



Office of Inspector General U.S. Small Business Administration

February 2007 Update

Business Loan Programs

Former Escrow Officer and Mortgage Broker Found Guilty. On February 20, 2007, a former title company escrow officer and a mortgage broker, both of Houston, Texas, were found guilty of one count of conspiracy, one count of conspiracy to commit money laundering, one count of bank fraud, and four counts of money laundering. The charges arose from a fraudulent loan scheme intended to defraud SBA and a lender of more than \$1.8 million in connection with the purchase of a warehouse. The two individuals and other co-conspirators devised a land-flip scheme that involved the false representation of a \$2.2 million sales price and false documentation of a \$375,000 equity injection by the borrower. The defendants also laundered approximately \$473,000 of the loan proceeds. Two of the other co-conspirators previously pled guilty and three others have been charged but remain fugitives. The OIG conducted this investigation with assistance from the Texas Comptroller of Public Accounts, Criminal Investigation Division.

Business Owner Pleads Guilty. On February 21, 2007, the owner of a Montclair, New Jersey, accounting business pled guilty to one count of money laundering and one count of aiding and abetting involving a scheme to defraud SBA. He prepared a fraudulent tax record at the request of an individual who was facilitating an SBA loan application for a Philadelphia-based supermarket company. The supermarket company ultimately obtained an SBA-guaranteed loan in the amount of \$993,000. The owner of the supermarket company previously pled guilty to one count of wire fraud and one count of aiding and abetting involving this SBA-guaranteed loan. The OIG conducted this joint investigation with the Federal Bureau of Investigation (FBI).

Former Business Owner Pleads Guilty. On February 7, 2007, the former owner of an Inverness, Florida, hotel pled guilty to one count of making a material false statement. He executed an SBA Form 912, Statement of Personal History, when he applied for a 7(a) business loan and did not indicate that he was a convicted felon who had been sentenced to two years probation for a drug conviction. This case was initiated based on a referral from SBA's National Guaranty Purchase Center (NGPC).

Loan Cancellations. In lieu of pursuing criminal prosecution, the OIG worked cooperatively with the Agency to obtain cancellation of two suspect SBA-guaranteed loans.

- On February 9, 2007, a lender canceled a \$2 million SBA-guaranteed loan made for the purchase of a hotel after SBA's Little Rock Servicing Center advised the lender that the borrower was not eligible for the loan. SBA's NGPC had referred the loan to the OIG because the borrower previously defaulted on a \$1.5 million SBA-guaranteed loan received in 2003 for the purchase of another hotel.
- On February 14, 2007, SBA's Sacramento Loan Processing Center notified a lender that two borrowers were not eligible for an SBA-guaranteed 504 loan of \$277,000 for which they had been previously approved. SBA's Puerto Rico District Office referred the loan to the OIG because it had recently declined a Section 7(a) loan for the same borrowers due to a previously charged-off disaster loan. In addition, the borrowers stated on their loan applications that they had never filed for bankruptcy when, in fact, they had two past bankruptcies.

Reports on Audits of SBA-Guaranteed Loans. As part of an ongoing review of SBA's guaranty purchase process, the OIG randomly selected purchased loans to assess the guaranty purchase process and project the overall level of erroneous payments. In order to recover identified erroneous payments relating to individual loans, the OIG issues separate reports for each lender. On February 12, 2007, the OIG issued a report which identified a lender who did not verify that the borrower injected the required amount of equity into the business prior to loan disbursement. A portion of the claimed injection could not be considered equity as it was injected more than four months after loan disbursement, and there were indications the remaining amount of the injection was borrowed. Furthermore, there was no evidence that the funds were actually injected into the business and available for business use since they were deposited into the borrower's joint personal checking account rather than his business account. We recommended recovery of the full \$82,411 guaranty purchase amount. The lender disagreed with our draft report finding and provided additional documentation to support the verification of equity injection; however, the documentation did not show the source of the injection. SBA agreed to request recovery of the full guaranty purchase amount.

Disaster Loan Program

Texas Resident Pleads Guilty. On February 8, 2007, a Texas resident was sentenced to 39 months in prison, 3 years supervised release, and restitution of \$34,948 as a result of his previous guilty plea to one count of mail fraud and one count of aggravated identity theft. He filed multiple fraudulent applications for Federal Emergency Management Agency (FEMA) benefits as a result of Hurricanes Katrina and Rita, claiming to have resided at various disaster-affected locations when actually he was residing in the Houston, Texas area at the time of the hurricanes. He received approximately \$35,000 in FEMA benefits. He also filed a fraudulent disaster loan application with SBA, but the loan was declined. This case was investigated by the Department of Justice's Hurricane Katrina Fraud Task Force, which includes the United States Attorney's Office for the Southern District of Texas, the SBA OIG, the Department of Homeland Security OIG, the Social Security Administration OIG, and the U.S. Postal Inspection Service.

Agency Management

Report on SBA's Information Security Program. On February 22, 2007, the OIG issued an Advisory Memorandum Report, *Evaluation of SBA's Information Security Program*, in accordance with the Federal Information Security Management Act (FISMA). We determined that during FY 2006 SBA made a concerted effort to correct weaknesses identified in previous FISMA reviews. We also determined that SBA had made improvements in its Computer Security Program. Specifically, in FY 2006 SBA fully certified and accredited 9 of the 11 systems we evaluated. The two remaining systems had interim Certification and Accreditations. We also found that SBA met FISMA requirements for managing an agency-wide plan of action and milestone process to track its progress in addressing IT security weaknesses, establishing agency-wide security configuration policy and guidelines, reporting security incidents, and providing security awareness training. Despite this progress, the review determined that SBA needed to improve its information security program in two areas: (1) classifying the sensitivity of its non-major systems, and (2) ensuring that contingency plans for all contractor-operated systems are tested. The report contained three recommendations. SBA's Office of the Chief Information Officer agreed with the report's findings and recommendations.

Report on SBA's Protection of Sensitive Agency Information. On February 9, 2007, the OIG issued an Advisory Memorandum Report, *Review of SBA's Protection of Sensitive Agency Information*. The review assessed whether SBA was in compliance with Office of Management and Budget (OMB) Memorandum 06-16, Protection of Sensitive Agency Information, which requires Federal agencies to protect sensitive information. OMB Memorandum 06-16 specifies protection safeguards that agencies must implement and required the OIG review the Agency's progress towards implementing those safeguards. We determined that SBA did not fully implement the required data protection safeguards by the OMB's deadline due to the relatively short implementation time frame and its failure to purchase necessary capabilities, including encryption software. As a result, we determined that SBA was vulnerable to unauthorized disclosure of personally identifiable information, particularly information stored on mobile

computers and devices. We made five recommendations to the Agency's Chief Information Officer to correct the deficiencies identified in the report.

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 2 Agency initiatives, including proposed legislation, SBA 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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Beverly Menier, SBA OIG
409 Third Street SW., 7th Floor
Washington, DC 20416
E-mail: OIG@SBA.GOV
Telephone number (202) 205-6586
FAX number (202) 205-7382

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