

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

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## Semiannual Report to Congress Spring 2008



October 1, 2007 – March 31, 2008

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# Inspector General Act Statutory Reporting Requirements

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The specific reporting requirements prescribed in the Inspector General Act of 1978, as amended, are listed below.

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Section 4(a)(2)	Review of Legislation and Regulations	20
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Section 5(a)(4)	Matters Referred to Prosecutive Authorities	42-50
Sections 5(a)(5) and 6(b)(2)	Summary of Instances Where Information Was Refused	None
Section 5(a)(6)	Listing of OIG Reports	24
Section 5(a)(7)	Summary of Significant Audits & Other Reports	5-21
Section 5(a)(8)	Audit Reports with Questioned Costs	26
Section 5(a)(9)	Audit Reports with Recommendations that Funds Be Put to Better Use	26
Section 5(a)(10)	Summary of Reports From Prior Semiannual Reports Where No Management Decision Was Made	27
Section 5(a)(11)	Significant Revised Management Decisions	None
Section 5(a)(12)	Significant Management Decisions with Which the OIG Disagreed	None
Section 5(a)(13)	Information Described Under Section 05(b) of the Federal Financial Management Improvement Act of 1996	N/A



**U.S. SMALL BUSINESS ADMINISTRATION  
OFFICE OF INSPECTOR GENERAL  
WASHINGTON, D.C. 20416**

April 2008

I am pleased to present the U.S. Small Business Administration (SBA) Office of Inspector General (OIG) Spring 2008 Semiannual Report to Congress, which provides a summary of the OIG's activities from October 1, 2007, through March 31, 2008. During this reporting period, the OIG issued 11 reports with recommendations for improving Agency operations, reducing fraud and unnecessary losses, and recovering funds. In addition, OIG investigations led to 43 indictments and 29 convictions of subjects who defrauded the Federal Government. In all, over \$40 million in total monetary recoveries and savings resulted from disallowed costs agreed to by management, recommendations that funds be put to better use agreed to by management, court ordered and other investigative recoveries and fines, and loans/contracts not made as a result of investigations and name checks.

We continued to direct efforts toward the investigation of fraud by loan agents and other participants in SBA business loan programs, including a scheme involving at least 76 fraudulent loans totaling over \$76 million, in which a lender's former executive vice president and others not employed by the lender conspired to fraudulently qualify loan applicants for SBA-guaranteed loans. To date, this ongoing investigation has resulted in the indictment of 33 individuals. In addition, I testified in November 2007 before the Senate Committee on Small Business and Entrepreneurship regarding the broader issue of how such a widespread fraud scheme—involving so many loans made by one of SBA's largest lenders—could occur. Audits and investigations have identified significant weaknesses in the Agency's oversight of its lenders and the OIG has identified lender oversight and loan agent fraud as major management challenges facing the Agency. This will continue to be an area of focus for the OIG.

The OIG also continues to devote significant resources to audits and investigations related to the 2005 Gulf Coast hurricanes. As of March 31, 2008, in concert with the Hurricane Katrina Fraud Task Force, the OIG had made 33 arrests and had obtained 48 indictments and 31 convictions. In addition, during this reporting period the OIG issued several reports on reviews of Agency processes and activities in the aftermath of the Gulf Coast hurricanes. The results of these reviews are summarized in the attached report.

During this reporting period, the OIG also issued its Fiscal Year (FY) 2008 Report on SBA's Top Management Challenges, as well as the Independent Auditor's Report on the Audit of SBA's FY 2007 Financial Statements. The Agency continued to demonstrate progress both in resolving the Management Challenges and in improving its accounting, budgeting, and reporting processes.

I would like to thank SBA's Administrator, Steven Preston, and Deputy Administrator, Jovita Carranza, for their continued support of the OIG in carrying out our mission to fight waste, fraud, and abuse, and promote greater government efficiency.

Eric M. Thorson  
Inspector General



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# Overview of SBA and the OIG

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## The Small Business Administration

The mission of the Small Business Administration (SBA) under the Small Business Act, as amended, is to maintain and strengthen the Nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters. The Agency's Fiscal Year (FY) 2008 – 2013 Strategic Plan has three programmatic strategic goals that broadly define what the Agency and its programs are trying to accomplish: The strategic goals are "Expand America's ownership society, particularly in underserved markets"; "Provide timely financial assistance to homeowners, renters, nonprofit organizations and businesses affected by disaster"; and "Improve the economic environment for small business." A fourth strategic goal, "Ensure management and organizational excellence to increase responsiveness to customers, streamline processes, and improve compliance and controls," defines the responsibility of the Agency's executive leadership and support functions to help accomplish the programmatic goals.

SBA is organized around four key functional areas: financial assistance (e.g., loan programs); contracting assistance; technical assistance (e.g., entrepreneurial development); and disaster assistance. The Agency also represents small businesses through an independent advocate and an ombudsman. SBA headquarters is located in Washington, D.C., while its business products and services are delivered with the help of 10 regional offices, 68 district offices, 4 Disaster field offices, and a vast network of resource partners in all 50 States, the District of Columbia, Puerto Rico, American Samoa, the U.S. Virgin Islands, and Guam. SBA's appropriation for FY 2008 is \$571 million. As of March 31, 2008, SBA had 2,187 employees, including Office of Inspector General (OIG) personnel, but excluding disaster-funded employees and an additional 2,827 temporary and permanent disaster employees, excluding contractors.

## The Office of Inspector General

Pursuant to the Inspector General Act of 1978, as amended, the OIG adds value to SBA programs and operations by providing auditing, investigative, and other services to support and assist the Agency in achieving its mission. The OIG strives to identify significant issues and offer recommendations to correct or eliminate problems and fraudulent schemes that adversely impact the efficiency, effectiveness, or integrity of SBA's programs and operations.

The OIG has four divisions that perform the key functions described below.

- **The Auditing Division** performs financial, information technology and other mandated audits, program performance reviews, and internal control assessments, and oversees audits by contractors to promote the economical, efficient, and effective operation of SBA programs.
- **The Investigations Division** manages a program to detect and deter illegal and/or improper activities involving SBA programs, operations, and personnel. The criminal investigations staff carries out a full range of traditional law enforcement functions. The security operations staff ensures that all Agency employees have the appropriate background investigations and security clearances for their duties. They also conduct the name check program, which provides SBA officials with character-eligibility information on loan applicants and other potential program participants.

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## Overview of SBA and the OIG

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- **The Counsel Division** provides legal and ethics advice to all OIG components, represents the OIG in litigation arising out of or affecting OIG operations, assists with the prosecution of civil enforcement matters, processes subpoenas, responds to Freedom of Information and Privacy Act requests, and reviews and comments on proposed Agency policies, regulations, legislation, and procedures.
- **The Management and Policy Division** provides business support (e.g., budget/financial management, human resources, information technology, and procurement) for the various OIG functions, coordinates the preparation of the Semiannual Report to Congress and the Report on SBA's Management Challenges, and develops OIG strategic and performance plans.

