



Office of Inspector General U.S. Small Business Administration

April 2005 Update

Agency Management

OIG Issues Audit on SBA's Continuity of Operations Program. On March 30, 2005, the OIG issued an audit of SBA's Continuity of Operations Program (COOP).

The audit objectives were to determine whether:

(1) SBA was in a position to achieve a timely and orderly recovery from an emergency and resumption to full service; (2) SBA's COOP and Business Resumption Plans (BRP) were sufficient to aid the recovery officials through a step by step process that would result in a successful recovery; (3) contingency plans contained all the elements of a viable COOP capability; and (4) SBA's Information Technology (IT) – System Disaster Recovery Plans (SDRP) were utilized and were adequate to aid in the restoration of SBA IT systems and the plans had been tested. The audit disclosed the following issues adversely impacting SBA's COOP capability:

- SBA's COOP was not adequate to ensure that the Agency could successfully recover essential agency functions during disruptive emergency situations.
- SBA's COOP did not have an adequate chain-of-command, nor adequate oversight and funding. Additionally, SBA had not adequately tested its COOP and all program, disaster and field office BRPs that would be needed to resume office functions during emergency or disaster events.
- SBA's COOP and individual BRPs did not contain all necessary information to ensure that the plans were viable and that the Agency or its individual offices could utilize the plans in the event of an emergency. SBA had not implemented an effective review and approval program for its COOP and BRPs. The SBA Headquarters COOP did not adequately identify essential functions

performed by the agency and which functions must be continued under all circumstances. SBA did not adequately identify facilities and equipment needed in its COOP and office BRPs in the event of an emergency disruptive situation and plan activation.

- SBA did not have adequate SDRP's to ensure the recovery of critical IT systems supporting the Agency's essential functions. SBA did not restore its major systems during recovery test exercises by specifically using its SDRP's to perform the system restorations.

The OIG made 13 recommendations to correct the deficiencies identified in the report. The Chief Operating Officer generally agreed with the 10 recommendations addressed to him. The Chief Information Officer (CIO) generally agreed with the 3 recommendations addressed to him.

Agency Completes Final Action on Recommendation Made in Audit of SBA's Information Systems Controls Fiscal Year 2003. The Agency reported that it completed the following final action: The CIO developed the means to more actively participate in all phases of system development efforts within the Agency. Twelve other recommendations contained in the report remain open.

Agency Completes Final Actions on Two Recommendations Made in Audit of SBA's Process for Complying with the Federal Managers' Financial Integrity Act Reporting Requirements. The Agency reported that it completed the following final actions: (1) issued a Procedural Notice on September 27, 2004, that provided procedures for submitting annual assertions on internal controls; (2) disseminated checklists for managers to use in developing their internal control assertions; and (3) updated the Agency's internal control web page. Six other recommendations contained in the report remain open.

Business Loan Programs

New Jersey Bank Withdraws Request to Honor Guaranty. On April 13, 2005, a Princeton, New Jersey, bank withdrew its request to SBA to honor its guaranty in the amount of \$846,232 on a \$1,210,000 business loan. The SBA-guaranteed loan was obtained by owners of an x-ray diagnostic business. The bank conducted a site visit and discovered that the borrowers had sold their business one day after receiving the SBA-guaranteed loan. The borrowers defaulted on their loan and the bank requested that SBA honor its 72 percent guaranty. SBA determined that the bank failed to verify the borrowers' tax return information and did not perfect the liens securing SBA collateral. Further, an SBA OIG investigation disclosed that the bank's loan officer previously worked for the borrowers and assisted in performing underwriting on the loan. The loan officer did not disclose to the bank his relationship with the borrowers.

New Jersey Business Owner Pleads Guilty. On April 14, 2005, the owner of a Flemington, New Jersey, video and graphics production company pled guilty to one count of making a false claim. The owner submitted false invoices and false receipts totaling \$180,000 for equipment that was never actually purchased. The false claims were submitted to a financial institution and SBA as part of the application process to obtain a \$375,000 SBA-guaranteed loan. This case was referred by the SBA District Office in Newark, New Jersey. The SBA OIG conducted this investigation jointly with the United States Postal Inspection Service.

