



## Office of Inspector General U.S. Small Business Administration

November 2006 Update

### *Agency Management*

Audit of SBA's FY 2006 Financial Statements. On November 15, 2006, pursuant to the Chief Financial Officers Act of 1990, the Independent Auditor's Report and accompanying reports on internal control and compliance with laws and regulations was issued by KPMG LLP for the fiscal year (FY) ending September 30, 2006. The audit was performed under a contract with the OIG and in accordance with Generally Accepted Government Auditing Standards, Office of Management and Budget (OMB) Bulletin 06-03, Audit Requirements for Federal Financial Statements, the Government Accountability Office (GAO)/President's Council on Integrity and Efficiency (PCIE) Financial Audit Manual, and GAO's Federal Information System Controls Audit Manual.

The KPMG report concluded that SBA's consolidated financial statements presented fairly, in all material respects, the financial position of SBA as of and for the year ended September 30, 2006. The financial statements also presented fairly, in all material respects, SBA's net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligation for the year. With respect to internal controls, KPMG reported a material weakness in SBA's controls over financial reporting and noted two reportable conditions related to Information Technology (IT) security controls and budgetary controls surrounding travel vouchers.

SBA's Chief Financial Officer (CFO) concurred with the Independent Auditor's findings and agreed to implement the recommendations. The CFO expressed disappointment that the progress the Agency has made in the financial reporting was not sufficient to reduce the material weakness to a reportable condition. However, the CFO noted that the Agency is committed to excellence in financial management and looking forward to making more progress in FY 2007.

OIG Issues Report on SBA's FY 2007 Management Challenges. In accordance with the Reports Consolidation Act of 2000, the OIG has issued its Report on the Most Serious Management Challenges Facing SBA in FY 2007. This report provides the OIG's current assessment of Agency programs or activities that pose significant risks, including those that are particularly vulnerable to fraud, waste, error, mismanagement, or inefficiencies. The report is available on the Internet at [http://www.sba.gov/ig/FY2007\\_management\\_challenges.pdf](http://www.sba.gov/ig/FY2007_management_challenges.pdf).

Agency Completes Final Action on Recommendation Made in Audit of SBA's Information Systems Controls for FY 2003 (Report 04-19). The Agency reported that it has completed the following final action. The Office of Chief Information Officer (OCIO), as required by the Federal Information Systems Management Act (FISMA), has developed policies and procedures requiring system owners to provide plans of action to OCIO for correcting weaknesses identified during audits, management reviews, and other related IT certification & accreditation reviews. In addition, OCIO has developed reporting processes to follow-up on system owner corrective action plans. Seven audit recommendations contained in the audit report remain open.

### *Business Loan Programs*

Texas Man Sentenced. On November 7, 2006, a Houston, Texas, man was sentenced to 6 months home confinement, 3 years probation, and \$624,564 in restitution. He had previously pled guilty to one count of conspiracy to commit bank fraud in connection with a fraudulent scheme to secure a \$1 million SBA-guaranteed loan by submitting an inflated purchase contract. The contract falsely showed a sales price of \$1,320,000 for a convenience store, when the true purchase price was only \$788,617. The lender disbursed

loan proceeds of \$1 million in reliance on these and other misrepresentations. The OIG conducted this investigation jointly with the Texas Alcohol and Beverage Commission.

Company President Sentenced. On November 14, 2006, the president of a technology company was sentenced to 27 months in a Federal correctional facility followed by 3 years supervised release, and ordered to pay restitution in the amount of \$27,810. He had previously pled guilty to one count of mail fraud. In order to obtain a \$150,000 SBA-guaranteed loan, he provided false information to the SBA, the lender, and a third party service that prepared the loan package. He misrepresented his educational background, provided fraudulent tax returns, and used a false social security number. The SBA OIG conducted this joint investigation with the U.S. Postal Inspection Service and the Social Security Administration OIG.

Maryland Business Owner Sentenced. On November 2, 2006, the owner of a Maryland seafood company was sentenced to 6 months home confinement and 5 years probation, and ordered to pay restitution of \$66,010 to the SBA and \$7,334 to a lender. He had previously pled guilty to one count of conspiracy to commit wire fraud. The charges involved a Newark, New Jersey, seafood exporter that received a \$400,000 SBA-guaranteed loan. The amount was to be disbursed in increments based on letters of credit and invoices from suppliers. On numerous occasions, checks from the New Jersey company bounced, resulting in approximately \$5,000 in debt owed to the Maryland seafood company. In order to satisfy the debt and help secure loan disbursements, a scheme was devised whereby the owner of the Maryland seafood company produced three false invoices, totaling \$73,344, which were submitted to the lender. The owner admitted preparing the false invoices and keeping related excess funds. This case was referred by SBA's New Jersey District Office.

