



Office of Inspector General U.S. Small Business Administration

December 2006 Update

Business Loan Programs

OIG Issues Report on Audit of SBAExpress and Community Express Loan Purchase and Liquidation Process. On December 29, 2006, the OIG issued a report on an audit of the SBAExpress and Community Express loan purchase and liquidation process. The objectives of the audit were to determine if the SBAExpress and Community Express loan purchase process adequately identified lender deficiencies that would have affected purchase decisions, and whether SBA adequately monitored the liquidation process for both loan programs. This audit was initiated based on concerns over the high default rate of Express loans.

The audit found that SBA purchased SBAExpress and Community Express loans without obtaining information needed to assess whether lenders verified borrowers' use of proceeds, determined eligibility and creditworthiness, or verified borrowers' financial information. As a result, we estimated that \$128 million in purchases were not properly reviewed by SBA. We also identified material deficiencies on two loans purchased for \$27,134 that were not identified under SBA's current purchase processing procedures because the lenders did not disclose material facts about the loans to SBA. In addition, SBA erroneously paid lenders approximately \$304,000 in additional guaranties on 43 Community Express loans that were ineligible for additional guaranty coverage because the lenders provided no evidence that the borrowers received the required technical assistance. Further, SBA did not monitor \$25.1 million in purchased loans that were over 180 days delinquent to determine if they should be referred to the Department of Treasury for collection as required by the Debt Collection Act.

The OIG made twelve recommendations to SBA's Acting Associate Administrator for Financial

Assistance. Included were recommendations to: review loans that were approved after January 1, 2000, and purchased before February 1, 2005, to ensure that lenders complied with program requirements; revise program guidance to ensure that adequate documentation is provided and reviewed; seek recovery of erroneous payments; and properly monitor purchased loans and make timely referrals to Treasury. The Agency agreed with six of twelve recommendations, and proposed corrective actions that were responsive to two other recommendations. The Agency disagreed with the four remaining recommendations.

OIG Issues 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. Three such reports were issued during December.

- On December 29, 2006, the OIG issued a report that identified a lender who requested a guaranty purchase from SBA without conducting a timely site visit to protect and secure the collateral of the business. When the site visit was made 5 months after the date required, the business was closed and collateral with an estimated net liquidation value of \$40,000 was missing. However, according to SBA, the collateral (used computer equipment) had a minimal recoverable value and, as a result, we recommended that SBA seek recovery of \$22,000 from the lender, rather than the \$34,608 originally questioned.
- On December 28, 2006, the OIG issued a report that identified a lender who requested a guaranty purchase from SBA without providing adequate documentation to substantiate the use of \$28,660

in loan proceeds. This deficiency was not detected during the guaranty purchase process and, as a result, SBA erroneously paid the lender \$28,660 on the loan guaranty. The OIG recommended that SBA seek recovery of the erroneous payment from the lender.

- On December 20, 2006, the OIG issued a report that identified a lender who incorrectly applied to interest \$30,677 of loan payments received while the loan was in liquidation status. Moreover, SBA paid excess interest of \$786 at purchase. Since this deficiency was not detected during the guaranty purchase process, SBA erroneously paid the lender \$31,463 on the loan guaranty. The OIG recommended that SBA seek recovery of \$31,463 from the lender.

Virginia Woman Pleads Guilty. On December 18, 2006, a former employee of a Norfolk, Virginia, consulting firm pled guilty to one count of mail fraud and one count of engaging in a monetary transaction in criminally derived property. As part of the plea agreement, she agreed to forfeit all interests in mail fraud related assets and to cooperate fully with the U.S. Attorney's Office and law enforcement officials. Her cooperation includes testifying against her husband, the former owner of the consulting firm, who goes on trial in March 2007. The consulting firm was an internet-based company that lauded a 90 percent success rate in obtaining SBA-guaranteed loans and used its success rate as bait to lure customers into doing business with the company. For a fee of at least \$3,500, the company guaranteed to provide a comprehensive business plan and an SBA-guaranteed loan to its customers. However, investigative efforts disclosed that the business plans prepared by the consulting firm were worthless and that only one or two businesses ever received an SBA-guaranteed loan. It is estimated that over 900 people fell victim to the scam. This case was based on a referral from SBA's Richmond District Office. The OIG conducted this joint investigation with the U.S. Postal Inspection Service and the Internal Revenue Service (IRS).

Business Owner Pleads Guilty. On December 20, 2006, the owner of a Fairfield, Ohio, restaurant pled guilty to one count of making a false statement to a bank on a loan application. He also pled guilty to three other counts for immigration related offenses. He was previously indicted in connection with a scheme to induce SBA and a lender to approve a

\$50,000 SBAExpress loan. The indictment alleged that he falsely represented he was a citizen of the United States on his SBA loan application. The indictment also charged him with nine other counts for immigration related offenses and contained forfeiture allegations. This investigation was initiated based on a referral from the U.S. Attorney's Office, Cincinnati, Ohio. The OIG conducted this joint investigation with Immigration and Customs Enforcement (ICE).