The OIG's headquarters is located in Washington, DC., and has field staff located in Atlanta, GA, Chicago, IL, Dallas/Fort Worth, TX, Detroit, MI, Denver, CO, Herndon, VA, Houston, TX, Kansas City, MO, Los Angeles, CA, Miami, FL, New Orleans, LA, New York, NY, Philadelphia, PA, Tacoma, WA, and Washington, DC.

An organization chart for the OIG can be found in Appendix XI.

### OIG Work During This Reporting Period

As of March 31, 2008, the OIG had 106 staff on-board. The OIG's FY 2008 appropriation is \$15.5 million, including a \$.5 million transfer for disaster assistance oversight activities. In addition, the OIG received a no-year supplemental appropriation in FY 2006 for auditing and investigative activities directly related to the Gulf Coast hurricanes. It is projected that the current balance of these funds will last through the middle of FY 2010.

During this reporting period, OIG activities focused on the two strategic goals in its FY 2006-2011 Strategic Plan: "Improving the economy, efficiency, and effectiveness of SBA programs and operations," and "Promoting and fostering integrity in SBA programs and operations." Using this framework, the OIG concentrated on critical risks facing SBA, including: risks of financial losses due to SBA's downsizing, centralization, and limited oversight and controls; risks to SBA's performance of its statutory mission to promote small business development and Government contracting; and risks associated with SBA's information technology and financial management systems and other internal operations.

The challenges and risks facing the Agency increased significantly with the devastation from the hurricanes that hit the Gulf Coast during 2005. The OIG has undertaken a series of reviews of the management of SBA's disaster assistance process, the loan application approval process, loan disbursement activities, use of proceeds, and SBA's loan processing system, known as the Disaster Credit Management System (DCMS). The OIG has also directed significant investigative efforts toward detecting and deterring fraud related to the SBA Disaster Loan program.

OIG efforts and accomplishments during the first six months of FY 2008 are summarized in this report. Audit and other reports issued during this reporting period are listed in Appendix I. Investigative actions are summarized in Appendix X. Copies of OIG reports and other work products are available on the OIG's website at <http://www.sba.gov/ig/igreadingroom.html>.

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# Agency Management Challenges

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## FY 2008 Report on SBA's Top Management Challenges

In accordance with the Reports Consolidation Act of 2000, each fiscal year the OIG identifies the most serious management and performance challenges facing the Agency for inclusion in SBA's Performance and Accountability Report. The Management Challenges represent areas that the OIG considers to be particularly vulnerable to fraud, waste, abuse, or mismanagement, or which otherwise pose significant risk to the Agency, its operations, or its credibility. Each Management Challenge generally has originated from one or more OIG or Government Accountability Office (GAO) report. For each Management Challenge, the OIG provides the Agency with recommended remedial actions together with an assessment of Agency progress on each recommended action during the preceding fiscal year.

*The Management Challenges represent areas that the OIG considers to be particularly vulnerable to fraud, waste, abuse, or mismanagement, or which otherwise pose significant risk to the Agency, its operations, or its credibility.*

The Management Challenges identified in the OIG's FY 2008 report, issued on October 16, 2007, were as follows.

- Procurement flaws allow large firms to obtain small business awards and agencies to count contracts performed by large firms towards their small business goals.
- Information systems security needs improvement.
- Effective human capital strategies are needed to enable SBA to successfully carry out its mission and become a high-performing organization.
- SBA's National Guaranty Purchase Center needs better controls over the business loan purchase process.
- SBA needs to further strengthen its oversight of lending participants.
- The Section 8(a) Business Development (BD) program needs to be modified so more firms receive business development assistance, standards for determining economic disadvantage are clear and objective, and SBA ensures that firms follow 8(a) regulations when completing contracts.
- Insufficient and outdated SBA controls continue the excessive risk of the SBIC (Small Business Investment Company) program.
- SBA needs to prevent loan agent fraud by systematically identifying all loan agents, tracking their association with individual loans, and enforcing relevant regulations.
- SBA needs to continue updating its system of directives to provide proper guidance and control over its operations.

The FY 2008 Management Challenges Report is available on the OIG's website at [http://www.sba.gov/ig/FY2008\\_Challenges.pdf](http://www.sba.gov/ig/FY2008_Challenges.pdf).

As in prior years, the FY 2008 report used a color-scoring scheme to show Agency progress in addressing the actions needed to resolve each Management Challenge. Following is a summary of the nine Management Challenges in the FY 2008 report, and the status of any progress by the Agency in addressing the Challenges.

## Agency Management Challenges

### Summary of SBA's FY 2008 Management Challenges

	Topic	Status Score				Change in Status	
		Green	Yellow	Orange	Red	Improved	Worsened
1	Small Business Contracts		2	2		1	
2	IT Security	2	5	1		4	
3	Human Capital						
4	Loan Guaranty Purchase		3	1		2	
5	Lender Oversight	1	3	2		3	
6	8(a) BD Program	1	1	4	1	3	
7	SBIC Program	1	3	2		5	
8	Loan Agent Fraud	1	2	3		3	
9	Policies and Procedures	3		1		3	
<p>“Improved” refers to an action item that showed progress this year over last year’s score.  “Worsened” refers to an action item that showed regression this year from last year’s score.</p>							

While Agency progress on a number of the challenges has been encouraging, much more remains to be done. By their nature, these challenges require continued long-term commitment and effort by the Agency.

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# Significant OIG Activities

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## Disaster Loans

The Disaster Loan program plays a vital role in the aftermath of disasters by providing long-term, low-interest loans to affected homeowners, renters, and businesses of all sizes. There are two types of disaster loans: (1) physical disaster loans for permanent rebuilding and replacement of uninsured disaster-damaged privately-owned real and/or personal property, and (2) economic injury disaster loans to provide necessary working capital to small businesses until normal operations resume after a disaster. Physical disaster loans are available to homeowners, renters, businesses of all sizes, and nonprofit organizations. The Disaster Loan program is particularly vulnerable to fraud and unnecessary losses because loan transactions are expedited in order to provide quick relief to disaster victims.

On August 29, 2005, Hurricane Katrina devastated the Gulf Coast regions of Louisiana, Mississippi, and Alabama. It was quickly followed by Hurricanes Rita and Wilma, creating further loss of lives and property in Florida and Texas. As of March 31, 2008, SBA had approved almost 120,000 disaster loans—totaling almost \$7 billion<sup>1</sup>—in the aftermath of the Gulf Coast hurricanes, and had fully disbursed almost 116,000 disaster loans—totaling over \$6.1 billion. The Agency made full or partial disbursements on 99.6 percent of the approved loans, totaling almost \$6.3 billion.

