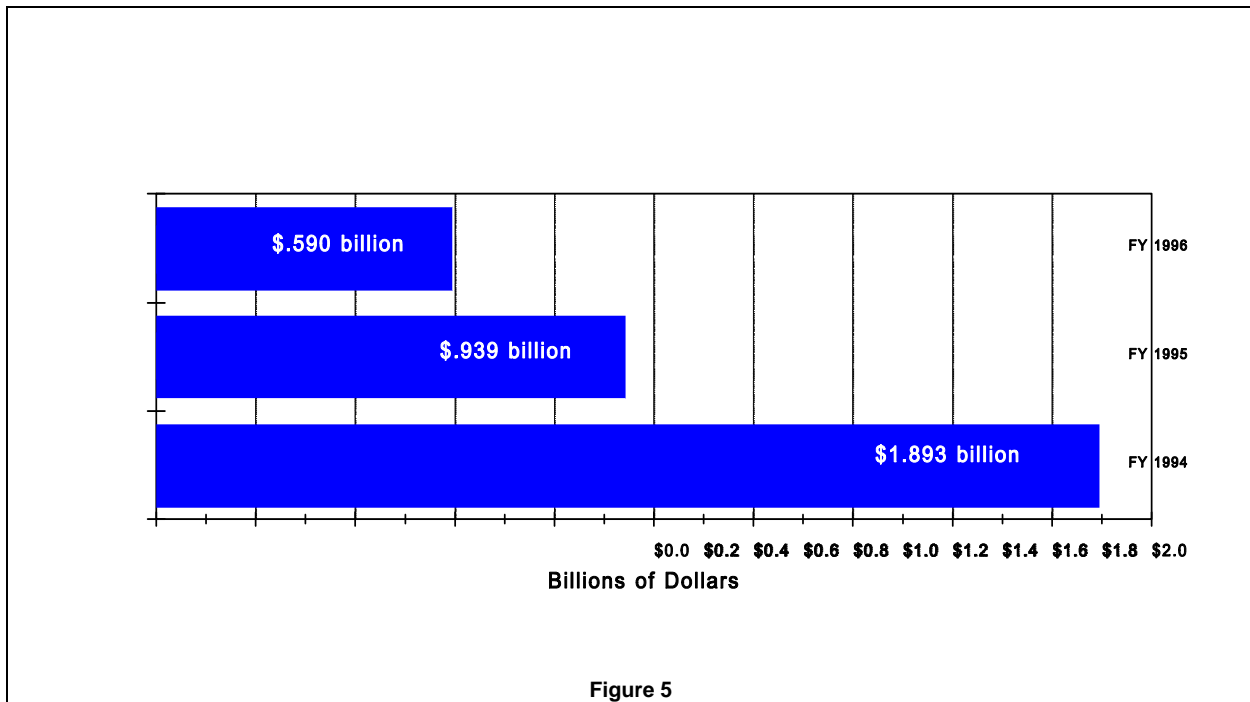


Figure 5

## Efforts to Improve SBA Program Management

### New York Project Officer Awards His Own Company Sole Source Contracts

An audit disclosed that the owner of a New York company **awarded his own company contracts** while working as a temporary project officer for an SBA grantee located in Pennsylvania. The research firm initially had a contract to provide the grantee with a project officer. While working as the grantee's project officer, the owner of the research company prepared the specifications and administered two sole source contracts awarded to his own firm for software and training services. Because of the conflict of interest, the auditors concluded that the company's profit of \$105,431 represented unjust enrichment.

The audit report recommended that the grantee refund this amount to SBA. Agency management officials have not yet made a final decision on the recommendation.

### Audit Confirms Duplicate Payments Made to Virginia Computer Equipment Supplier

An audit, conducted at the request of SBA's Assistant Administrator for Administration, confirmed that **duplicate payments totaling \$261,277 were made by SBA** to a computer equipment supplier for computer equipment and services. The payments were part of \$4.9 million paid to the company in 1991 and 1992 on a firm, fixed price, indefinite quantity contract. The company agreed that it had received the duplicate payments, but contended that it was underpaid \$26,253 on other company invoices that were adjusted

downward by SBA without explanation. Because SBA had no documentation to support these billing reductions, the auditors recommended that they be restored. The net owed by the equipment supplier, according to the audit, is \$235,024. If the company does not reimburse SBA, the audit report recommends that SBA initiate debarment of the company from Federal contracts.

### **Program Vulnerability Memorandum Issued on Close-Out Letters in Employee Investigations**

During this reporting period, the Inspector General (IG) issued a program vulnerability memorandum (PVM) to the Assistant Administrator for Human Resources (AA/HR). The PVM cited a recent OIG investigation of alleged misconduct by an Agency employee. After the investigation disproved the allegation, the employee asked for a formal Agency acknowledgment that he had been cleared. When the OIG determined that SBA had **no formal policy for notifying employees when completed investigations of their alleged misconduct would result in no disciplinary action**, the IG recommended that SBA establish such a policy. The OIG provided, for the AA/HR's consideration, a sample Clearance Letter and Closed Without Action Letter (which of the two is issued depends on the findings of the investigation) used by the IRS.

The AA/HR responded that her office has a practice of notifying employees of the outcome of investigations of their alleged misconduct. She remained unconvinced, however, that a formal policy of written notification in every case would be beneficial.

### **Accounting Standardization Act of 1995**

The OIG reviewed a Revised Congressional Draft Bill on the Accounting Standardization Act of 1995 and had several serious concerns with it as drafted. First, the review questioned the need for such a stringent measure at this time. While there may be a need for some uniformity of accounting systems and a higher degree of compliance with requirements for auditable financial statements among Federal entities, the OIG does not believe that an additional legislative enactment is necessary. Further, the OIG recommends that the Congress wait a reasonable period of time to let such measures as the Government Performance and Results Act and the Chief Financial Officers Act take full effect across the Government. Congress can then assess whether additional legislative initiatives are necessary to address any remaining problems with the Executive Branch's execution.

