



Office of Inspector General U.S. Small Business Administration

October 2004 Update

Agency Management

OIG Issues Federal Information Security Management Report. On October 15, 2004, the Office of Inspector General (OIG) issued its independent evaluation of SBA's Information Security Program for FY 2004. The Federal Information Security Management Act (FISMA) requires the OIG to perform annual independent evaluations of the SBA information security program. For FY 2004, the SBA's computer security program showed mixed results. SBA achieved a major milestone in certifying and accrediting all of its major systems within the past fiscal year. However, SBA was not able to sufficiently address 248 open system risk assessment vulnerabilities and OIG audit findings, including 118 open risk assessment vulnerabilities and 14 OIG audit findings where estimated target dates for completing action to correct identified issues were exceeded. The OIG identified five significant deficiencies in SBA's computer security program. Moreover, these deficiencies were previously identified in 11 OIG recommendations which, if adopted in full, would address related security risks and exposures. The report contained two recommendations pertaining to reconciling and reporting security related expenditures within SBA's appropriation and accounting systems. The report was to be included as part of the Agency's FISMA submission in accordance with OMB guidance.

OIG Issues Report on the Most Serious Management Challenges Facing the Small Business Administration. On October 15, 2004, OIG issued "FY 2005 Report on the Most Serious Management Challenges Facing the Small Business Administration." This report provides the OIG's current assessment of Agency programs or activities that pose significant risks, including those that are particularly vulnerable to fraud, waste, error, or mismanagement, based on specific OIG,

Government Accountability Office, or other official reports, as well as our general knowledge of SBA's programs. Our analysis considered actions reported by the Agency as of August 16, 2004, as well as certain actions brought to our attention as of September 30, 2004. This year's report contains one new challenge—Challenge 11—which deals with the need to make substantial changes in the Small Business Investment Company program to reduce the substantial risk to taxpayers. The report recognizes that SBA has recently focused more attention on the Management Challenges by, among other things, placing them on the Management Board agenda and assigning overall responsibility to the Chief Operating Officer (COO), and has made progress on many of the challenges, especially on Challenge 1—managing for results. While this is encouraging, much more remains to be done. By their nature, these challenges require continued long-term commitment and effort by the Agency. This report was incorporated into the SBA's FY 2004 Performance and Accountability Report, as required by the Reports Consolidation Act of 2000.

Agency Completes Three Final Actions on Single Audit of the University of the Virgin Islands. The following three final actions have been reported as being completed: 1) The Office of Small Business Development Centers (OSBDC) provided supporting documentation that the University has updated its property ledger in order to support its fixed assets. Also, a physical inventory was performed in order to comply with the property management standards established by the OMB Circular A-100, and inventory items were tagged and identified as acquired with Federal funds. 2) The University has adequate documentation to support amounts and items reported as expenditures. 3) OSBDC confirmed that the University is submitting timely Federal reports.

Agency Completes Four Final Actions on Audit of SBA's FY 2003 Financial Statements – Management Letter.

The following four final actions have been reported as being completed: 1) The Office of the Chief Financial Officer (OCFO), in coordination with the Investment Division, ensured that the valuation of purchased prioritized payments is consistent with programmatic experience. 2) OCFO used the credit subsidy models for the FY 2004 subsidy re-estimates and their accompanying analysis to determine the necessity and magnitude of correcting entries for FY 2003. CFO recorded the correcting entries in August 2004. 3) OCFO requested that the Office of General Counsel (OGC) perform an analysis to determine if SBA improperly augmented its appropriations resulting in noncompliance with the Antideficiency Act. OGC provided an opinion letter in which it determined that SBA had augmented its appropriation and determined this practice was a violation of the Antideficiency Act. SBA is taking steps necessary to provide notification as required by OMB Circular A-11. SBA will also reimburse the guarantee loan finance account, as needed. 4) OCFO has researched SBA's accounting activity to determine the corrective action to balance the Statement of Net Cost and the Statement of Financing.