OIG audits continue to focus on loan origination, disbursement, repayment, servicing, and liquidation activities related to the Gulf Coast hurricanes, including whether: loan applications were processed in accordance with SBA procedures; uses of loan proceeds were verified before loans were fully disbursed; duplicate benefits were appropriately identified and recovered; and loan servicing and liquidation activities were appropriately staffed and effectively managed. Working in conjunction with the Hurricane Katrina Fraud Task Force, the OIG also continues to investigate allegations of: unauthorized use of loan proceeds, overstatement of financial losses, material false statements in the application process, false/counterfeit supporting documentation, and false assertions regarding primary residency in affected areas at the time of the disaster. Given the scope and magnitude of SBA's Gulf Coast hurricane disaster assistance efforts, the OIG expects to focus heavily on this area for the foreseeable future.

### Adequacy of Supporting Documentation for Disbursements

On January 29, 2008, the OIG issued a report, *Review of the Adequacy of Supporting Documentation for Disbursements*. This report was the last in a series resulting from the OIG's review of SBA's efforts to expedite loan disbursements during its "90-in-45" campaign. The campaign was initiated in the fall of 2006 to disburse funds on approximately 90,000 loans approved for the Gulf Coast hurricanes within 45 days. The audit was undertaken in response to an employee complaint that loans processed during the campaign were disbursed without receiving the required supporting documentation.

*...nearly half of the loans reviewed were disbursed by SBA without securing the proper documentation needed to protect SBA's interest...*

The OIG reviewed general information about 40 of 1,154 statistically sampled loans disbursed by the 10 case managers within the Fort Worth Processing and Disbursement Center who had made the highest average daily disbursements during the "90-in-45" campaign. The

review disclosed that nearly half (19) of the 40 loans reviewed were disbursed by SBA without securing

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<sup>1</sup> These numbers reflect original applications approved (160,751, totaling \$10.9 billion) net of loans subsequently canceled, withdrawn, increased, and decreased.

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## Significant OIG Activities

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the proper documentation needed to protect SBA's interest in the collateral and to document that insurance proceeds were used to offset the SBA loans. In total, 55 documents were missing for the 19 loans in question. Projecting the sample results to the universe of 1,154 loans, it was estimated that SBA disbursed 554 loans without securing all of the documents required to make disbursements.

Three recommendations were made to the Associate Administrator for Disaster Assistance to correct the identified deficiencies. The Agency agreed with the findings and recommendations, and attempted to contact the borrowers to obtain missing documents associated with the 19 loans. The Agency also reviewed loan files associated with all of the 1,154 disbursements, and is continuing to work to obtain missing documents where possible. Additionally, the Agency developed and implemented written procedures to ensure that all required loan documents are obtained and noted in loan files prior to disbursements over \$10,000 by establishing a new, more thorough file review process to resolve the issues identified by the audit.

### Annual Credit Reviews for Gulf Coast Hurricane Disaster Loan Disbursements

On March 28, 2008, the OIG issued an audit report on *Annual Credit Reviews for Gulf Coast Hurricane Disaster Loan Disbursements*. The audit disclosed that SBA's monitoring efforts were not adequate to ensure that the financial status of borrowers had not deteriorated to levels that would adversely impact their loan repayment ability. Generally, the audit found that the Office of Disaster Assistance (ODA) did not: (1) perform annual credit reviews before making loan disbursements, as required by Agency procedures; (2) obtain updated financial information on borrowers; and (3) cancel loans when borrowers had no repayment ability. Although SBA originally established annual credit reviews as a management control, internal ODA policy memos extended the period for credit reviews to two years, effectively eliminating reviews on 10,100 loans totaling over \$1 billion in disbursements. After extending the dates, a universe remained of 1,117 loans in need of a credit review. Even with the extended review period, ODA disbursed \$4.9 million on 110 (or about 70 percent) of 159 sampled loans (out of the universe of 1,117) without verifying that loan recipients were creditworthy. Additionally, although disbursement deadlines for these loans were included in DCMS, funds were continually disbursed after the deadlines (this occurred in 74 of the 159 loans reviewed during the audit).

*...SBA's monitoring efforts were not adequate to ensure that the financial status of borrowers had not deteriorated to levels that would adversely impact their loan repayment ability.*

While SBA may need to adjust its lending policies to more fairly serve Gulf Coast hurricane victims by adjusting lending policy requirements, it should not do so when it dilutes the Agency's ability to collect on the loans disbursed. Further, providing loan funds to borrowers who cannot repay them ultimately harms borrowers as the loans may default, further weakening their credit standing. As noted in a previous OIG report on *The Quality of Loans*

*...providing loan funds to borrowers who cannot repay them ultimately harms borrowers as the loans may default, further weakening their credit standing.*

*Processed Under the Expedited Disaster Loan Program*, issued on September 27, 2008, an estimated \$1.5 billion in loans were awarded to applicants who lacked repayment ability. Many of these applicants received additional disbursements even though they had no repayment ability.

The OIG recommended that SBA reinstitute its requirement that updated financial records and credit reports be collected during annual credit reviews and ensure that the reviews are performed when

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## Significant OIG Activities

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disbursements are made a year after loan authorization. The OIG also recommended that written justifications be provided for disaster assistance policy made outside of the Agency's clearance process. In addition, the OIG recommended that internal controls be implemented to ensure that DCMS prevents the payment of loan proceeds after disbursement deadlines expire. ODA generally concurred with the audit findings, but disagreed with three of the four recommendations and commented on several issues raised in the report. ODA agreed that not all credit reviews were completed as required, but believed it had the authority to relax credit review requirements, even though such action circumvented SBA's own regulations.

### **Withdrawal of Disaster Loan Applications to Individuals and Businesses Impacted by the Gulf Coast Hurricanes**

On March 28, 2008, the OIG issued an audit report on the *Withdrawal of Disaster Loan Applications to Individuals and Businesses Impacted by the Gulf Coast Hurricanes*. The audit disclosed that SBA generally acted appropriately when withdrawing incomplete loan applications. However, for 30 of 96 loan applications sampled, SBA withdrew the applications without providing applicants advance notice. When the results were projected to the universe, it was estimated that **...SBA inappropriately withdrew between 2,075 and 3,879 loan applications.** SBA inappropriately withdrew between 2,075 and 3,879 loan applications. Of the 30 loans withdrawn without advance notice, 12 were withdrawn within 4 days of SBA's attempted contact, 12 were withdrawn without sending a letter to applicants advising them of the necessary steps to have their applications reaccepted, and one was erroneously withdrawn. However, the OIG was unable to determine a significant impact upon applicants. Of the 30 applicants, the OIG was able to reach 7, only 1 of whom still desired the loan.

The OIG recommended that SBA implement better internal controls, preferably through DCMS, to ensure that written advance notice is given to applicants, as required by SBA procedures. The OIG also recommended that SBA revise production goals to exclude loan application withdrawals.