Second, there was concern with certain provisions of this bill as drafted. Section 3(c), for example, provides that if the auditor performing the annual financial statement audit for an agency finds that agency financial systems do not substantially comply with this Act, the auditor must identify the officer or employee "responsible" for this failure. Section 3(g) then provides that an employee who knowingly "commits, permits, or authorizes" deviation from the Act may be subject to disciplinary action, including removal from office. As a practical matter, these provisions are ill-advised. Attempting to identify the "responsible" employee will only result in finger-pointing; ultimately, it is the head of the agency and his/her management team who are responsible for

the agency's financial systems. It is also unnecessary to include a special provision for disciplinary action for failure to comply with this Act; failure to comply with the provisions of **any** law already constitutes potential grounds for discipline. Finally, these provisions, taken together, will make it difficult to recruit and retain top candidates for Chief Financial Officer (CFO) positions in agencies.

The OIG also objected to Section 3(e), which provides that, if the Controller of the Office of Federal Financial Management concludes that an agency's systems do not substantially comply with this Act, he/she may transfer up to 2 percent of the agency's appropriations for priority financial management system improvements. Although this provision does state that the agency head must concur, its overall effect is to restrict an agency head's discretion to manage an agency. This appears to be an unnecessary infringement on an agency head's ability to deliver agency programs and carry out other Congressionally-mandated initiatives.

Finally, while we understand that there may be a need to address certain problems currently existing in the executive branch's financial systems, a better solution exists. If Congress finds that agencies are not addressing deficiencies brought to their attention in the annual financial statement audits, the appropriate vehicle to address these problems is through more active oversight by the substantive oversight committees. Holding hearings and requesting explanations and corrective action from the head of an agency would most likely result in more immediate and responsive actions.

### **Information Technology Management Reform Act of 1996**

The OIG reviewed the Office of Management and Budget's (OMB's) draft memorandum on the implementation of the Information Technology Management Reform Act of 1996 (ITMRA). While the goal of promoting the responsible use of information technology throughout the Government is laudable, we were concerned that some of the changes in ITMRA and the draft memorandum implementing the act have the potential to seriously erode the independence of Inspectors General (IGs) throughout the Government.

Our first concern involved the interaction between the ITMRA and the Paperwork Reduction Act of 1995 (PRA). In an earlier review of the PRA and its implementing regulations, we noted that under the PRA, the agency head or a designated senior official would have the authority to impede certain types of IG audits and inspections of agency programs and operations; namely, audits or inspections that focus on a category of individuals or entities (such as a class of licensees or an entire industry) and that involve a survey or collection of information from ten or more persons. This would directly contravene Section 3(a) of the Inspector General Act of 1978, as amended, which provides that each IG reports to and is under the general supervision of the agency head, but the agency head does not have the authority to prevent or prohibit the IG from initiating, or completing any audit or investigation. Under the PRA and its implementing regulations, an agency head or designated senior official would review the proposed

survey to evaluate whether it should be approved by OMB, and provide the public with 60 days to review and comment on the survey. The agency head or designated senior official would then certify that the information collection meets certain standards and forward the survey to OMB for final clearance. While this authority will now lie with the agency head or the Chief Information Officer (CIO) under ITMRA and the draft memorandum, instead of an unspecified designated senior official, the results will be the same in terms of the independence of OIG activities.

The IG is the individual best qualified to identify the information necessary to carry out his or her mission, as well as the best means of collecting the needed information. To allow the agency head or CIO to review and approve (or disapprove) the questions the IG may ask gives the agency head or CIO the authority, in effect, to prohibit or prevent the IG from completing an audit or inspection--an authority specifically prohibited by the IG Act.

We also expressed concern about the CIO's implementation of performance-based management and its effect on the independence of IGs. Under ITMRA, before investing in new information technology systems and equipment, the agency is required to determine whether the function to be performed should be effected or supported by the private sector. Agencies are further required to analyze their missions and restructure mission related processes before making significant information technology purchases. While these requirements may promote efficiency and economy, the OIG is concerned about the role of the CIO in this process with respect

to OIG initiatives. It is unclear in the draft memorandum whether the CIO serves in an advisory capacity or whether he/she has decision making authority in this area. While we do not find a CIO's role as an advisor, i.e., a resource to draw upon when making such decisions, to be objectionable, any greater role with respect to OIG activities would usurp the IGs' independent procurement authority and, in addition, could prevent or prohibit the IG from initiating or completing any audit or investigation.

Furthermore, pursuant to Section 5125 (c) of the ITMRA, the CIO has the authority to monitor and evaluate the performance of information technology programs and to recommend that the head of the agency continue, modify, or terminate a given program or project. Once again, with respect to OIG activities, the IG is the individual best qualified to identify the information necessary to carry out his/her mission, as well as the best means of collecting the needed information. To allow the agency head or CIO to review and approve or disapprove the programs and projects established by the IG would give the agency head or CIO the authority, in effect, to prohibit or prevent the IG from completing an audit, investigation, or inspection.

Finally, the CIO has the authority under the ITMRA to assess agency requirements regarding the knowledge and skill of personnel in information resources management and to assess the extent to which the personnel in executive and management level positions meet those requirements. Again, with respect to OIG activities and staff resources, the IG is the

individual best qualified to identify his/her needs and to hire and retain individuals with the skills necessary to meet those needs. To allow the CIO to assess the needs of the IG and the qualifications of his/her employees, as well as to develop specific plans for the hiring, training, and professional development of the IG's employees, would usurp the IG's personnel authority as set forth in Section 6(a)(6) of the Inspector General Act of 1978, as amended.

