



Office of Inspector General U.S. Small Business Administration

October 2005 Update

Agency Management

Agency Completes Final Actions on Two Recommendations Made in the Audit of SBA's Information System Controls for FY 2000. The Agency reported that the Office of the Chief Information Officer (OCIO) implemented the following actions to correct vulnerabilities in the Quality Control Program.

- Expanded Configuration Management (CM) and Quality Assurance (QA) practices throughout IT development projects.
- Documented release procedures for the mainframe and client/server environments.
- Implemented QA practices for release management.
- Developed Change Control processes that study the impact of all application changes including the need for documentation updates.

The Agency also reported that OCIO has implemented a QA review process called "health checks" for new applications to determine if they adhere to the System Development Methodology. According to the Agency, the following applications have gone through health checks thus far: 8(a) Management Information System, the Disaster Credit Management System, and Lender/Loan Monitoring System.

Regarding the OIG's recommendation on working with appropriate program offices to identify and eliminate incompatible duties, responsibilities, and functions, the Agency reported that OCIO has implemented an account review process for the access control reports which program offices submit bi-annually. These reports identify staff profiles by application and ensure that incompatible functions are identified and eliminated, or that conflicts, within the

Roles, have been mitigated. All recommendations for this report are now closed.

Agency Completes Final Action on One Recommendation Made in the Audit of SBA's Information System Controls for FY 2004. The Agency reported that OCIO implemented the following final action. The OCIO issued an updated Standard Operating Procedure (SOP) 90-47.2 which recommends that managers introduce a policy in their offices that mandates shifts rotation for individuals that are accessing high-risk, sensitive automated information systems on a day-to-day basis. Sixteen other recommendations contained in the audit report remain open.

Business Loan Programs

President of Convenience Store Indicted. On October 6, 2005, the president of a gas station and convenience store located in Charlotte, Michigan, was indicted. He was charged with two counts of making false statements to a lender and to SBA in order to assume an existing SBA-guaranteed loan of about \$640,000. As part of his application, he completed and signed two documents in which he stated he had never been arrested or convicted of any criminal offense other than a minor traffic violation. A joint investigation with the Department of Homeland Security, Immigration and Customs Enforcement (DHS/ICE), determined that the businessman had, in fact, been arrested, charged and pled guilty to conspiracy to transport and sell stolen motor vehicles. Moreover, for that offense he had been sentenced to 4 years of Federal probation on June 24, 2002.

Another Convenience Store President Indicted for False Statements. The president of a gas station and convenience store in Detroit, Michigan, was indicted on October 6, 2005. The individual was charged with two counts of making false statements to a lender and to

SBA in order to obtain a \$1,175,000 SBA-guaranteed loan. As part of his application, the borrower signed two documents that indicated he was a U.S. citizen. A joint investigation with DHS/ICE, determined that he was neither a U.S. citizen nor a lawful permanent resident when he applied for, and received, this loan and therefore was ineligible to receive it.

Escrow Company Owner Sentenced. On October 13, 2005, the owner of an escrow company in Dallas, Texas, together with a co-conspirator, were sentenced. The owner, who was found guilty by a jury on all counts, received 60 months confinement, 3 years supervised release, and was ordered to pay restitution in the amount of \$8,884,253. The co-conspirator, who pled guilty to one count of conspiracy to commit bank fraud and cooperated with the Government, received 15 months confinement, 2 years supervised release, and was ordered to pay restitution of \$2,928,874. The two men had previously been charged in an 11 count indictment with one count of conspiracy, one count of bank fraud, and eight counts of money laundering. Also contained in the indictment was one count for forfeiture allegations. All the charges were for falsely obtaining nine SBA-guaranteed loans, totaling \$9,500,000, for convenience stores in the Houston, Texas area. SBA's guaranteed portion was \$6,566,233. The investigation revealed a conspiracy in which borrowers would submit false and fraudulent documents, artificially inflate checking account deposits, and use loan proceeds to fund equity injections when applying for loans. This case was referred by an SBA lender and is a joint investigation with the Federal Bureau of Investigation (FBI).