### **Combating Gulf Coast Hurricane Fraud**

Working in conjunction with other law enforcement organizations on the Hurricane Katrina Fraud Task Force, the OIG had made 33 arrests and had obtained 48 indictments and 31 convictions from the Task Force's inception through March 31, 2008. As repayments for more disaster loans become due, the OIG anticipates more allegations of fraud and potential loss to SBA. OIG cases related to the Gulf Coast hurricanes include the following:

- A Louisiana business owner conspired with a Certified Public Accountant to fraudulently obtain SBA disaster loans totaling approximately \$3 million. He then destroyed a forged SBA financial document to impede the criminal investigation. The owner pled guilty to making false statements to federal agents. Due to investigative efforts and timely warnings to SBA, only \$5,000 of the \$3 million was disbursed. The OIG is conducting this joint investigation with the U.S. Secret Service.
- A Louisiana woman falsified her primary residence when applying for Federal Emergency Management Agency benefits, food stamps, and an SBA loan of \$121,000. She pled guilty to making false claims to the Government and was sentenced to 5 years probation, a \$15,000 fine,

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## Significant OIG Activities

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and restitution of \$130,009. The OIG is conducting this joint investigation with the Louisiana State Police, the Department of Homeland Security OIG, and the U.S. Department of Agriculture OIG.

- A Louisiana man allegedly transmitted facsimiles of altered building permits to induce SBA to release funds on both a \$19,500 disaster home loan and a \$49,600 disaster business loan. The investigation revealed that the building permits were for work performed prior to Hurricane Katrina. In addition, he allegedly kept insurance proceeds assigned to SBA and used loan proceeds to purchase a new home, car, and boat. He was indicted for wire fraud. This case was initiated based on an anonymous complaint through the OIG Hotline.

### **Legal Actions Continue in Disaster Loan Fraud Related to the September 11th Terrorist Attacks**

SBA disbursed over \$1.1 billion in disaster assistance loans in response to the September 11, 2001, terrorist attacks. As with other disasters, the need to disburse funds quickly to the victims of the terrorist attacks created opportunities for dishonest applicants to commit fraud. Because loan repayments have typically been deferred, problems often did not emerge immediately. The OIG has investigated and obtained the prosecution of numerous parties who took advantage of this national tragedy.

*...the need to disburse funds quickly to the victims of the terrorist attacks created opportunities for dishonest applicants to commit fraud.*

For example, an Alabama aerospace company president, who co-owned a private charter plane company, obtained a disaster loan of nearly \$178,000 for economic injuries resulting from the World Trade Center attacks. After the loan defaulted for non-payment, he produced four fraudulent documents indicating that SBA had released its liens against his personal and business properties. He then sold the two properties that were held as collateral on the SBA loan. As a result, he received over \$92,000 that should have been paid to the SBA. He also embezzled almost \$980,000 from a fraternity where he acted as an officer, and he failed to pay required federal income taxes. He was sentenced to 63 months confinement, 36 months probation, and over \$1.3 million in restitution, which reflects the total amount by which he defrauded SBA, the Internal Revenue Service (IRS), and the fraternity. This case was based on a referral from a Santa Ana Liquidation Center. The OIG conducted this investigation jointly with the IRS and the Auburn (AL) Police Department.

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# Significant OIG Activities

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## Small Business Access to Capital

SBA has a financial assistance portfolio of guaranteed and direct small business loans and financings of more than \$84 billion. With over 5,000 lenders authorized to make SBA loans, the Section 7(a) Loan Guaranty program is SBA's largest lending program and the principal vehicle for providing small businesses with access to credit that cannot be obtained elsewhere. This program is vulnerable to fraud and unnecessary losses because it relies on numerous third parties (e.g., borrowers, loan agents, and lenders) to complete loan transactions. Approximately 80 percent of loans guaranteed annually by SBA are made by lenders to whom SBA has delegated loan-making authority. Additionally, SBA has centralized many loan functions and reduced the number of staff performing these functions. Since 2001, SBA's staffing has decreased by more than 25 percent while the Agency's total loan portfolio has increased by almost 60 percent. As SBA has placed more responsibility and independence on its lenders, the need for OIG oversight has increased significantly.

Another financial assistance program, the SBIC program, was established in 1958 to stimulate and supplement the flow of private equity capital and long-term debt to small business concerns using private venture capital firms and SBA-guaranteed funding. Also, small and emerging contractors who cannot obtain surety bonds through regular commercial channels can apply for SBA bonding assistance under the Surety Bond Guarantee program.

### Loan Classifications and Overpayments on Secondary Market Loans

On March 26, 2008, the OIG issued an audit on *Loan Classifications and Overpayments on Secondary Market Loans*. The objectives of the audit were to determine if SBA (1) classified secondary market loans appropriately, (2) purchased loans from the secondary market in a timely manner, and (3) pursued lenders for overpayments it made to secondary market investors. The audit disclosed that an estimated \$161 million in secondary market loans were reported as current even though loan payments were 60 days or more past due. Furthermore, the audit found that SBA did not purchase guaranties from the secondary market in a timely manner and, as a result, incurred \$7.4 million of additional interest expense. While SBA generally pursued lenders for overpayments it made to secondary market investors, the OIG identified instances where SBA had overbilled lenders by \$1.9 million on loans where transcripts either were not provided or were incomplete. Finally, the OIG identified approximately \$1.1 million of income that SBA reported from ongoing guaranty fees it never collected from lenders.

*...an estimated \$161 million in secondary market loans were reported as current even though loan payments were 60 days or more past due.*

The report contained 10 recommendations addressed to the Director, Office of Financial Assistance and one recommendation addressed to the Chief Financial Officer. The Agency agreed with two of the recommendations, partially agreed with three, disagreed with four, and neither agreed nor disagreed with one recommendation. The Agency also indicated it had already taken the proposed action for one recommendation.

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## Significant OIG Activities

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### Lender Compliance with 7(a) Lending Requirements

On March 21, 2008, the OIG issued an audit on *UPS Capital Business Credit's (UPSC) Compliance with Selected 7(a) Lending Requirements*. The objective of the audit was to determine whether UPSC materially complied with SBA's requirements for documenting borrower equity injection, use of loan proceeds, and qualifications for debt refinancing. Using a statistical sample, the OIG reviewed 36 of 103 loans originated by UPSC and purchased by SBA between October 2003 and March 2007. The OIG did not identify problems in the areas of equity injection and qualifications for debt refinancing. However, the audit determined that 16 (about 44 percent) of the 36 loans in the sample did not have adequate supporting documentation to show how borrowers used the loan proceeds. These loans had an outstanding balance of about \$4.3 million. When projected to the 103 loans purchased by SBA, it was estimated that 44 percent of \$11.2 million in guaranties purchased by SBA as of March 31, 2007, were made without the appropriate documentation showing how the borrower used the loan proceeds.

*...it was estimated that 44 percent of \$11.2 million in guaranties purchased by SBA...were made without the appropriate documentation showing how the borrower used the loan proceeds.*

The OIG recommended that the Director, Office of Financial Assistance, obtain the appropriate documentation for the use of loan proceeds for the 16 loans, establish a corrective action plan addressing the lender's procedures for documenting the use of loan proceeds, and repair one loan for improper use of loan proceeds. The Director concurred with the OIG's recommendations, and stated that actions are being taken to satisfactorily address the three report recommendations.

