



Office of Inspector General U.S. Small Business Administration

May 2005 Update

Agency Management

OIG Issues Report on Review of SBA's Major IT Systems. On May 20, 2005, the Office of Inspector General (OIG) issued a report on a review of the Small Business Administration's (SBA) major Information Technology (IT) systems that are subject to the Federal Information Security Management Act (FISMA). Our overall objective was to determine if SBA could consolidate the number of general support systems and major applications (from 39 to a proposed 5 systems) and still meet FISMA security requirements. We concluded that SBA had 16 major applications and 4 general support systems which met criteria established by the Office of Management and Budget (OMB) for FISMA reporting as major systems. By reducing the number of systems, SBA could reduce the number of Certifications and Accreditations it is required to perform under FISMA. SBA expends approximately \$25,000 to recertify existing major SBA systems every three years; therefore, it could potentially save about \$158,333 every year, or \$475,000 every three years. The Acting Chief Information Officer (CIO) generally concurred with the conclusions in the report.

OIG Issues Spring 2005 Semiannual Report to Congress. The OIG issued its Spring 2005 Semiannual Report to Congress. This report summarizes the results of the OIG's investigations, audits, and other activities during the period October 1, 2004, through March 31, 2005, and can be located at <http://www.sba.gov/ig/spring-05-sar.pdf>. During this 6-month period, we issued 18 reports with significant recommendations for improving Agency operations, reducing fraud and unnecessary losses, and recovering funds. OIG investigations led to 24 indictments and 19 convictions of subjects who defrauded the Federal Government. In addition, the Office collectively reviewed 79 legislative, regulatory,

policy, procedural, and other proposals concerning the SBA and Government-wide programs. With a staff of approximately 100, the OIG continues to produce sizeable savings and important program improvements.

Agency Completes Final Action on Recommendation Made in Audit of SBA's 2004 Financial Statements. The Agency reported that it completed the following final action: SBA's Office of Chief Financial Officer (OCFO) added a new program field to the Agency's FRIS/CGL general ledger that will allow SBA to more accurately summarize financial data at the program level for use in credit subsidy estimates and reestimates. Twelve other recommendations contained in the report remain open.

Agency Completes Final Action on Recommendation Made in Audit of SBA's 2003 Financial Statements. The Agency reported that it completed the following final action: OCFO upgraded Oracle to version 11i. This version will enable proper accounting for upward and downward adjustments to journal entries in accordance with the U.S. Standard General Ledger. Seven other recommendations contained in the report remain open.

Agency Completes Final Action on Recommendation Made in Audit of SBA's Information Systems Controls Fiscal Year 2004. The Agency reported that it completed the following final action: OCFO has taken actions and implemented controls to ensure that users of SBA's Joint Accounting and Administrative Management System (JAAMS) are not granted excessive responsibilities. Twenty-two other recommendations contained in the report remain open.

Business Loan Programs

California Business Owner Charged with Conspiracy to Defraud the Government. The owner of a Woodland, California, liquor and convenience store was charged by

an Information on April 29, 2005, with one count of conspiracy to defraud the government. The Information alleges that the man conspired with three other individuals to misrepresent the true seller and true buyer of a business in order to qualify for an SBA-guaranteed loan in the amount of \$275,000. The conspiracy allowed the financial interest held in the business by two of the individuals to be concealed. The business owner submitted a fraudulent Purchase Agreement, which was provided to him by one of the other individuals, in order to influence a lender to approve the SBA-guaranteed loan. Prosecutive action is continuing against the co-conspirators in this case. The case is being worked jointly with the Federal Bureau of Investigation, the Internal Revenue Service, Immigration and Customs Enforcement, the Department of Agriculture Office of Inspector General, and the State of California Alcohol and Beverage Control.

Government Contracting and Business Development Programs

OIG Issues Report on Audit Survey of Contract Bundling Process. On May 20, 2005, the OIG issued a report on an audit survey of the contract bundling process. OIG's objectives were to determine whether SBA adequately reviewed all possible bundled contracts, properly appraised them for necessity, and complied with OMB and Government Accountability Office recommendations. OIG found significant problems with the SBA's ability to obtain and track bundling of contracts. OIG recommended that the Associate Deputy Administrator for Government Contracting and Business Development (ADA/GCBD): (1) implement current operating plans, establish procedures with their major procurement agencies, and monitor and verify contract bundling through existing data collection systems; (2) establish a process to hold procuring agencies accountable for unreported bundlings and complete the implementation of developed compensating controls to better monitor contract bundling; and (3) disseminate a best practices guide required by OMB. The ADA/GCBD indicated general agreement with the recommendations.

Disaster Loan Program

New York Business Owner Pleads Guilty. The owner of two telecommunications firms located in New York, NY, pled guilty on May 18, 2005, to a one count Information, filed on March 18, 2005, charging him with making material false statements. The information related to SBA 9/11 disaster loans of \$216,800 and \$80,000 that he obtained for the two businesses. The owner stated on his applications for the loans that his companies were located in Two World Trade Center on September 11, 2001, and suffered both physical and economic injury as a result of the terrorist attacks. Specifically, he claimed that the businesses lost a combined \$175,000 of machinery, equipment, furniture, and fixtures. The investigation revealed that the businesses moved out of the World Trade Center in July 2001.

OIG Recommends Debarment. On April 4, 2005, the OIG recommended that SBA debar a doctor based on her guilty plea to two misdemeanor counts of fraudulently demanding or endeavoring to obtain money from the United States in connection with applications for SBA and Federal Emergency Management Agency disaster relief for alleged damage to her mother's home resulting from Hurricane Floyd. Allegedly, the doctor executed these disaster applications in her name and on behalf of her mother. The doctor alleged that a piece of medical equipment belonging to her medical practice had been damaged by Hurricane Floyd while being stored at her mother's home. The OIG investigation revealed that there was never any medical equipment stored at the residence of her mother. The doctor also submitted a false lease agreement in furtherance of her fraud scheme. On May 19, 2005, the SBA's Associate Administrator for Lender Oversight agreed with the OIG's debarment recommendation and issued a notice proposing to debar the doctor for one year.

Statutory/Regulatory/Policy Reviews

In effort to proactively identify and correct potential Agency inefficiency and management problems at the onset of policy and regulatory development, the OIG reviewed, cleared, and/or provided comments, as appropriate, on 12 Agency initiatives, including proposed legislation, Agency Standard Operating Procedures, and Agency notices containing directives to its employees.

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

The OIG has established an e-mail address
(oig@sba.gov) that we encourage the public to use to
communicate with our office. We welcome your
comments concerning this update or other OIG
publications. To obtain copies of such documents
please contact:

Theresa McCane, SBA/OIG
409 Third Street SW., 7th Floor
Washington, DC 20416
e-mail: OIG@SBA.GOV
Telephone number (202) 205-6580
FAX number (202) 205-7382

Many audit and inspection reports can be found
on the Internet at
<http://www.sba.gov/IG/igreadingroom.html>

If you are aware of suspected waste, fraud, or
abuse in any SBA program, please call the:

OIG FRAUD LINE at (202) 205-7151

or

TOLL-FREE FRAUD LINE (800) 767-0385