For all of the reasons set forth above, we recommended that the OIG be exempted from the scope of authority given to the CIO. At a minimum, we suggested that OMB guidance make clear that the CIO should serve only in an advisory or consultative mode with respect to OIG activities.

#### **Small Business Regulatory Enforcement Fairness Act of 1996 (S. 942)**

The OIG reviewed the Small Business Regulatory Enforcement Fairness Act of 1996 and had two substantive objections to the ombudsman provisions of S. 942 as drafted. Title II of the bill would create a Small Business and Agriculture Regulatory Enforcement Ombudsman to receive and address comments from small businesses that are subject to audit, inspection, compliance assistance, or other enforcement actions by Federal agencies with regulatory authority over small businesses.

First, the purpose of this provision was to give small businesses an avenue to resolve comments or complaints they may have concerning an agency's exercise of its regulatory authority. The proposal was drafted in language so broad, however, that

it could apply to the audit, investigation, and inspection activities of OIGs in those Federal agencies that regulate small businesses. It would subject OIG activities to oversight by an ombudsman within SBA who may not be a Presidential appointee and subject to the Senate confirmation process. These provisions would directly contravene the independence provided by the IG Act of 1978; specifically Section 3, which provides that the IG shall report to and be under the general supervision of the head (or the officer next in rank) of the host agency.

Second, Section 30(b)(2)(B) provided that the ombudsman shall provide confidentiality (to the same degree as that provided by Section 7 of the IG Act) to small businesses that make comments concerning agency employees engaged in compliance or enforcement activities. Section 7 of the IG Act provides that, in OIG investigations, the IG cannot release the identity of an employee without his/her consent unless the IG determines that the ". . . disclosure is unavoidable during the course of the investigation." Applying this language to the proposed legislation, the ombudsman would not be able to release the identity of a nonconsenting complainant unless it is "unavoidable" during the resolution of a particular complaint. The ombudsman would not, therefore, as a matter of law be able to refer any allegations involving misconduct by SBA employees to the OIG for investigation. This would directly contravene Sections 3 and 4 of the IG Act, which place the responsibility with the OIG for investigating allegations of misconduct relating to host agency programs.

The OIG did not believe that there was a demonstrated need to establish an



ombudsman position such as that proposed. Complaints of misconduct or improper actions by agency employees can be directed to the OIG or appropriate program officials of the host agency. If, however, this provision must be retained, the SBA/OIG made the following recommendations:

- The language of Title II should be redrafted to clarify that the ombudsman's jurisdiction extends only to comments on activities conducted by agency program offices. The ombudsman should not have jurisdiction to accept or resolve comments concerning OIG audits, inspections, or other enforcement activities.
- Section 30(b)(2)(B) should be expanded to include language that specifically requires the ombudsman to refer allegations of misconduct by agency employees to the OIG for appropriate action.
- A new Section 30(b)(3) should be added to clearly state that this provision does not supersede the provisions of the IG Act of 1978, as amended.

## **Activities to Enhance Fraud Detection and Deterrence**

### **Employee Awareness Briefings**

In addition to investigating complaints of waste, fraud, and abuse involving SBA programs, our investigations staff presented

six Standards of Conduct briefings to a total of 135 Agency employees. The involvement and cooperation of all SBA employees in combating waste, fraud, and abuse is critical to an effective OIG investigations program and to the Agency's overall productivity and efficiency.

During the reporting period, employee contributions to our mission were significant. As Figure 6 illustrates, more than 65 percent of all investigative referrals originated from within the Agency in the form of referrals from program heads or directly from other SBA employees. This cooperation indicates the strong commitment of SBA employees to reducing waste, fraud, and abuse in Agency activities and improving the Agency's management and control of its programs.