### Ongoing Fraud Investigation Results in Indictments, Guilty Pleas, and Convictions

In January 2007, agents from the SBA OIG and the U.S. Secret Service arrested 18 individuals sought in connection with a scheme in which a lender's former executive vice president and others conspired to fraudulently qualify loan applicants for SBA-guaranteed loans across several Midwestern states. The scheme involved at least 76 fraudulent loans totaling over \$76 million. Thus far, the investigation has resulted in the indictment of 33 individuals. Three of those indicted are currently international fugitives. As a result of this investigation, the lender began to repay SBA for some loan guaranties and cancel other guaranties. Thus far, SBA recovers from the lender, along with potential cost savings from the withdrawal of guaranties, total approximately \$16 million. The investigation is continuing, with further indictments expected. Following are highlights of some of the actions related to the investigation that occurred during this reporting period.

- The lender's former executive vice-president—a key player in the scheme—pled guilty to conspiracy to defraud SBA and to lying to a federal grand jury. The plea related to his role in fraudulently qualifying loan applicants for SBA-guaranteed loans to be used primarily for the purchase of gas stations. He faces up to 10 years in prison.
- A Michigan man allegedly conspired with others to defraud the government in connection with approximately \$12.5 million in SBA-guaranteed loans made by two lenders in different states. Most of these loans have defaulted. Moreover, the co-conspirators fraudulently obtained SBA-guaranteed loans, with the man allegedly supplying them with counterfeit bank statements and bank account verification letters. He also allegedly supplied them with counterfeit and forged

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## Significant OIG Activities

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official bank checks, which were used by the co-conspirators to falsely document equity injections. The man was indicted on charges of conspiracy, false statements, bank fraud, counterfeiting, and possession of a counterfeiting implement.

- The former manager of a Michigan gas station and convenience store, along with the president of the company that owned the gas station, conspired with others to fraudulently obtain a \$944,000 loan by using the president as a “straw buyer.” They used false equity injection documents, including a phony gift affidavit. The business failed within months, and SBA purchased its guaranty of over \$709,000. The former manager was sentenced to 30 months in prison, to be followed by 36 months of supervised release. The president was sentenced to two years in prison and 36 months supervised release. Both men were ordered to jointly pay over \$868,000 in restitution to the lender. The two individuals had previously been indicted for conspiracy and false statements. The lender subsequently repaid the guaranty to SBA.
- The buyer of a Michigan gas station and convenience store falsely stated that he would be the sole owner of the business when in fact he would only own 30 percent. In addition, he conspired with the seller to falsely represent that he was contributing \$300,000 as his equity injection in order to obtain an \$880,000 SBA-guaranteed loan. Both the buyer and the seller were indicted, and the buyer has pled guilty to making a false statement to the SBA. Although the loan is in default, the lender canceled the SBA guaranty during the course of this investigation. Consequently, SBA suffered no loss.
- The former managing member of yet another Michigan gas station and convenience store was sentenced to 24 months probation for making false statements to obtain a \$1,335,000 SBA-guaranteed loan. He defaulted on the loans, and SBA paid a claim of nearly \$1,020,000. However, the lender subsequently refunded this amount and canceled its guaranty pursuant to a settlement agreement with SBA. Indictment charges of conspiracy, false statements, and wire fraud remain in effect against his undisclosed partner and the seller of the property, both of whom are international fugitives.
- The former president of a gas station and convenience store in Detroit allegedly conspired with others to make false statements regarding his education, employment history, net worth, required equity injection, and the percentage of the business that he owned. He defaulted on the \$760,000 loan and SBA paid a claim to the lender of over \$570,000. The former president was charged with conspiracy to defraud the U.S. Government, false statements, and aiding and abetting. The lender has since refunded this money and canceled its guaranty pursuant to a settlement agreement with SBA.
- A former Michigan state probation officer conspired with others to defraud SBA on an \$825,000 SBA-guaranteed loan by claiming to be the business owner, overstating her financial status, alleging that the source of a \$250,000 equity injection was a gift from an uncle, making misrepresentations on the management resume, and obtaining the loan in her name only for her brother-in-law, who was the real owner and intended operator of the Detroit gas station and convenience store. She pled guilty to conspiracy.

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## Significant OIG Activities

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### SBA Loan Programs Remain Vulnerable to Dishonest Loan Agents

*...dishonest loan agents have perpetrated frauds involving hundreds of millions of dollars in loans.*

agents have perpetrated frauds involving hundreds of millions of dollars in loans. Moreover, loans associated with such fraud often default for nonpayment, thus increasing losses in the loan guaranty program.

A prospective borrower or a lender sometimes pays a loan agent to prepare the documentation for an SBA loan application and/or refer the borrower to a lender (or vice versa). Even though reputable loan agents have connected small businesses to sources of capital, dishonest loan

For example, a suspended New Jersey attorney acted as a loan broker and assisted a borrower in obtaining a \$993,000 SBA-guaranteed loan through a small business lender. In exchange for a 10 percent fee, the attorney conspired with the borrower to submit forged power of attorney documents, fraudulent tax records, and false cash injection documentation. The attorney pled guilty to wire fraud, money laundering, and aiding and abetting. The borrower was sentenced to six months home confinement, three years probation, and restitution of \$993,000 to be paid jointly and severally with other defendants charged in this case. A third co-conspirator is awaiting sentencing. The OIG is conducting this investigation jointly with the Federal Bureau of Investigation (FBI).

*...the attorney conspired with the borrower to submit forged power of attorney documents, fraudulent tax records, and false cash injection documentation.*

The OIG's FY 2008 Management Challenges Report identified loan agent fraud as a top Agency challenge and made recommendations to minimize loan agent abuse of SBA programs. The Agency does not know the problem's magnitude because thus far it collects little information about loan agent involvement with its portfolio. Accordingly, SBA needs to systematically identify all loan agents and track their association with individual loans. This is vital for identifying corrupt loan agents, especially since each agent can affect multiple lenders. Compounding the problem is the fact that lenders vary greatly in how well they monitor their loan processing and possible loan agent involvement with their portfolios.

### Criminals Use a Variety of Fraudulent Tactics in SBA's Loan Guaranty Programs

Criminals use various methods to fraudulently obtain, or induce others to obtain, SBA-guaranteed loans. These include submitting fraudulent documents; making fictitious asset claims; manipulating property values; and failing to disclose debts, prior criminal records, or their other SBA-backed loans. Borrowers may also use loan proceeds contrary to the terms of the loans. These activities increase the likelihood of financial loss to SBA and its lenders. The following examples demonstrate how people fraudulently acquire SBA loans.

