



Office of Inspector General U.S. Small Business Administration

January 2005 Update

Agency Management

Agency Completes Final Action on Audit of SBA's FY 2003 Financial Statements. The following final action has been reported as being completed. The Agency made improved financial management a top priority for SBA during FY 2004. Significant improvements were made by SBA in its financial reporting process, which resulted in improved financial statement audit results. One recommendation made in the report remains open.

Agency Completes Final Action on Audit of Information System Controls for Fiscal Year 2003. The following final action has been reported as being completed. The Agency has created a Vulnerability Assessment Team that will conduct periodic network testing to ensure that security features are properly and fully utilized. Thirteen recommendations made in the report remain open.

Business Loan Programs

OIG Issues Report on Demand Letters for Delinquent 9/11 Disaster Loans. On January 11, 2005, the OIG issued its Management Advisory Report on Pre-Demand and Demand Letters for Delinquent 9/11 Defaulted Disaster Loans. As of September 30, 2004, 1,495 of these loans valued at \$208.8 million were delinquent. OIG reviewed 37 delinquent 9/11 disaster loans and concluded that pre-demand or demand letters should have been sent to borrowers of 17 loans. SBA, however, had no record of letters being sent to 13 borrowers. The loans had been delinquent for an average of 279 days. Demand letters were not needed for the remaining 20 loans because of bankruptcy, offer-in-compromise, legal actions, or for those under 90 days delinquent. We recommended that the Director, Office of Financial Assistance take the following actions: 1) Revise Standard Operating Procedure (SOP) 50 51 2 to direct servicing centers to

send timely pre-demand and demand letters to delinquent borrowers. These letters should be maintained in the loan file. 2) Ensure that sufficient staff resources are devoted to Center activities to fulfill the timely issuance of pre-demand and demand letters as required by OMB A-129. The Assistant Administrator, Office of Financial Assistance, agreed to revise the SOP to include the sending of timely pre-demand and demand letters, but stated that the audit report did not demonstrate that additional resources were needed. In response, OIG noted that the recommendation was not to increase staff resources, but to ensure the Center devoted sufficient resources to the issuance of demand letters.

Maryland Restaurant Owners Sentenced. On January 7, 2005, the owners of a now-closed restaurant in Baltimore, Maryland, were sentenced to 3 years probation and ordered to pay \$200,000 in restitution. One of the owners was sentenced to 3 months home detention. The owners pled guilty to one count of **bank fraud** relating to their SBA-backed loan. This case was referred to the SBA OIG by the Federal Bureau of Investigation (FBI). This investigation was conducted jointly with the FBI.

Texas Convenience Store and Service Station Owners Plead Guilty. On December 2, 2004, the owners of a convenience store and service station in Fort Worth, Texas, pled guilty to a Class A misdemeanor. The charge by the State of Texas, Tarrant County District Attorney's Office, was for **tampering with governmental records** on a sworn renewal application for a Texas Alcoholic Beverage Commission permit. The owner also submitted a false SBA Form 912 stating the he was a U. S. citizen when, in fact, he was not. The owners were sentenced to 2 years probation, and fined \$2,000 each. They falsified documents inducing a financial institution and SBA to fund a \$230,000 SBA-guaranteed loan.

Connecticut Man Pleads Guilty to Conspiracy to Commit False Statements. On January 24, 2005, the

former partner of a New Jersey window manufacturing business pled guilty to an Information charging him with one count of **conspiracy to commit false statements**. The guilty plea relates to a \$1,750,000 SBA-guaranteed loan to purchase the window manufacturing business and the real estate where the business was located. The business owner pled guilty to the same charge on January 14, 2005. The loan broker was indicted on two counts of **conspiracy** and seven counts of **making material false statements**. The investigation revealed that the required \$700,000 capital injection was never made and the loan immediately went into default. The New Jersey business filed for bankruptcy, as did the owner and the former partner. This case was based on a referral from the New Jersey District Office. SBA OIG is conducting this ongoing investigation.