### **Pennsylvania Tax Return Preparer Sentenced for Mail Fraud**

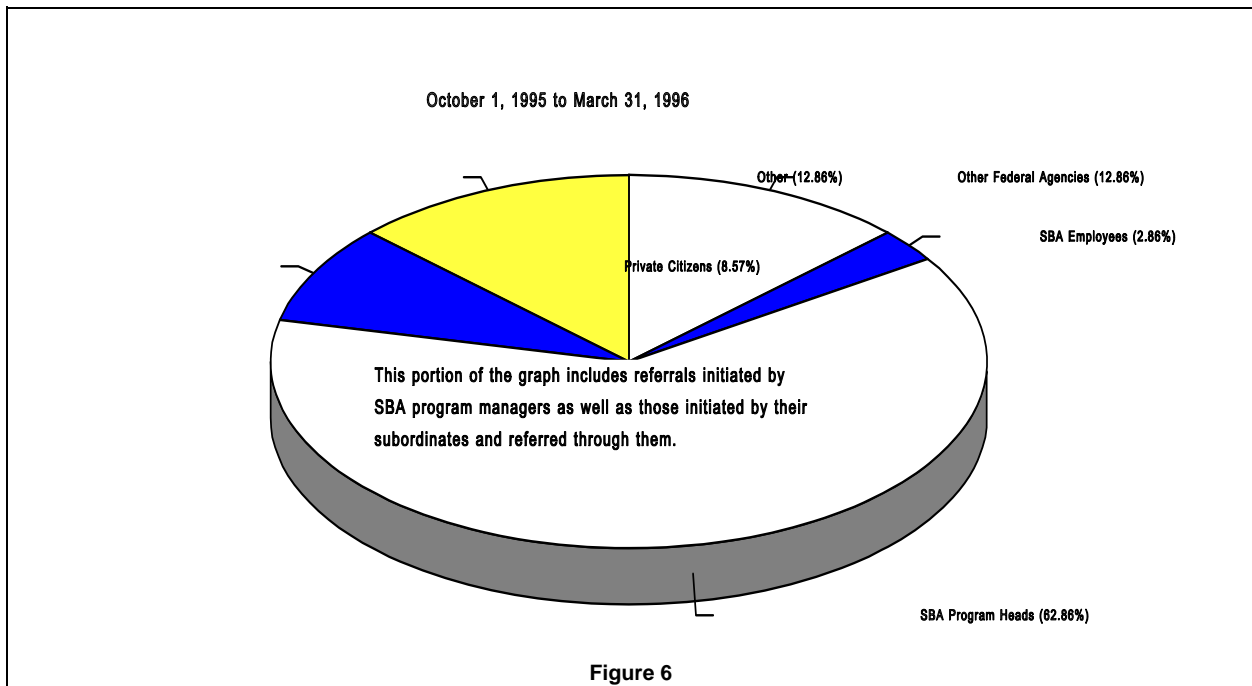
A Riegelsville, Pennsylvania, tax return preparer was sentenced to 33 months incarceration--the maximum time allowed by law for his crime--and 3 years supervised probation. The judge also ordered the man to pay \$1,526,893 in restitution to the individuals whom he had defrauded. He had pled guilty to one count of **mail fraud** in connection with his scheme to defraud investors by selling them approximately \$1,143,000 of bogus tax-free municipal bonds purportedly guaranteed by SBA. The OIG's joint investigation with the Postal Inspection Service documented that he designed the bonds, devised a fictitious name (the Upper Bucks County Industrial Development Authority), and falsely stated on the bonds that they were guaranteed by SBA. He convinced clients and prospective

clients of his business to purchase the bonds as a viable investment and a means of reducing their income tax liability. The bonds were sold between 1985 and 1993 to approximately 50 investors, many of them

elderly. The investigation was predicated on information supplied by SBA's Philadelphia District Office.

### **Former Disaster Clerk Pleads Guilty to Misusing Government Vehicle**

A former clerk with SBA's Disaster Assistance Area 4 Office pled guilty to one count of converting Government property to his own use. A joint OIG/Federal Protective Service investigation of the clerk was initiated based on information provided by the Area 4 Office. The investigation determined that, without authorization, the clerk obtained a rented automobile, paid for by SBA, and used it exclusively for personal business. Area 4 officials became aware of the problem when the employee was involved in an accident with the vehicle.



# Organization, Resources, and Management Initiatives

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The two missions of the Office of Inspector General are to help improve management in the Agency and to detect and deter fraud in SBA's programs. These dual missions are accomplished through the provision of audit, investigation, and inspection and evaluation oversight to the Agency's portfolio and programs. This chapter provides an overview of the OIG's organizational structure and personnel and budget resources and summarizes key internal management initiatives to use those resources as effectively as possible.

## Organization

The OIG is organized into four operating divisions as follows:

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

The Auditing and Investigations Divisions each administer their field activities through field offices and resident offices around the country. The Auditing Division has offices located in Atlanta, Dallas, Los Angeles, and Washington. In addition to these cities, the Investigations Division has offices in Denver, Kansas City, Seattle, Chicago, Houston, New York City, Philadelphia, San Francisco, and Syracuse. The Investigations Division's Office of Security Operations is located in Washington, D.C.

Both the Inspection and Evaluation Division and the Management and Legal Counsel

Division operate out of Washington, D.C. A current OIG organization chart can be found at Figure 7.

## Resources

In FY 1996, the OIG is operating under a series of congressional Continuing Resolutions (CR) at an annualized funding level of \$8.5 million and an authorized personnel ceiling of 102 full-time equivalent (FTE) positions. While this level of funding represents the same number of dollars as the FY 1995 appropriation, it will not support OIG activity at the same level which was possible in FY 1995. Congressionally-mandated law enforcement availability pay, the annual cost of living increase, and various locality pay adjustments were not reflected in the CR spending levels. Also, the OIG was required to reduce its personnel resources from the FY 1995 level of 104 FTE positions. This reduction was executed in response to the President's FTE guidance.