California Business Owners Indicted. On December 14, 2006, the owner of a small airplane parts business in Davis, California, together with the previous owner of another small airplane parts business, were indicted in the Eastern District of California on one count of wire fraud and one count of aiding and abetting. The investigation found that the prior company obtained a \$999,000 SBA-guaranteed business loan to purchase the second company. The owner of the first company failed to disclose that he had borrowed the \$125,000 cash injection from an associate of the seller. The loan defaulted and the SBA purchased its guaranty. This case was originally referred to the OIG by the U.S. Attorney's Office in Boise, ID. The OIG is conducting this joint investigation with the Federal Bureau of Investigation (FBI).

Former Washington State Business Owner Indicted. On December 6, 2006, the former owner of a dump truck hauling business in Tacoma, Washington, was indicted on five counts of bank fraud, two counts of bankruptcy fraud, two counts of money laundering, one count of evasion of payments to the IRS, and three allegations of forfeiture. The indictment was sealed until his arrest on December 12, 2006, by agents of the FBI, IRS, SBA, and the Pierce County Sheriff's Office. In addition, the Government obtained a claim on the former owner's personal residence as a result of the forfeiture allegations. The investigation found that he made false statements regarding his company's tax liability to the SBA and a federally-insured financial institution in order to obtain an SBA-guaranteed loan of \$750,000. He also hid the proceeds from converted collateral and evaded payments to the IRS for past due payroll taxes by failing to disclose assets. The investigation also disclosed that he became a police officer during the investigation. His probationary period was terminated when the police department became aware of the investigation. This investigation was referred by a lender. The OIG conducted this investigation jointly with the FBI and IRS.

Agency Completes Final Actions on Recommendations Made in Audit Report – SBA’s Follow-Up on SBLC Examinations (Report 01-16).

The Agency reported that it completed the following final actions. The Standard Operating Procedure (SOP) for the Risk Based Review of Small Business Loan Companies (SBLCs) was approved by the SBA Administrator on September 28, 2006. The SOP established internal control standards for the SBLC program and formal procedures for the SBLC examination follow-up process to ensure corrective actions are taken in a timely manner. No recommendations contained in the audit report remain open.

Disaster Loan Program

Alabama Business Owner Indicted. On December 13, 2006, the co-owner of a private charter plane company located in Auburn, Alabama, was indicted on five counts of wire fraud, two counts of personal income tax evasion, two counts of fraudulent conversion of SBA collateral, and two counts of forgery of a government seal, in connection a \$177,800 disaster loan he obtained for economic injuries resulting from the September 11 World Trade Center terrorist attacks. In 2004, the loan went into liquidation/default status for non-payment. In 2005, he sold two properties that were held as collateral on the SBA disaster loan and produced four documents indicating that SBA had released its lien against his personal and business properties. All four documents were fraudulent, and he copied SBA’s 50th Anniversary seal on two of the documents. As a result, he received \$92,526 which should have been paid to the SBA. In addition, he embezzled almost \$980,000 from a fraternity where he was the trustee and treasurer and failed to pay required federal income taxes. This case was initiated as a result of a referral received from SBA’s Santa Anna Liquidation Center. The OIG is conducting this joint investigation with the IRS and the Auburn Police Department, who are handling the tax evasion and wire fraud counts of the indictment.

Agency Completes Final Action on Recommendation Made in Audit Report – The Disaster Credit Management System Upgrade Project Needs a Certification & Accreditation Prior to Production (Report 06-21). The Agency reported that it completed the following final action. SBA’s Chief Information Officer (CIO) and Associate

Administrator for Disaster Assistance certified completion of the Certification and Accreditation package for the Disaster Credit Management. All recommendations contained in the audit report have been completed.

Government Contracting and Business Development

Former SBA Official Sentenced. On November 29, 2006, a former SBA Assistant District Director (ADD) for the 8(a) Business Development Program was sentenced in the U.S. District Court, District of Puerto Rico, to 48 months in prison, two years supervised release, and a \$100 criminal monetary penalty. He was previously found guilty by jury trial of one count of bribery of a public official. The investigation determined that from 2000 to 2003, an SBA 8(a) contractor and president of an engineering firm made monthly cash payments to the ADD totaling in excess of \$30,000. In exchange for the bribe payments, the ADD used his official authority to award over \$16 million in SBA 8(a) sole source contracts to the engineering firm. The president of the engineering firm pled guilty and was sentenced in a separate bribery case. This investigation was based on a referral from the FBI. The OIG conducted this joint investigation with the FBI and the General Services Administration (GSA) OIG.

This monthly update is produced by the SBA OIG,
Eric M. Thorson, 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 these documents
please contact:

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

Many OIG 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 at (800) 767-0385