



Office of Inspector General U.S. Small Business Administration

April 2006 Update

Disaster Loan Program

OIG issues Advisory Memorandum on Disaster Credit Management System Upgrade Project. On April 27, 2006, the OIG issued an Advisory Memorandum, *The Disaster Credit Management System Upgrade Project Needs a Certification & Accreditation Prior to Production*. SBA initiated the DCMS Upgrade Project in December 2005 because (1) the current user capacity of DCMS had been reached, (2) the Upgrade scaling is projected to be 2.5 to 3.5 times the current capacity, (3) a reliable disaster recovery environment is needed, and (4) a robust test environment is needed for both fine tuning and adding upgrades to application modules over the long-term. An OIG review of the DCMS Upgrade Project identified that the project did not include a planned Certification & Accreditation (C&A). We recommended, based upon the scope of the project and the requirements of the National Institute of Standards and Technology's (NIST) "Guide for the Security Certification and Accreditation of Federal Information Systems" (NIST Special Publication 800-37), that DCMS be reevaluated under a full C&A of the system prior to being placed in production.

Former Company Owner and President Pleads Guilty. On April 28, 2006, the former owner and president of a company that sold motor vehicles and parts to the United Nations pled guilty in the Eastern District of New York to one count of mail fraud. In the wake of the September 11th terrorist attacks in New York City, the man applied for and received a \$646,900 SBA disaster loan. Of the total loan amount, \$548,300 was to be used to pay off various vendors with whom the company had outstanding accounts payable. Accordingly, SBA issued two-party checks payable to both the company and the vendors. However, instead of paying off the vendors, the man forged the endorsement of two vendors on checks totaling

\$131,600 and deposited the funds in a company bank account. He then transferred the majority of the funds to a new business he had started. The case was originally referred to the SBA OIG by former employees of the company. The SBA OIG conducted this joint investigation with U.S. Postal Inspection Service.

Business Loan Programs

Real Estate Broker/Loan Packager Pleads Guilty. On April 28, 2006, a real estate broker/loan packager pled guilty to one count of bank fraud and was sentenced to 6 months home confinement, 200 hours community service, and 5 years supervised release, and was ordered to pay \$7,311,874 in restitution. The man, along with several co-conspirators, was charged for falsely obtaining nine SBA-guaranteed loans, totaling \$9,500,000, for convenience stores located in the Houston, Texas, area. All of the loans subsequently defaulted, and SBA's guaranteed portion of the loans was \$6,566,233. Our 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. Subsequent to his arrest, the man cooperated with investigators by providing information related to additional SBA loan fraud, and he testified during trial against other participants in the scheme. This case was referred by an SBA participating lender. The SBA OIG conducted this joint investigation with the Federal Bureau of Investigation.

Owners of California Trucking Firm Indicted. On April 13, 2006, two owners of a Madera, California, trucking firm were indicted in the Eastern District of Washington on one count of false statements to the SBA and three counts of false statements on a loan application to a federally-insured financial institution. The charges pertain to their failure to disclose a \$184,000 payroll tax liability when they applied for a \$137,000 SBA-

guaranteed business loan and two other loans from a federally-insured financial institution. The case was referred to the SBA OIG by the U.S. Attorney's Office.

Government Contracting and Business Development

Agency Completes Final Action on Four Recommendations Made in Review of the Small Disadvantaged Business (SDB) Program (Report 5-04). The Agency reported that it completed the following final actions. (1) Developed and implemented procedures requiring that SDB reviewers query Federal government financial management systems to check all applicants for Federal financial obligations. (2) Developed and updated procedures to ensure that SDB reviewers review (a) affirmative answers provided by applicants, (b) write-ups addressing affirmative answers, and (c) recommended denials of SDB certification for applicants whom defaulted on payments of Federal financial obligations. (3) Provided training to the staff involved in SDB application processing on the updated reviewer checklist. Six recommendations contained in the audit report remain open.

Agency Management

Agency Completes Final Action on Two Recommendations Made in Audit of SBA's Information System Controls for FY 2002 (Report 3-20). The Agency reported that it completed the following final actions. The Office of Chief Information Officer provided procedures for performing the annual review of authorized users of SBA's Joint Administrative and Accounting Management System (JAAMS) and a copy of a recent review, and provided evidence of periodic retraining of JAAMS security administrators in Oracle security administration. Three recommendation contained in the audit report remain open.

Statutory/Regulatory/Policy Reviews

In an 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 three 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, Eric M. Thorson, Inspector General.

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