Former Company President and Employee Indicted. On October 10, 2006, indictments against the former president and a former employee of a Virginia Beach, Virginia, consulting firm were unsealed. The previously filed indictments charge the two individuals with ten counts of frauds and swindles, four counts of laundering of monetary instruments, four counts of engaging in monetary transactions in property derived

from specified unlawful activity, and six counts of tax evasion. The two individuals used SBA's loan programs as the bait to lure business owners into an internet scam. It is estimated that over 900 people fell victim to this scam. Touting a 90 percent success rate in securing SBA loans, their consulting firm agreed to provide clients with a business plan and a source of funding. Investigative efforts revealed that the business plans prepared by the consulting firm were worthless and that only one or two clients ever received an SBA loan. The OIG conducted this joint investigation with the U.S. Postal Inspection Service and the Internal Revenue Service (IRS).

Florida Business Owner Indicted. On October 25, 2006, the former owner of an Inverness, Florida, hotel was indicted in the U.S. District Court for the Middle District of Florida for submitting a false statement to SBA when executing an SBA Form 912, Statement of Personal History, in conjunction with an application for a 7(a) business loan. The former hotel owner failed to indicate on his statement of personal history that he was a convicted felon and had been sentenced to two years probation for a prior drug conviction. As a result of this indictment, the court issued an arrest warrant and, on October 30, 2006, OIG agents arrested the individual as he attempted to leave his residence. This case was referred by the SBA Program Office.

Texas Man Sentenced. On November 9, 2006, a Texas man was sentenced in the Northern District of Texas to five years probation, restitution of \$8,884,253 (to be paid jointly with four other defendants), and a \$100 special assessment. He had previously pled guilty to one count of conspiracy to commit bank fraud. The man was initially charged in an 11-count indictment for falsely obtaining nine SBA-guaranteed loans, totaling \$9.5 million, for convenience stores located in the Houston, Texas area. He recruited unqualified borrowers to obtain these loans. The investigation revealed a conspiracy in which borrowers would submit false and fraudulent documents, artificially inflate bank deposits, and use loan proceeds to fund required equity injections when applying for loans. This case was referred by a lender. The OIG conducted this joint investigation with the Federal Bureau of Investigation (FBI).

Illinois Loan Broker Debarred. On October 19, 2006, an Illinois loan broker and packager was barred from participation in Federal financial and non-financial assistance programs or in representing participants in such programs, and from participation in Federal procurement transactions for a period of three years.

This debarment was based on a jury-trial conviction on October 20, 2005. The loan broker/packager was convicted for his participation in a scheme to defraud the SBA and a preferred lender in connection with the purchase of a restaurant located in Antioch, Illinois. He helped a borrower, who had received a funding declination from one lender, prepare and submit a more attractive loan package, which included false income and personal financial statements, to another lender. This case was initiated based upon referrals from SBA's Illinois District Office and an anonymous complainant. The OIG conducted this joint investigation with the FBI and the IRS Criminal Investigations Division.

Former Business Owner Pleads Guilty. On November 8, 2006, the former owner of a Fox River Grove, Illinois, electrical supply company pled guilty in the Northern District of Illinois to one count of wire fraud as part of a Rule-11 plea agreement. He had sold the electrical supply company to a St. Charles, Illinois, couple, who financed the purchase with a \$1.1 million SBA-guaranteed loan. The charges stem from his involvement in a scheme to induce the lender and the SBA to approve the loan by providing false Federal tax returns for the company, forging his accountant's signature, and sending the tax return via facsimile transmission from the company in Illinois to the lender in Colorado. The loan went into default and ultimately resulted in a gross principal loss exceeding \$544,000. The plea agreement includes forfeiture stipulations that demand that the former owner forfeit to the United States any and all title and interest in property which constitutes and is derived from proceeds traceable to the charged offense. The forfeiture allegations specifically state that the government is entitled to certain assets totaling \$550,000. The OIG conducted this joint investigation with the FBI.

## *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 five 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,  
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The OIG has established an e-mail address ([oig@sba.gov](mailto: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:

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