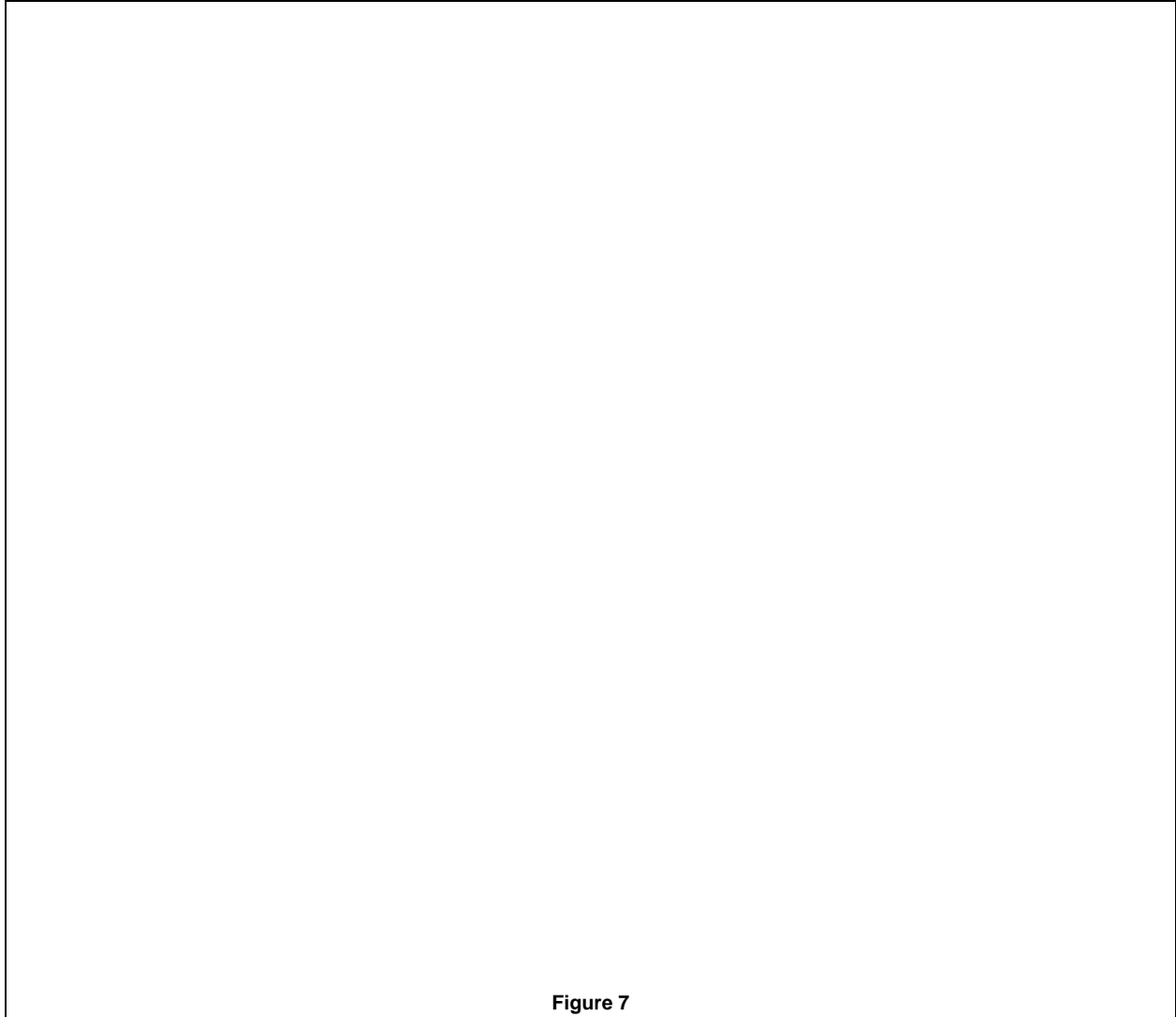


Figure 7

At the end of the current reporting period, the OIG had 97 employees on board.

In FY 1994, the OIG also received \$3 million in supplemental disaster funds to be used for activities related to the Agency's vastly expanded disaster assistance program. These "no-year" funds remain available until expended. By the end of the current reporting period, six auditors and five investigators had been hired on temporary appointments using disaster funding.

Operating at the CR funding level of \$8.5 million, the OIG will be unable to completely absorb the cost of implementing the Law Enforcement Availability Pay Act (mandated by the Congress last year). This law provides all criminal investigators with a 25 percent increase to their base salary to compensate for a 25 percent increase in their duty hours. The OIG budget will also be unable to completely absorb the combined cost-of-living and locality pay raises of an

estimated 3.6 percent.

The continuing reduction in OIG FTE resources (104 FTE in FY 1995, and 102 FTE in FY 1996) remains troubling. As depicted in Figures 1 and 2, the expanding nature of the Agency's portfolio and its concomitant demand for OIG oversight would suggest that resources be increased to ensure adequate oversight. In recognition of this need, the President has requested \$9.985 million for the OIG for FY 1997. Without these additional resources, the OIG will not be able to carry out its mandate to provide oversight to the Agency's programs and activities and to safeguard the Government's investment in the extensive programs of the Agency.

The OIG continues to be concerned with the strong demand for investigations of fraud in Agency programs. As evidenced by the table on page 59, business loan fraud continues to be our major area of concentration, in terms of both number of active cases carried and time expended on those cases. Disaster loan fraud qualifies as the second largest area for investigative activity, in terms of both number of cases and time expended. This reporting period set a new record for the share of investigative time (83.6 percent) expended on business and disaster loan fraud cases. With 1995 having been the busiest hurricane season in more than a generation, and with demand for SBA business loans remaining high, we expect that our investigative efforts will continue to be consumed by those two programs and our resources stretched severely. The table on page 59 also illustrates the Auditing Division's emphasis on the business loan and disaster assistance programs. This is demonstrated by the

Auditing Division's effort in the disaster assistance program, which has gone from 3 percent to 10 percent to 25 percent to 29 percent, respectively, over the last 4 reporting periods.

## **Management Initiatives**

### **ADP Equipment Upgrade Initiative**

An ongoing OIG initiative to procure new personal computers to replace obsolete ADP equipment is a continuing OIG priority. The new equipment is capable of meeting Agency standards for connectivity and software. Training for the recently announced Agency-supported software suite will assure that OIG personnel obtain maximum effectiveness with the new computers.

### **SBA/OIG Brochure Published**

A single-page, tri-fold brochure, entitled "A Brief Overview of the Office of Inspector General," has been published and is available for distribution. The publication gives a brief history of the OIG and describes its basic functions, and provides information on how to report suspected waste, mismanagement, or abuse in SBA programs. The brochure will be used as background material for briefings and for recruitment.

### **OIG Moves People and Resources to Meet Workload Demands**

In an effort to make optimal use of its people and resources, the OIG has moved some of those resources and has placed them near to where they are most needed. The Investigations Division has opened a

resident office in Houston and staffed it with one employee from Atlanta. Also, to accommodate the growing disaster-funded staff in the Los Angeles Field Office, the OIG has moved that staff to larger quarters.

