



Office of Inspector General U.S. Small Business Administration

February 2010 Update

Business Loan Programs

Eleven Individuals Charged in Bank Fraud Scheme.

On February 17, 2010, a 185-count indictment was unsealed that charged eleven individuals with various federal crimes for their involvement in a scheme to defraud a bank and the SBA. The charges relate to at least 31 fraudulent business loans, totaling more than \$10 million, issued by the Pulaski County, Missouri, bank between January 2005 and January 2007. The eleven defendants were charged with various combinations of false entries in bank records, false statements to a bank, false statements to the SBA, bank bribery, bank fraud, theft by a bank officer, and money laundering. A former executive vice president and chief lending officer of the bank, a former SBA branch manager, and two Missouri business consultants were also charged with conspiracy for allegedly making false statements to the bank and SBA to induce them to approve loans and lines of credit under false pretenses, making false entries in the bank's records and structuring loans to avoid scrutiny by the bank's Board of Directors, and diverting loan proceeds. Six other individuals have been charged separately in this case, two of whom have pled guilty. The OIG is conducting this investigation jointly with the Federal Bureau of Investigation (FBI).

Former Business Owner Sentenced. On February 11, 2010, the former owner of an Arlington Heights, Illinois, finance company was sentenced to 135 months imprisonment, five years supervised release, and ordered to pay \$7.4 million in restitution. He previously pled guilty to one count of providing false bank entries, reports, and transactions. In addition, because he is a permanent resident and not a U.S. citizen, Immigration and Customs Enforcement planned to issue a "detainer" that would result in his deportation back to India after his period of imprisonment. The investigation revealed that he was involved in a scheme to induce a lender and the SBA to approve a \$1.35 million SBA-guaranteed loan to

one of his companies. He provided a false bank account verification letter, as well as fraudulent cashier's checks at the loan closing. The investigation revealed that in addition to obtaining an SBA loan for himself, he brokered 46 SBA-guaranteed loans—totaling \$44,314,371—for others. He admitted that he provided false information to the lender for almost all of these loans. The OIG conducted this investigation jointly with the FBI.

Disaster Loans

Louisiana Business Owner Sentenced. On February 11, 2010, the co-owner of a Gonzales, Louisiana, day care business was sentenced to 36 months probation and a fine of \$1,500. She previously pled guilty to one count of wire fraud. Along with her husband, who was previously sentenced, she applied for and received an SBA disaster home loan of \$94,000 and an SBA disaster business loan of \$125,500, claiming damages from Hurricane Katrina to their residence and her business, which was located at the same address. She transmitted, via facsimile, bogus inflated receipts to the SBA as supporting documentation for repairs completed. Based upon these fraudulent receipts, SBA approved additional installment payments from the approved loans and transferred more funds into the their checking accounts. A total of \$175,642.97 in disaster funds were recovered as a result of this investigation. The OIG conducted this investigation jointly with the Hurricane Katrina Fraud Task Force.

Government Contracting and Business Development

SBA's Efforts to Improve the Quality of Acquisition Data in the Federal Procurement Data System. On February 26, 2010, the OIG issued a [report](#) on an audit of the quality of SBA's acquisition data in the Federal Procurement Data System (FPDS). In 2007, the Office of Management and Budget (OMB) issued a

directive requiring Federal agencies to annually certify to the accuracy of the procurement data reports in FPDS. Data in FPDS must be accurate because it is used to report on Government contracting actions, procurement trends, achievement of small business goals, and to report contract activity under the Recovery Act. In 2008, OMB also required that agencies annually implement data quality plans. The objectives of the audit were to determine whether SBA had (1) taken adequate steps to ensure the accuracy of its FY 2008 acquisition data, and (2) developed a data quality plan to effectively address any data weaknesses.

The OIG found that SBA certified to the accuracy of its FY 2008 contracting data, even though 92 percent of a random sample of contract actions reviewed by the OIG contained one or more inaccurate or incomplete data elements in FPDS. Of 648 individual FPDS data elements reviewed, 156 (24.1 percent) did not agree with the contract file or the information was missing from the contract file. While SBA had developed a data quality plan for FY 2008, it did not fully implement the plan, which contributed to the errors identified by the OIG. Further, due to the volume of errors identified in FPDS, it appears that contracting personnel did not review FPDS data inputs to ensure they reflected accurate information, as required by the Federal Acquisition Regulations (FAR). While the accuracy of some data elements improved in FY 2009—of 630 individual FPDS data elements reviewed, 141 (22.4 percent) did not agree with the contract file or the information was missing from the contract file—overall there was a higher rate of error in the FY 2009 data. Approximately 97 percent of the contract actions in an OIG sample contained one or more inaccurate or incomplete data elements, indicating again that SBA contracting personnel were not properly reviewing data entries.

The OIG recommended that SBA either update its FY 2008 data quality plan or revise applicable procedures to include explicit steps to be taken to ensure data is reviewed for accuracy and completeness; conduct an independent review to ensure that the data quality plan or procedural requirements have been fully implemented; and ensure that contracting personnel are held accountable for the accuracy of FPDS data.

In response to the OIG's recommendations, the Agency stated that it would revise the data quality plan

to further delineate specific steps that must be taken to ensure data is properly reviewed for accuracy and completeness, and would provide training to contracting specialists/officers to reinforce this effort. In addition, the Agency awarded a contract to conduct an independent review of the FPDS data. SBA also stated that annual performance plans for contracting specialists/officers would include a critical element associated with the accuracy and completeness of FPDS data.

Entrepreneurial Development

Review of SBA's Accounting of FY 2009 Drug Control Funds and Performance Summary Report. On February 26, 2010, the OIG issued a [report](#) on the results of a review of SBA's Accounting of Drug Control Funds and Performance Summary Report for the year ended September 30, 2009, as required by 21 U.S.C § 1704(d). Agencies are required by the Office of National Drug Control Policy (ONDCP) Circular, Drug Control Accounting, to annually provide a detailed accounting of all funds expended on National Drug Control Program activities and the results associated with those activities. However, when drug-related obligations are less than \$50 million and a detailed accounting would constitute an unreasonable burden, agencies are permitted to submit an alternative report, as long as it is accompanied by agency and OIG statements that full compliance with the circular would constitute an unreasonable burden. Because SBA's FY 2009 drug-related obligations were less than \$50 million, it submitted an alternative report for the year ended September 30, 2009. The OIG's review of the alternative report found nothing to indicate that it was not presented, in all material respects, in conformity with the ONDCP Circular, or that management's assertions were not fairly stated, in all material respects, based on the criteria set forth in the ONDCP Circular.

This monthly update is produced by the SBA OIG,
Peggy E. Gustafson, 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:

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 OIG's website at:

www.sba.gov/ig

If you are aware of suspected waste, fraud, or
abuse in any SBA program, please report it online at:

www.sba.gov/ig/aboutus/overview/rsw/index.html

Or call the OIG Hotline toll-free at (800) 767-0385