- A former escrow officer for a Texas title company and other co-conspirators devised a fraudulent land flip scheme to obtain a \$2.4 million SBA-guaranteed loan from a Houston-area bank to fund the purchase of a warehouse. Once the loan was funded, she and her co-conspirators laundered approximately \$473,000 of the proceeds. The officer was sentenced to 96 months in prison to be followed by five years of supervised release. She had been convicted of conspiracy, bank fraud,

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## Significant OIG Activities

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and money laundering. The OIG conducted this joint investigation with the Texas Comptroller of Public Accounts, Criminal Investigation Division.

- A California businessman originally applied for a \$2 million Export Working Capital (EWC) loan. He managed and controlled two companies that exported cowhide to Korea and China, and started another business to import frozen seafood. After several years of lost revenue, the seafood company failed, forcing him to borrow from his other businesses to repay debts. To receive more cash advances from his EWC line of credit, he allegedly altered the companies' purchasing documents and falsified one company's financial statements and tax returns. The businessman was indicted for bank and loan fraud. This matter was referred to the OIG by the lender.
- A Texas businessman falsely certified that he was "current" on all taxes in order to obtain a \$1,701,000 SBA-guaranteed loan from a Texas lender. He was sentenced to ten years confinement, which was later changed to community supervision for ten years. He was also ordered to pay over \$1,352,000 in restitution and perform 320 hours of community service.
- An Illinois man and another individual allegedly devised a scheme to induce a lender to approve one SBA-guaranteed loan and two lender-direct loans totaling more than \$4 million for the purchase of three Iowa gas stations. Both men allegedly enlisted "front" borrowers and provided the lender with false and fraudulent documentation on behalf of the borrowers to influence the approval of the loans. They were both indicted for conspiracy, wire fraud, and mail fraud. The OIG is conducting this joint investigation with the FBI.
- The president of a Texas slaughtering business allegedly used false and fraudulent representations and documents to convince at least four lenders that he had sufficient collateral and income to repay over \$1,236,000 in SBA-guaranteed loans and an additional \$1,812,000 in non-SBA loans. He was indicted for wire fraud, aiding and abetting, and making a false statement to a bank. The OIG is conducting this investigation jointly with the FBI.

### Loan Applicants Continue to Falsely Claim Citizenship

Some loan applicants, either on their own or through dishonest loan agents, falsely claim U.S. citizenship when applying for SBA-guaranteed loans. Such loans often default quickly, with millions of dollars cumulatively at risk. Equally important, even small loans to such borrowers can deprive honest applicants (citizens as well as non-citizens legally residing in the U.S.) of SBA-backed financing.

For example, a man helped lead an identity theft ring designed to obtain fraudulent SBAExpress lines of credit, conventional and/or residential loans, and credit cards. He falsely claimed to be a U.S. citizen and created three identities using others' Social Security numbers, fictitious businesses, and credit cards.

*...a man helped lead an identity theft ring designed to obtain fraudulent SBAExpress lines of credit, conventional and/or residential loans, and credit cards*

After pleading guilty to California state charges in connection with a fraudulent \$35,000 SBAExpress and a \$1,445,000 residential loan, he was sentenced to time served in prison (344 days), 3 years probation, restitutions of \$34,650 to SBA and a lender and \$1,445,000 to another lender, and a \$200 fine. He was

later indicted on federal charges including mail fraud, aiding and abetting, possession of unauthorized access devices, and aggravated identity theft. The OIG is conducting this investigation jointly with the

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## Significant OIG Activities

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Los Angeles Police Department, the California Department of Insurance, Immigration and Customs Enforcement, the Postal Inspection Service, and the Social Security Administration OIG.

### **Falsified Capital Injection Persists in Loan Programs**

Capital injection is a borrower's own financial stake in a business. When the borrower has something personal to lose, he or she is less likely to default on a loan. SBA requires borrowers to inject available capital in projects financed by guaranteed loans. However, to circumvent this requirement, borrowers increasingly falsify the amount of the capital injection.

For example, a former business owner allegedly provided a false bank account verification letter to persuade the lender and SBA to approve a \$1.35 million guaranteed loan and provided fraudulent cashier's checks at the loan closing. He also allegedly submitted false documentation to another lender to influence the approval of a \$1.2 million home equity line of credit. Finally, while operating as a company, he brokered approximately 40 SBA-guaranteed loans through the lender, with fraudulent equity injection documentation provided in at least 25 separate instances. The owner has been indicted for bank fraud and falsifying financial records. In addition, a former finance company employee was indicted for wire fraud in connection with her role in inducing a lender and SBA to approve an \$850,000 guaranteed loan. The OIG is conducting this joint investigation with the FBI.

In another case, the owner/president of an investment and loan corporation helped buyers of Midwestern gas stations and hotels prepare applications for two SBA-guaranteed loans totaling \$2,573,000. He allegedly used bank statements from his own accounts to create counterfeit statements showing that his clients possessed adequate cash for their required equity injections. He and three other individuals were indicted for wire fraud. Moreover, this ongoing investigation has revealed a broad pattern of fraud by this investment and loan corporation.

### **SBIC Theft Results in Incarceration and Restitution**

The part owner of a Small Business Investment Company (SBIC) was sentenced to eight months confinement; three years supervised release, and nearly \$159,000 in restitution in connection with her role in stealing more than \$1.9 million from the SBIC. She and others stole SBIC funds by issuing checks, wire transfers, and other payments for their personal benefit through another firm. They concealed the thefts by falsifying the other firm's records to make it appear that the payments were for salary or shareholder distributions. The OIG conducted this investigation jointly with the FBI based on a referral by SBA's Investment Division.

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# Significant OIG Activities

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## Small Business Development, Contracting, Education, and Training

Through its government contracting programs, SBA works to maximize opportunities for small, woman, and minority-owned and other disadvantaged businesses to obtain Federal contract awards. These programs include, among others, the Historically Underutilized Business Zone (HUBZone) Empowerment Contracting program, and the Small Disadvantaged Business (SDB) Certification program. SBA also negotiates with other Federal agencies to establish procurement goals for contracting with small, disadvantaged, women-owned, service-disabled-veteran-owned, and HUBZone businesses. The current government-wide goal is small businesses to receive 23 percent of the total value of prime contracts awarded each fiscal year.

SBA's Section 8(a) Business Development program offers a broad scope of assistance to socially and economically disadvantaged firms. Regulations permit 8(a) companies to form beneficial teaming partnerships, and allow Federal agencies to streamline the contracting process. SBA has also implemented the Mentor-Protégé program to allow new 8(a) companies to learn from experienced businesses. These businesses teach 8(a) and other small companies how to compete for the Federal contracting opportunities as a result of public-private partnerships. Program goals require 8(a) firms to maintain a balance between their commercial and government business. The overall program goal is to graduate firms that experience sufficient success to be able to thrive in a competitive business environment.

In addition, SBA provides assistance to existing and prospective small businesses through a variety of counseling and training services, offered by partner organizations. Among these are Small Business Development Centers (SBDCs), the Service Corps of Retired Executives (SCORE), and Women's Business Centers (WBCs). Most of these are grant programs that require effective and efficient management, outreach, and service delivery.