Missouri Former President and Secretary Sentenced. The former secretary of a child care center in Raytown, Missouri, was sentenced on January 7, 2005, to 5 years probation and ordered to pay a \$100 special assessment. On January 24, 2005, the former president was sentenced to 3 years probation and ordered to pay a \$25 special assessment. The former president and secretary were both ordered to make restitution jointly to the lender in the amount of \$154,566.51. An SBA OIG investigation determined that they falsified the required equity injection in order to obtain a \$311,000 SBA-guaranteed loan. The former secretary pled guilty to an Information filed in March 2004, that charged her with **making false statements**. The former president was indicted on similar charges at that time, but later pled guilty to an Information charging her with being an **accessory after the fact to fraud**. The child care center never opened and the loan quickly defaulted, resulting in a principal loss of \$154,566. This investigation was initiated based on a referral from the Kansas City District Office.

Texas Convenience Store Owner Sentenced. On January 31, 2005, the owner of a convenience store in Woodville, Texas, who previously pled guilty to making a **false claim to U.S. citizenship**, was sentenced to 1 year probation and 200 hours community service. The business owner applied for and received a \$1 million SBA-guaranteed loan. During the loan process, he provided signed documentation claiming U.S. citizenship. However, Department of Homeland Security (DHS) records

indicated that he was not a U.S. citizen. The SBA OIG is conducting this continuing investigation jointly with the DHS, Harris County Organized Crime Task Force, the Social Security Administration, and the Texas Alcoholic Beverage Commission.

Oregon Loan Packager Debarred. A former loan packager has been debarred by the SBA for 3 years from all Federal procurement and non-procurement activities. The SBA OIG recommended the debarment after a Federal investigation found that the loan packager obtained fraudulent loans from a financial institution on behalf of six people, all without their knowledge and consent, causing a loss to the bank in excess of \$500,000. Although these false applications were not submitted under any of the SBA loan programs, the investigation also found that he submitted numerous applications for SBA-guaranteed loans on behalf of small business clients to the bank and other lenders containing allegedly fraudulent information. However, because the lenders had declined the applications, no charges were filed based on those allegedly false statements. On March 10, 2004, the loan packager was indicated by a Federal grand jury for bank fraud. He ultimately pled guilty and on January 24, 2005, the Agency debarred the former loan packager for 3 years based on his plea.

Government Contracting and Business Development Programs

New Jersey Business Owner Pleads Guilty. On January 28, 2005, the part owner of a New Jersey business pled guilty to **Interstate Transportation of Stolen or Fraudulently Obtained Property**, in connection with her role in stealing more than \$1.9 million. The business, a Small Business Investment Company, licensed and funded by SBA, was responsible for lending money to start-up technology businesses. The business owner and others participated in the theft of funds by issuing checks, wire transfers, and other payments for their own personal benefit. They concealed the thefts by falsifying records to make it appear that the payments were for salary or shareholder distributions. As part of the plea agreement, the business owner has agreed to cooperate fully in the ongoing investigation. SBA OIG is conducting this investigation jointly with the FBI. The case was referred to OIG by the SBA's Investment Division.

Agency Completes the Last Two Final Actions on Inspection of the Federal and State Technology Partnership Program (FAST). The following two final actions have been reported as being completed. 1) The Agency provided OIG with performance reports from the FY 2001 FAST participants. The Agency found that all performance reports included the required information as detailed in the reporting requirements section of the program announcement. 2) The Agency provided OIG with performance reports from the FY 2002 FAST participants. The Agency found that all performance reports included the required information as detailed in the reporting requirements section of the program announcement.

Agency Completes Final Action on Audit of Boscart Construction, Inc. The following final action has been reported as being completed. The Agency revised the SOP on Advisory Councils to reflect the procedures for vetting nominees to SBA Advisory Council. Three recommendations made 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 seven 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, Harold Damelin, 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:

Teresa Clouser, SBA/OIG
409 Third Street SW., 7th Floor
Washington, DC 20416
e-mail: OIG@SBA.GOV
Telephone number (202) 205-6580
FAX number (202) 205-7382

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