



Office of Inspector General Small Business Administration

January 2000 Update

Business Loans

[Audit Report Issued on Section 7\(a\) Loan Program.](#) On January 11, 2000, OIG issued an audit on the level of compliance with SBA's Section 7(a) Loan Program processing requirements. This was a summary report compiling results obtained from audits of 240 loans in eight district offices. These audits were requested by the Associate Administrator for Financial Assistance (AA/FA) to: (1) determine whether loans were processed, disbursed, and used in accordance with SBA requirements, and (2) compare the audit results to previous similar audits of the Low-Doc Loan Program.

The auditors evaluated 22 procedures considered material to the loan approval process to determine whether non-compliance with these procedures resulted in deficiencies that affected the loan guarantee or required other action to protect the Government's interests. The auditors concluded that 11 percent of the Section 7(a) loans had deficiencies in this category. Another 38 percent had non-compliances for which the impact could not be determined during the audit, or had non-compliances that did not result in deficiencies.

The audit also concluded that the rate of non-compliance was about half that of the two previous LowDoc audits.

The audit highlighted areas where SBA's oversight of lenders was limited.

Four out of five non-compliances occurred when SBA had little or no oversight of the lender's actions.

SBA did not make lender oversight reviews as required.

A baseline goal was not developed to measure and evaluate lender loan processing performance.

District offices had not developed formal procedures for tracking guarantee repairs.

In the report, OIG recommended that goals and measures be set for lender loan processing performance, that the purchase process be centralized for loans with deficiencies, and that a procedure for district offices to track repairs and report the results be established. The AA/FA responded that a recently established lender review system will rate lender compliance with SBA lending procedures, that SBA will establish a quality control process

for guarantee purchases and repairs will be tracked. The AA/FA's proposal was partially responsive to the establishment of quality processing goals. The proposal will provide some measure of individual lender performance, but does not set a baseline goal for lenders nor compare lender performance, individually or collectively, to a goal.

Oklahoma Computer Storeowner Pleads Guilty to Making False Statements. The owner of a now-defunct computer store in Ardmore, Oklahoma, pled guilty on November 16, 1999, to one count of **making false statements in a loan application to a federally insured financial institution**. He was sentenced to serve 6 months of incarceration and 4 years on supervised release. He was also ordered to pay \$47,691 in restitution to SBA. He became a fugitive in March 1998, when he was indicted on the above charge. He was subsequently arrested on unrelated charges in Texas. His business had received a \$50,000 SBA-guaranteed loan from a bank in Ardmore. The computer storeowner indicated on SBA Form 912, Statement of Personal History, that he had never been arrested or convicted other than for minor motor-vehicle violations. In fact, prior to applying for the loan he had been arrested a number of times for a variety of felony offenses and convicted on multiple occasions. His criminal history was material to approval of the loan application. The loan was disbursed in August 1993, he closed the store and filed for bankruptcy in April 1994, and the loan was charged off in July 1996 with a \$54,319 loss to the bank and SBA. The investigation was initiated based on results of OIG's Operation Cleansweep (examining the truthfulness of SBA Form 912s submitted for subsequently defaulted loans). *(Updated from the March 1998 Update.)*

Missouri Accountant Indicted for Bank Fraud. A former Missouri accountant was indicted on January 13, 2000, on one count of **bank fraud**

in connection with a \$70,000 LowDoc business loan made to his former employer, a St. Louis, Missouri, realty company. The joint investigation by SBA/OIG, the Department of Housing and Urban Development (HUD) OIG, the Social Security Administration OIG, the Internal Revenue Service, and Federal Bureau of Investigation (FBI) revealed that the accountant generated and submitted false documents to both SBA and the participating bank to obtain the loan. Now a Texas resident, he has agreed to surrender to law enforcement authorities. SBA/OIG initiated its investigation based on a referral from HUD/OIG. *(Updated from the November 1999 Update.)*

Florida Proprietor Sentenced for Making Material False Statements. The proprietor of a credit repair and counseling firm in Jacksonville, Florida, was sentenced on January 18, 2000, to 4 months incarceration, 4 months home detention with electronic monitoring, and 3 years probation. She was also ordered to pay \$66,626 in restitution to SBA. She previously pled guilty to one count of **making material false statements** to influence the disbursement of an \$80,000 LowDoc loan to her business. She misrepresented on SBA Settlement Sheets that she intended to use loan disbursements to purchase fixed assets. In fact, she falsely negotiated joint-payee loan checks when she purchased equipment from third parties and then returned all or some of the equipment for refunds. OIG initiated this investigation based on information received from SBA's North Florida District Office. *(Updated from the October 1999 Update.)*

Idaho Direct Mail Company Co-Owners Sentenced for Making False Statements. Former co-owners of a direct-mail advertising company in Meridian, Idaho, were sentenced on January 19 and 20, 2000, respectively. They were adjudged jointly liable to pay \$37,582 restitution to SBA and the bank. Each

was also sentenced to 5 years probation, including 6 months electronic monitoring, and ordered to pay a \$600 fee. Both had previously pled guilty to one count of **making false statements to SBA**. OIG's joint investigation with the FBI found that the businesswomen created false invoices for equipment that, in reality, they had not purchased to obtain disbursements on a \$90,000 SBA-guaranteed business loan. This investigation was based on a referral from SBA's Idaho District Office. *(Updated from the November 1999 Update.)*

Small Business Investment Companies

New York SBIC's Limited Partner Agrees to Pay SBA in Civil Settlement. A limited partner in a New York, New York, SBIC agreed to pay SBA \$41,900 in a civil settlement approved by a Federal district court judge on October 13, 1999. As receiver for the SBIC, SBA had sued the partner and another principal for fraud and conversion of the SBIC's assets. The SBIC president previously pled guilty to **bank fraud** and **making material false statements** in connection with misapplications of SBIC funds that caused the SBIC to fail. The limited partner had approved the improper disbursement of \$750,000 in loans from the SBIC to the SBIC's president, who then repaid a personal obligation to the partner's wife. This investigation, conducted jointly with the FBI, originated from a referral to OIG by SBA's Office of SBIC Operations. *(Updated from the June 1999 Update.)*

Agency Management and Financial Activities

The Office of Inspector General held a briefing for Congressional staff members on Friday, January 21, 2000. Staff invitees were from both the Senate and House Committees

on Appropriations, Small Business, Government Reform, and Government Affairs. Representatives from SBA's Office of Congressional and Legislative Affairs and Chief Financial Officer also attended.

The Activity Update is produced by the SBA/OIG, Phyllis K. Fong, Inspector General.

Comments or questions concerning this update or request for copies of OIG audits, inspections, or other documents should be directed to Donna M. Ching, SBA/OIG, 409 Third Street, SW, Washington, DC, 20416-4110. Most OIG inspection and audit reports are available on the Internet at www.sba.gov/ig.

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