### **President's Council on Integrity and Efficiency**

The Inspector General (IG) is a member of the President's Council on Integrity and Efficiency (PCIE) and serves as chairman of the PCIE's Committee on Inspection and Evaluation. He participates in PCIE initiatives to reduce fraud and improve the management of Federal programs on a Government-wide basis. During the reporting period, the IG and his staff have contributed to several key PCIE initiatives:

- The IG, in his role as Chairman of the Committee on Inspection and Evaluation, was requested by the PCIE to conduct, jointly with the Chair of the Auditing Committee, a survey of IG involvement in the Government Performance and Results Act (GPRA). The survey will determine the extent of IG involvement in the development and implementation of GPRA both in their host agencies and within their own offices. The survey findings will also be used to prepare guidelines for IGs on their role in GPRA.
- The Inspection and Evaluation Division coordinated a series of meetings with newly appointed IGs who were considering developing or revising inspection and evaluation functions within their offices. The teams were composed of representatives from various IG

offices.

As Chairman of the PCIE Committee on Inspection and Evaluation, the IG commissioned the Inspections Round Table to conduct two additional initiatives:

- A report on the methods currently used by the inspector general community to provide accountability in block grants and similar programs.
- A compilation of successful inspections and evaluations performed by inspector general offices. The Round Table will keep this data base current and issue periodic summaries.

### **Furloughs and Winter Storm Affect the Work of the OIG**

Twenty days of Government shutdown occasioned by the budget impasse in November, December, and January and four more days brought on by the "Blizzard of '96" in the Nation's northeast, conspired to challenge the productivity of the OIG's workforce. Although employees deemed to be non-emergency were forced to stay home, a modicum of oversight of Agency programs was accomplished by the OIG's disaster-funded employees (not funded by annual appropriations), investigators involved with cases in active litigation, and selected supervisory personnel. While statistics for the current reporting are very positive despite the shutdowns, it should be noted that statistical results presented for this reporting period reflect many OIG activities initiated much earlier; the real impact of the Government's shutdowns may not be felt until the next reporting period, or

beyond.

**Direct Investigation Time by Program Area  
October 1, 1995 to March 31, 1996**

Program Area	Direct Time %	Number of Investigations	
		Closed	In Progress
Business Loans	51%	30	190
Disaster Loans	32%	10	84
SBIC	2%	3	13
Surety Bond Guarantees	1%	0	1
Government Contracting	3%	0	6
Minority Enterprise Development	4%	2	16
Economic Development	3%	0	1
Agency Management and Financial	4%	11	17
Total	100%	56	328

**Direct Auditing Time by Program Area  
October 1, 1995 to March 31, 1996**

Program Area	Direct Time %	Number of Audits	
		Issued	In Progress
Business Loans	48%	2	7
Disaster Loans	29%	1	6
SBIC	*	0	0
Surety Bond Guarantees	*	0	0
Government Contracting	*	0	0
Minority Enterprise Development	13%	4	2
Economic Development	6%	1	2
Agency Management and Financial	4%	4	1
Total	100%	12	18

\* less than ½ percent



# Profile of Operating Results

October 1, 1995 to March 31, 1996

## Audit Activities..... Totals

A. Reports Issued.....	12
B. Desk Reviews of CPA Audit Reports Issued.....	0
C. Audit Recommendations Issued.....	18
D. Dollar Value of Costs Questioned .....	\$887,292
E. Dollar Value of Recommendations that Funds Be Put to Better Use .....	\$0

## Audit Followup Activities

F. Audit Recommendations Closed .....	62
G. Disallowed Costs Agreed to by Management.....	\$1,120,894
H. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management.....	\$6,472,422
I. Unresolved Audit Recommendations.....	37
J. Dollar Value of Unresolved Audit Recommendations.....	\$21,298,723
K. Settlement Based on CPA Quality Review (non-recurring category) .....	\$1,100,000

## Inspection Activities

A. Reports Issued.....	1
------------------------	---

## Legislation/Regulation/SOP/Other Reviews

A. Legislation Reviewed.....	3
B. Regulations Reviewed.....	39
C. Standard Operating Procedures Reviewed.....	17
D. Other Issuances Reviewed* .....	50

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

<b>Status of Investigations as of March 31, 1996</b>	<b>Totals</b>
A. Total Cases .....	384
B. Closed Cases .....	56
C. Pending Cases .....	36
D. Open Cases.....	292
 <b>Summary of Indictments and Convictions</b>	
A. Indictments from OIG Cases.....	36
B. Convictions from OIG Cases .....	25
 <b>Summary of Recoveries and Reductions of Risk</b>	
A. Potential Recoveries and Fines as a Result of OIG Investigations .....	\$18,425,315
B. Reductions of Financial Risk as a Result of OIG Investigations .....	\$22,500,000
C. Reductions of Financial Risk as a Result of the Name Check Program .....	<u>\$4,707,418</u>
 Total: .....	 <u>\$45,632,733</u>
 <b>SBA Personnel Actions Taken as a Result of Investigations</b>	
A. Dismissals .....	0
B. Resignations/Retirements.....	0
C. Suspensions .....	0
D. Reprimands .....	0
 <b>Program Actions Taken as a Result of Investigations</b>	
A. Suspensions .....	0
B. Debarments.....	0
C. Removals from Program .....	1
D. Other Program Actions .....	1
 <b>Summary of OIG Fraud Line Operation</b>	
A. Total Fraud Line Calls/Letters .....	1,343
B. Total Calls/Letters Referred to Offices Outside the OIG.....	1,305
C. Total Calls/Letters Referred to Investigations Division for Evaluation .....	38