### Grant Disbursements to Women's Business Centers

On November 20, 2007, the OIG issued a report on its audit of *Grant Disbursements to Women's Business Centers (WBCs)*. The objectives of the audit were to (1) determine the extent of delays in the

*...only about 25 percent of WBC payment requests...were disbursed within the...goal of 30 days from receipt of payment request.*

disbursement of grants to WBCs, and (2) identify improvements needed to expedite disbursements. The audit determined that only about 25 percent of WBC payment requests, involving both regular and sustainability grants, were disbursed within the

Office of Management and Budget's (OMB) goal of 30 days from receipt of the payment request. The audit found that delays in grant disbursements occurred because:

- The Agency's interpretations of the payment requirements sometimes changed and were not properly communicated to WBCs, which resulted in inaccurate or incomplete submissions by the WBCs.
- Payment requests were rejected before both SBA's Office of Management and Administration and Office of Entrepreneurial Development had performed complete reviews of the submissions, causing WBCs to submit their paperwork multiple times, and triggering restarts of the Agency's payment approval process.

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## Significant OIG Activities

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- When payment requests were rejected, the entire original package and corrected versions were mailed back and forth between SBA and the WBCs, instead of only correcting the document(s) affected.
- The Agency lacked an integrated tracking mechanism to identify when a payment request was received, where it was in the review process, and whether a disbursement had been made within OMB's 30-day requirement.

The OIG made seven recommendations to the Associate Administrator for Entrepreneurial Development to work collaboratively with the Office of Management and Administration to make the WBC payment request process more efficient and transparent. In addition, while the OIG was reviewing disbursements, it noted opportunities to streamline SBA's process for awarding WBC grants. These involved the timeliness of announcements of grant opportunities and the processing of awards for established WBCs at the same time as new entrants. The OIG made three recommendations to the Associate Administrator for Entrepreneurial Development to improve the WBC grant awarding process.

The Offices of Entrepreneurial Development and Management and Administration reviewed and provided formal comments to this report, generally agreeing with the findings and recommendations.

### **Contract Fraud Results in Major Monetary Penalties**

A court ordered a lithium power company and a Texas man to pay over \$5,015,000 in civil penalties (plus post-judgment interest of 3.28%) to the U.S. Government because of contract fraud. The OIG began investigating the company and the Texas man after an allegation was received from the National Aeronautics and Space Administration (NASA) OIG and the Defense Criminal Investigative Service (DCIS) that the company had fraudulently obtained ten research contracts, totaling over \$3 million, under the Small Business Innovative Research program. The court ruled that the company misrepresented its history, status, physical facilities, and previous work performed. The OIG is conducting this investigation jointly with the NASA OIG, DCIS, and the Army Criminal Investigation Division.

### **Legislation Requires Approval of SBDC Surveys**

In December 2004, Congress amended Section 21(a)(7) of the Small Business Act to restrict the disclosure of information regarding individuals or small businesses that have received assistance from an SBDC, and further restricts the Agency's use of such information. The provision also requires the Agency to issue regulations regarding disclosures of such information for use in conducting financial audits or SBDC client surveys. To date, however, SBA has not issued these regulations. In addition, paragraph 21(a)(7)(C)(iii) states that, until the issuance of such regulations, any client survey and the use of such information shall be approved by the Inspector General, who shall include such approval in the OIG's Semiannual Report to Congress. The Agency reported that there were no SBDC surveys requiring OIG approval during this reporting period.

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# Significant OIG Activities

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## Agency Management

### Controls Over Access to Employee e-Mail

On October 19, 2007, the OIG issued a report, *Controls Over Access to Employee Emails by SBA Managers*. The review examined whether management had improperly retrieved emails originating from an employee who was a confidential source to the OIG and a Congressional committee. The OIG determined that managers accessed an employee's emails without seeking approval from or notifying the Chief Information Officer (CIO). The CIO advised that she and her staff were unaware of the circumstances or actions relating to review of the emails and that, as the Agency's Chief Privacy Office, her authorization should have been obtained.

The CIO also advised that her office had not issued any written guidance on how email reviews should be authorized. In the absence of a centralized authorization process and written guidance for conducting administrative review of employee emails, SBA had no assurance that appropriate safeguards were consistently employed. Moreover, SBA lacked the ability to monitor who was reviewing employee emails, or the frequency or the purposes of such reviews. Although review of employee emails may be justified in some instances, the absence of controls creates an environment where employee emails could be subject to unauthorized access or reviewed for illegitimate purposes.

*...SBA lacks the ability to monitor who was reviewing employee emails, or the frequency or the purpose of such reviews...*

The report recommended that the CIO communicate to individuals who have system administrator rights that requests for email retrievals must be approved centrally by her office. The report also recommended that Standard Operating Procedure 90 49, *Appropriate Use of SBA's Automated Information Systems*, be revised to establish appropriate protocols for conducting administrative inquiries and reviews of employee emails. The Agency generally agreed with the OIG's recommendations.

### Audit of SBA's FY 2007 Financial Statements

On November 15, 2007, pursuant to the Chief Financial Officers Act of 1990, the independent auditors' report and accompanying reports on internal control and compliance with laws and regulations were issued by KPMG LLP for the fiscal year ended September 30, 2007. The audit was performed under a contract with the OIG.

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 years ended September 30, 2007 and 2006. They also presented fairly, in all material respects, SBA's net costs, changes in net position, and combined statements of budgetary resources for the years then ended. With respect to internal controls over

*... KPMG reported a significant deficiency related to information technology security controls,...*

financial reporting, KPMG reported a significant deficiency related to information technology security controls, but did not consider this deficiency to be a material weakness. KPMG's test for compliance with

certain laws, regulations, contracts and grant agreements determined that the Agency did not fully comply with the Debt Collection Improvement Act (DCIA) of 1996 because SBA had not consistently followed Treasury guidelines when referring delinquent debts for collection. The auditors did not report any other instances or matters regarding noncompliance.

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## Significant OIG Activities

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SBA's Chief Financial Officer (CFO) concurred with the Independent Auditor's findings and agreed to implement the recommendations. The CFO was pleased that SBA received an unqualified audit opinion with no reported material weaknesses and believed that these results accurately reflected the quality of the Agency's financial statements and its improved accounting, budgeting and reporting processes. The CFO also acknowledged that SBA was not in compliance with the DCIA, and outlined Agency plans to improve standard operating procedures.

### **FY 2007 Financial Statements Management Letter**

On December 14, 2007, KPMG LLP issued its Management Letter, which identifies non-reportable conditions that came to its attention during the audit of SBA's FY 2007 financial statements. KPMG reported that improvements were needed in the guaranty loan purchase process; guaranty loan charge-off and lender follow-up processes; development and communication of standard operating procedures; review of the disaster program credit model calculations; undelivered orders; and payroll processing and controls over official personnel files.