Texas Business Owner Pleads Guilty. On April 5, 2005, the owner of an Austin, Texas, restaurant pled guilty to three counts of bank fraud, three counts of submitting false statements to a financial institution, and one count of money laundering. The owner fraudulently obtained a \$300,000 SBA-guaranteed loan in October 1998. During May 2000, as the owner of another restaurant located in Austin, Texas, he fraudulently obtained an additional SBA-guaranteed loan in the amount of \$728,500. Additionally, in April 2000, he fraudulently obtained a \$50,000 non-SBA line of credit from a bank. To obtain these loans and the line of credit, the owner inflated personal property values and net worth in order to influence the financial

institutions to approve the loans and line of credit. He then utilized financial proceeds from the loans for personal expenses. The borrower defaulted on both SBA-guaranteed loans. SBA paid a claim of about \$186,000 to one bank, but has not yet paid the guaranty on the loan from the other bank. This case was referred by the SBA San Antonio District Office and was investigated jointly with the Federal Bureau of Investigation and Internal Revenue Service.

Texas Business Owner Sentenced. On March 28, 2005, the proprietor of a Fort Worth, Texas, convenience store and service station was sentenced to 20 days incarceration, a \$500 fine, and deportation to his home country of Pakistan. The man previously pled guilty to one count of making a false statement or claim to be a citizen of the United States with the intent to obtain a federal benefit or service. The man falsely represented himself to be a citizen of the United States on his SBA Form 912 for the purpose of inducing a bank and SBA into funding an \$875,000 SBA-guaranteed loan. This case was developed from the Foreign National Project in Dallas. The SBA OIG conducted this investigation jointly with the Department of Homeland Security, the Texas Department of Public Safety, and the Texas Alcoholic Beverage Commission.

Agency Completes Final Action on Recommendation Made in Audit of an SBA-Guaranteed Loan to Lenzell, Inc. d/b/a New Vision. SBA reported that it completed the following final action: The lender repaid \$19,040 to SBA.

Government Contracting and Business Development Programs

OIG Issues Report on the Survey of the Review of the Mentor-Protégé Program. On April 18, 2005, the OIG issued a report on the survey of the Review of the Mentor-Protégé Program. The survey objectives were to: (1) gather background information on various aspects of the Mentor-Protégé Program, including the criteria used for evaluating mentor-protégé agreements; (2) identify information to assess the benefits of the relationship and SBA's evaluation of that relationship; and (3) determine if there is an indication of program weaknesses warranting further audit work. As part of the survey, the OIG examined several judgmentally selected mentor-protégé agreements and interviewed

officials from two district offices and SBA's Office of Business Development.

The OIG found that program and participant successes had not been defined and program performance was not measured. Because of this, program officials had no mechanism to determine if the program or its participants had succeeded. We also found that the list of approved mentor-protégé agreements on SBA's web site, which had been updated from the most recent program records, was still incomplete. When incomplete data is published on SBA's web site, the quality and utility of information disseminated to the public is compromised. Further, when management has incomplete data, its ability to effectively run and control its operations is undermined.

OIG made recommendations to the Associate Administrator for Business Development to: (1) define success for the Mentor-Protégé Program and its participants; (2) develop and implement measures for tracking program performance; (3) ensure that mentor-protégé agreements are specific enough that SBA can monitor and evaluate them; and (4) take steps to ensure that information concerning program activity is developed and maintained in an accurate and complete manner.

The Associate Administrator for Business Development agreed with the report's recommendations and provided comments indicating certain steps have already been taken to implement those recommendations.

Agency Completes Final Action on Recommendation Made in Review of a Cooperative Agreement to HP Small Business Foundation. The Agency reported that it completed the following final action: A legal opinion was requested from the Office of General Counsel as to whether the arrangement between the recipient and SMA Global violated the terms of the cooperative agreement regarding sub-granting or awarding the cooperative agreement to a sub-recipient. One other recommendation contained in the report remains open.

Agency Completes Final Action on Recommendation Made in Review of the Small Disadvantages Business Certification Program. SBA reported that it completed the following final action: Copies of the Robert Morris Associates (RMA) annual statement studies

and financial ratio benchmarks were purchased and provided to both Central Office Duty Stations (CODS). Additional copies are available at SBA Headquarters. Ten other recommendations contained in the report remain open.

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 27 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:

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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