**Investigations Activities - Referral Program**

A. Cases Referred to FBI.....	24
B. Referred to Other Agencies (Excluding FBI) .....	3
C. Indictments from Referrals.....	0
D. Convictions from Referrals.....	1
E. Potential Recoveries and Fines as a Result of Referral Program .....	\$2,013,000
F. Reductions of Financial Risk as a Result of Referral Program .....	\$0

**Office of Inspector General  
Staffing as of March 31, 1996**

A. Immediate Office .....	3
B. Auditing Division.....	32
Professional.....	28
Support.....	4
C. Investigations Division.....	46
Professional.....	38
Support.....	8
D. Inspection and Evaluation Division.....	7
Professional.....	6
Support.....	1
E. Management and Legal Counsel Division .....	9
Professional.....	7
Support.....	2
 OIG Total .....	<u>97</u>

**Additional Temporary Disaster Staffing  
Funded from Supplemental Appropriations**

A. Auditing Division.....	6
B. Investigations Division.....	5
 OIG Disaster Total .....	<u>11</u>

## FY 1996 Productivity Statistics First Six Months

<b>Office-Wide Dollar Accomplishments</b>	<b>Totals</b>
A. Potential Investigative Recoveries and Fines .....	\$18,425,315
B. Management Avoidances as Result of Investigations .....	\$27,207,418
C. Disallowed Costs Agreed to by Management.....	\$1,120,894
D. Recommendations that Funds Be Put to Better Use Agreed to by Management .....	\$6,472,422
E. Settlement Based on CPA Quality Review (non-recurring category) .....	\$1,100,000
Total .....	<u>\$54,326,049</u>

### **Auditing Division Activities**

A. Reports Issued.....	12
B. Disallowed Costs Agreed to by Management.....	\$1,120,894
C. Recommendation that Funds Be Put to Better Use Agreed to by Management .....	\$6,472,422
D. Settlement Based on CPA Quality Review (non-recurring category) .....	\$1,100,000

### **Inspection and Evaluation Division Activities**

A. Reports Issued.....	1
------------------------	---

### **Investigations Division Activities**

A. Cases Closed .....	56
B. Indictments .....	36
C. Convictions .....	25
D. Potential Investigative Recoveries and Fines.....	\$18,425,315
E. Management Avoidances .....	\$27,207,418
- Investigation Cases.....	\$22,500,000
- Name Check Program .....	\$4,707,418

# Statutory Reporting Requirements

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

<b>Source</b>		<b>Location in this Report</b>
Section 4(a)(2 )	Review of Legislation and Regulations	Pages 6 to 54
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	Pages 6 to 54
Section 5(a)(2)	Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	Pages 6 to 54
Section 5(a)(3)	Prior Significant Recommendations Not Yet Implemented	Page 72
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	Pages 6 to 54
Section 5(a)(5) and 6(b)(2)	Summary of Instances Where Information Was Refused	None
Section 5(a)(6)	Listing of Audit Reports	Page 67
Section 5(a)(7)	Summary of Significant Audits	Pages 6 to 54
Section 5(a)(8)	Audit Reports Containing Questioned Costs	Page 68
Section 5(a)(9)	Audit Reports Recommending that Funds Be Put to Better Use	Page 69
Section 5(a)(10)	Summary of Reports Where No Management Decision Was Made	Page 71
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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Part B - Inspector General-Issued Audit Reports with Recommendations that Funds Be Put to Better Use .....	69
Part C - Inspector General-Issued Audit Reports with Non-Monetary Recommendations .....	70
Part D - Inspector General-Issued Audit Reports with No Management Decision .....	71
Part E - Significant Audit Reports Without Final Action .....	72

## APPENDIX I

### Audit Reports Issued October 1, 1995 to March 31, 1996

TITLE	NUMBER	ISSUE DATE	QUESTIONED COSTS	FUNDS FOR BETTER USE
<b>Business Loans</b>				
Meridian Bank	6-4-E-001-001	10/18/95	\$557,742	
Home Federal Savings Bank	6-4-E-001-002	11/20/95		
<b>Disaster Loan Program</b>				
Work Assignments of Disaster-Funded Personnel	6-5-F-007-008	2/6/96		
<b>Minority Enterprise Development</b>				
S.W. Day Construction Corp.	6-5-H-001-007	1/30/96		
J.W. Collins & Associates	6-5-H-006-010	3/11/96		
Government Micro Resources, Inc.	6-5-H-013-012	3/29/96	\$235,024	
Naing International Enterprises, Ltd.	6-5-H-014-009	2/23/96		
<b>Economic Development</b>				
California SBDC	6-4-W-008-003	1/11/96		
<b>Agency Management and Financial</b>				
Jack Faucett Associates	6-2-S-918-004	1/17/96		
Correa, Duarte & Co.	6-5-S-918-005	1/24/96		
Daniel Dennis & Co.	6-5-S-918-006	1/24/96		
GeoDemographics, Ltd.	6-6-H-002-011	3/29/96	\$94,526	



## APPENDIX II - Part A

### Audit Reports with Questioned Costs October 1, 1995 to March 31, 1996

		REPORTS	RECs*	DOLLAR VALUES	
				QUESTIONED	UNSUPPORTED
A.	For which no management decision had been made by September 30, 1995	7	16	\$2,368,601	
B.	Which were issued during the period	3	3	\$887,292	
	Subtotals (A + B)	10	19	\$3,255,893	
C.	For which a management decision was made during the reporting period	5	11	\$1,349,803	
	(i) Disallowed costs	4	9	**\$1,120,894	
	(a) Due SBA	4	9	**\$1,120,894	
	(b) Due program participant				
	(ii) Costs not disallowed	2	***3	\$421,167	
D.	For which no management decision had been made by March 31, 1996	5	8	\$1,906,090	

\* Recommendations

\*\* Costs disallowed on one management decision (\$750,000) exceeded costs questioned (\$557,742) by \$192,258. As a result, the amount reflected on line C is less than the sum of lines C(i) and C(ii).