Agency Completes Four Final Actions on Audit of SBA's FY 2003 Financial Statements. The following four final actions have been reported as being completed: 1) OCFO developed procedures to estimate the effect of outstanding processing on its general ledger accounts. These procedures have been developed for administrative and program processing. 2) OCFO has ensured that all necessary accruals are identified and recorded, and OCFO has held several meetings on SBA's accruals to ensure CFO's methodologies are sound. OCFO will include all the accruals as agreed upon in its FY 2004 financial statements. 3) OCFO issued a notice to notify SBA field and HQ managers of appropriate processing and documentation requirements for administrative transactions. Additionally, during the summer of 2004, OCFO issued year-end closing procedures that included requirements for administrative transactions. 4) OCFO developed controls on the processing of activity on expired funds and documented those controls. OCFO began implementing the new controls with FY 2004 processing of activity on expired funds.

Business Loan Programs

Missouri President of a Proposed Child Care Business Pleads Guilty. The former president of a proposed child care business in Raytown, Missouri, pled guilty on October 5, 2004, to **an Information** charging her with being an accessory after the fact to fraud against the SBA. The child care center never opened, and the loan quickly defaulted, leaving SBA and its lender with a principal loss of \$154,567 after liquidation of all available collateral. According to the Information, the former president aided and assisted the former corporate secretary with intent to hinder and prevent the secretary's trial and punishment, knowing that she had made false statements to an SBA lender. The investigation revealed that documentation submitted to the lender to verify the \$75,000 equity injection, which was required prior to disbursement of a \$311,000 SBA-guaranteed loan, was almost completely false. The secretary was previously indicted and pled guilty to **making false statements** to the lender regarding the equity injection. The former president was previously indicted on similar charges, but under the terms of her plea agreement, this indictment will be dismissed. This investigation was initiated based on a referral from the Kansas City District Office.

Oregon Loan Broker Sentenced. On October 4, 2004, a former loan broker and owner of a financial consultant business in Beaverton, Oregon, was sentenced to 21 months in prison and 5 years supervised release for bank fraud against a federally-insured lender. On May 14, 2004, the former loan broker pled guilty to one count of a six count bank fraud indictment. In exchange for his plea, the other five bank fraud counts were dismissed. The former loan broker submitted false loan applications containing names and personal identity information of six people, fictitious business information, and forged signatures. In addition, he opened checking accounts in the names of these people and, after the loan funds were deposited into these accounts, wrote checks using forged signatures. The former loan broker used the proceeds of these loans for personal purposes, including paying debts and gambling. SBA OIG conducted this investigation jointly with the FBI.

Texas Convenience Store Owner Pleads Guilty. The owner of a convenience store located in Woodville, Texas, pled guilty on October 26, 2004, to making a

false claim to U.S. citizenship. The store owner previously applied for and received a \$1 million SBA-guaranteed loan. During the loan process, he provided a signed SBA Form 912, Statement of Personal History, on which he claimed U.S. citizenship. However, Department of Homeland Security records indicate that he is not a U.S. citizen. SBA OIG conducted this continuing investigation jointly with the Department of Homeland Security (DHS), Harris County Organized Crime Task Force, the Social Security Administration (SSA), and the Texas Alcoholic Beverage Commission (TABC).

Agency Completes Final Action on Inspection Report The Microloan Program: Moving Toward Performance Management. The following final action has been reported as being completed: Beginning with awards made in FY 2004, cost averages were integrated into the mandated debt percentage calculations for all Microloan Program grants. As a result, all intermediary lender grants allocated under the statutory basis of “percentage of debt” were further delineated based on the comparative costs of providing technical assistance to both existing and potential microloan clients. Grants awarded in FY 2004 were also allocated based on the costs of providing technical assistance to clients seeking private sector funding. Utilization of cost analysis and cost based funding of technical assistance dollars will continue.

Agency Completes Final Action on Impact of Loan Splitting on Borrowers and SBA. The following final action has been reported as being completed: The Office of Financial Assistance issued Information Notice #5000-922 to all SBA employees notifying them that lenders were assigning inappropriate maturities to loans.

This monthly update is produced by the SBA OIG, Harold Damelin, 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:

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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