Borrower and His Brother Sentenced. On October 19, 2005, the borrower of an SBA loan for a food mart and his brother were sentenced as a result of a previous plea of guilty to one count of conversion of Government property. The borrower received 3 years probation and a \$5,000 fine. His brother received 3 years probation and a \$71,000 fine. The charges resulted from the borrower fraudulently obtaining a \$1 million SBA-guaranteed loan from an SBA lender and a \$390,000 companion loan from another SBA lender. The borrower represented that he used personal assets in excess of \$307,000 to purchase real estate for the food mart location. Bank records indicated that he received the majority of the money from his brother, who already had an SBA-guaranteed

loan in the amount of \$632,000. This investigation was conducted jointly with DHS/ICE.

Disaster Loan Program

Disaster Loan Borrower Indicted for False Statements.

The former president and owner of a New York business was indicted on October 26, 2005, on three counts of mail fraud, one count of making material false statements, and two counts of forging endorsements on United States Treasury checks. In the wake of the September 11th terrorist attacks in New York City, the individual applied for, and received, a \$646,900 SBA disaster loan for his company, a seller of Hyundai motor vehicles and parts to the United Nations. Of the loan amount, \$548,300 was to be used to pay off various vendors with whom the company had outstanding accounts payable. The SBA issued, via U.S. mail, two-party checks payable to the company and the vendors. The borrower allegedly forged the endorsement of two vendors on checks totaling \$131,600 and deposited the funds in his company's account. He then transferred the majority of the funds to a new business he had started. Further, he allegedly made false statements to the SBA when he applied for additional funding and advised that he had used all the previous funds provided by the loan authorization. The case was originally referred to the OIG by former employees of the borrower's company. The OIG is conducting this joint investigation with the U.S. Postal Inspection Service.

Businessman Makes False Statements to Obtain Disaster Loan.

On October 25, 2005, the owner of a manufactured home sales dealership in Darlington, South Carolina, was indicted on eight counts of bank fraud, one count of mail fraud, and two counts of making material false statements. The business owner had obtained a disaster loan for \$487,600 for economic injuries as a result of the September 11th terrorist attacks in New York City. He claimed to have suffered a business-related injury because the finance company he used was located in New York and had stopped financing manufactured homes because of the tragedy. The investigation disclosed that the finance company was located in Vermont—not New York. The investigation further disclosed that he used the proceeds to pay himself \$405,000, allegedly for a loan to an officer of the business, despite the fact that he signed a Standby Agreement as part of his Loan Authorization

Agreement. The SBA case was originally referred to the OIG by the SBA's South Carolina District Office. The OIG is conducting this investigation jointly with the FBI.

Government Contracting and Business Development

Agency Completes Final Action on One Recommendation Made in Audit of SBA's Administration of the MBELDEF Cosponsorship.

The Agency reported that it completed the following actions. The Deputy Associate Deputy Administrator for Government Contracting and Business Development issued a memorandum to all Headquarters Government Contracting and Business Development staff instructing them to ensure that all parties to cosponsorships strictly adhere to their cosponsorship responsibilities. Final actions have now been completed on three of the report's seven recommendations.

Agency completes Final Action on Four Recommendations Made in Audit of Puerto Rico & Virgin Island District Office Cosponsored and SBA Sponsored Activities. The Agency reported that it completed the following final actions.

- Completed training sessions for key field personnel in all ten regions concerning the appropriate manner for charging fees during sponsored events.
- Terminated SBA's relationship with the Business Resource Center (BRC) in Puerto Rico as of December 31, 2003.
- Returned all unused funds obtained by the BRC from the Minority Business Development Agency.

The Office of Strategic Alliances also established controls in the form of monitoring and follow-up to ensure that required reports are received timely for district offices. These four actions close out the recommendations of this audit report.

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 18 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.

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