\*\*\* One recommendation was partially agreed to by management. It therefore appears in both C(i) and C(ii), but is not

## APPENDIX II - Part B

### Audit Reports with Recommendations that Funds Be Put to Better Use October 1, 1995 to March 31, 1996

		REPORTS	RECs*	RECOMMENDED FUNDS FOR BETTER USE
A.	For which no management decision had been made by September 30, 1995	5	8	\$25,865,055
B.	Which were issued during the period	0	0	\$0
	Subtotals (A + B)	5	8	\$25,865,055
C.	For which a management decision was made during the reporting period	3	3	\$6,472,422
	(i) Recommendations agreed to by SBA management	3	3	\$6,472,422
	(a) SBA level	3	3	\$6,472,422
	(b) Program participant level	0	0	\$0
	(ii) Recommendations not agreed to by SBA management	0	0	\$0
D.	For which no management decision had been made by March 31, 1996	3	5	\$19,392,633

\* Recommendations

## APPENDIX II - Part C

### Audit Reports with Non-Monetary Recommendations October 1, 1995 to March 31, 1996

		REPORTS	RECOMMENDATIONS
A.	For which no management decision had been made by September 30, 1995	13	57
B.	Which were issued during the period	7	15
	Subtotals (A + B)	20	72
C.	For which a management decision was made during the reporting period	13	48
D.	For which no management decision had been made by March 31, 1996	9	24

## APPENDIX II - Part D

### Overdue Management Decisions March 31, 1996

AUDITEE	REPORT NUMBER	ISSUED	STATUS
Colson Services Corp.	3-2-S-401-014	12/3/92	In negotiation.
SBA Loan Servicing and Debt Collection Activity	5-3-H-004-006	3/31/95	Most recommendations closed; others being negotiated.
Population and Marketing Analysis Center	5-4-H-008-008	3/31/95	In negotiation.
University of Puerto Rico SBDC	5-4-H-005-013	6/6/95	Most recommendations closed; others being negotiated.
Indiana Lumbermens Mutual Insurance Co.	5-4-W-001-009	3/31/95	In litigation.

## APPENDIX II - Part E

### Significant Audit Reports Described in Prior Semiannual Reports Without Final Action as of March 31, 1996

REPORT NUMBER	TITLE	DATE ISSUED	DATE OF MANAGEMENT DECISION	FINAL ACTION TARGET
0-1-0-007-140	Regulations for 301(d)	06/13/90	09/30/93	12/31/93
2-2-W-400-065	Integon Indemnity Corp.	03/31/92	09/30/92	03/31/95
2-2-S-401-078	Residual Service Fee	05/26/92	08/19/92	09/30/93
3-2-S-401-014	Colson Service Corp.	12/03/92	*	*
3-3-T-001-024	Energy Management	02/25/93	09/30/93	11/30/93
3-3-E-002-025	Controls over Advisory and Assistance Services	03/01/93	03/10/93	03/31/93
3-2-002-033	Administration of 8(a) Program	03/31/93	09/30/94	09/30/95
3-2-H-007-036	SBA's Oversight of Colson Services Corp.	06/16/93	03/31/95	09/30/95
4-3-H-011-016	SBA's Award of 8(a) Contracts to ASCI	05/16/94	12/30/94	06/30/95
4-3-W-009-018	Washington State SBDC	08/01/94	03/31/95	05/31/95
4-4-E-005-024	Brokering of 8(a) Contracts	09/30/94	03/21/95	None
4-3-H-012-020	SBA FY 1993 Financial Statements	08/31/94	10/18/95	9/30/96
4-2-E-403-019	Pulsar Data Systems	08/15/94	03/22/95	None
5-3-H-004-006	SBA Loan Servicing and Debt Collection Activities	03/31/95	*	*
5-4-W-001-009	Indiana Lumbermens Mutual Insurance Co.	03/31/95	*	*
5-4-H-008-008	Population and Marketing Analysis Center	03/31/95	*	*
5-5-H-007-003	SBA FY 1993 Financial Statements	12/13/94	09/30/95	10/31/95

<b>REPORT NUMBER</b>	<b>TITLE</b>	<b>DATE ISSUED</b>	<b>DATE OF MANAGEMENT DECISION</b>	<b>FINAL ACTION TARGET</b>
5-3-W-010-018	Section 7(a) Credit Elsewhere	09/18/95	03/29/96	06/30/96
5-5-H-004-015	Cordoba Corporation - Guaranteed Loan	08/10/95	09/29/95	08/02/95
5-5-H-004-016	Administration of \$825,000 Line of Credit	08/18/95	03/29/96	06/30/96
5-3-E-010-021	8(a) Competitive Mix	09/29/95	03/29/96	09/30/96
5-4-H-005-013	University of Puerto Rico SBDC	06/30/95	*	*
5-5-H-012-017	Puerto Rico District Monitoring of SBDC	08/31/95	03/29/96	06/30/96
5-4-H-009-012	FY 1994 Financial Statements - Management Letter	06/28/95	09/30/95	09/30/96
5-4-H-009-010	FY 1994 Financial Statements	06/01/95	08/09/95	09/30/97
5-4-H-003-014	National Education Center for Women in Business	08/04/95	02/15/96	09/11/95
5-5-H-008-019	National Center for Genome Resources	09/29/95	03/29/96	06/30/96

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