### **Increase in Overdue Management Decisions**

The Inspector General Act requires Federal agencies to make decisions on all audit findings and recommendations within a maximum of six months of report issuance. Program officials may agree, disagree, or seek alternative actions to the recommendations. In an attempt to reduce the number of overdue management decisions, the OIG revised its final audit and recommendation reporting process to require that the Agency provide management decisions on recommendations made in OIG reports at the time that it transmits its comments on the draft reports. However, during this semiannual reporting period, management decisions were made for only 38 (61 percent) of the 62 recommendations that were issued. In addition, the number of recommendations from prior reporting periods with overdue management decisions more than doubled, increasing from 6 as of September 30, 2007, to 14 as of March 31, 2008.

### **SBA Gift Authority**

Section 4(g)(2) of the Small Business Act, as amended, provides that any gift, devise, or bequest of cash accepted by the Administrator under Section 4(g) shall be held in a separate account and shall be subject to semiannual audits by the Inspector General, who shall report his findings to Congress. According to the information provided by SBA's Office of Strategic Alliances, SBA did not accept any cash gifts during this semiannual reporting period.

### **Cosponsorships and Fee-Based Administration Sponsored Events**

Section 4(h) of the Small Business Act, as amended, requires the OIG to report to Congress on a semi-annual basis regarding the Agency's use of its authority in connection with cosponsorships and fee-based Administration-sponsored events. SBA's Office of Strategic Alliances provided information to the OIG related to cosponsorships, including the names, dates, and locations of the cosponsored events, and the names of the cosponsors. This information was not verified by the OIG. As shown in Appendix IX, between October 1, 2007 and March 31, 2008, there were 45 cosponsored events. SBA reported that it did not conduct any fee-based Administration-sponsored events during this period.

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# Significant OIG Activities

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## Other Significant OIG Activities

### Character Screening Diminishes Potential Program Fraud

Participants in SBA programs involving business loans, disaster assistance loans, Section 8(a) certifications, surety bond guaranties, small business investment companies, and certified development companies must meet Agency character standards. To ensure that this occurs, the OIG's Office of Security Operations utilizes name checks and, where appropriate, fingerprint checks to determine criminal background information. During this reporting period, the OIG processed 1,489 external name check requests for these programs.

The OIG also refers applicants who appear ineligible because of character issues to program officials for adjudication. The referrals are based on data from the OIG's on-line connection with the FBI. As a result of OIG referrals during this reporting period, SBA business loan program managers declined 35 applications totaling nearly \$15.4 million, and disaster loan program officials declined 10 applications totaling almost \$1.4 million.

Nearly \$292 million in loans have been declined during the last 10 years due to character eligibility issues, thus making credit available to other applicants who had no such issues.

Moreover, based on OIG efforts during this period, the Section 8(a) program declined 11 applications for admission, and the Small Disadvantaged Business program declined 1 application for admission. The OIG also initiated 209 background investigations and issued 35 required security clearances for Agency employees and contractors. In addition, the OIG adjudicated 53 background investigative reports and coordinated with the Office of Disaster Assistance to adjudicate 46 derogatory background investigation reports. Finally, the OIG processed 2,403 internal name check requests for Agency activities such as success stories, Small Business Person of the Year nominees, and disaster assistance new hires.

### OIG Promotes Debarment and Administrative Enforcement Actions

The OIG has aggressively promoted debarments by SBA as deterrence against parties that have engaged in fraud or have otherwise exhibited such a lack of business integrity that it is in the public interest to exclude them from receiving government contracts and other Federal benefits. The OIG regularly identifies candidates for debarment, and submits detailed recommendations with supporting documents to facilitate the efforts of the SBA debarment officials. During this reporting period, the OIG submitted 8 debarment recommendations to the Agency. Debarment statistics for the reporting period are provided in the Statistical Highlights section of this report.

*During this reporting period, the OIG submitted 8 debarment recommendations to the Agency.*

For example, the OIG recommended that SBA take action against an 8(a) contractor that had willfully failed to comply with Agency subcontracting limitations by permitting a non-disadvantaged business to perform the vast majority of a set-aside contract. The Agency agreed with the OIG's recommendations and terminated the contractor from the program and initiated debarment proceedings. However, the Agency disagreed with another OIG debarment recommendation based upon evidence that an individual

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## Significant OIG Activities

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had set up a company purportedly being run by a service-disabled veteran in order to get a contract reserved for such companies. An OIG investigation determined that the veteran was not in day-to-day control over the company and that this arrangement was intended to allow an otherwise ineligible company to perform and get paid under the contract.

The OIG also made a number of recommendations for debarment based upon fraudulent conduct in the SBA business loan programs. In one case, debarment was recommended against an individual that provided numerous falsified bank records and cashier's checks (totaling over \$2.8 million) to assist various individuals to fraudulently obtain SBA-guaranteed loans. The OIG also recommended that SBA debar three individuals who submitted false documents and made false statements in order to obtain an SBA-guaranteed loan. The OIG investigation determined that the individuals intentionally hid from SBA and the lender the fact that their company was delinquent on its payroll taxes. As of the close of the reporting period, the Agency was considering all of these recommendations.

The OIG has also recommended that SBA develop better procedures for taking administrative enforcement actions against loan agents and packagers that commit fraud or other wrongdoing. Past OIG investigations have identified loan agent fraud on hundreds of millions of dollars of SBA-guaranteed loans. SBA's regulations at 13 C.F.R. Part 103 authorize the Agency to suspend or revoke a loan agent's privilege to conduct business with SBA. The regulations discuss the types of activities considered to be "good cause" for suspending or revoking an agent, but are silent on what procedures must be followed in order to undertake a revocation or suspension action. To help deter fraud by loan agents and packagers, OIG has recommended that the Agency issue regulations identifying the procedures that are to be used for these types of administrative enforcement actions.

### **OIG Reviews of Proposed Agency Regulations and Initiatives Lead to Improved Program Controls**

As part of its oversight of Agency programs and operations, every year the OIG reviews a large number of SBA-proposed regulations, internal operating procedures and other directives to determine whether the Agency is implementing adequate controls and whether the proposed actions could lead to increased waste, fraud, abuse or inefficiencies. Frequently, OIG comments identify material weaknesses and lead to significant improvements in the quality of proposed actions. During the reporting period, the OIG reviewed 67 proposed actions and submitted comments on 43 of these initiatives.

During this six-month period, the OIG identified significant concerns and, through Agency adoption of OIG recommendations, prompted more robust controls in and enhancements of a number of Agency directives. For example, the OIG made a significant number of comments to improve weaknesses with SBA's proposed revision of SOP 50-10, which governs lender underwriting and closing of section 7(a) and 504 loans. Examples of OIG-expressed concerns were: (1) whether the SOP had sufficient controls to make sure that lenders undertake adequate efforts to verify that recipients of SBA assistance are U.S. citizens; (2) whether the SOP should limit lenders with high risk ratings from continuing to have delegated lending authority; and (3) whether the SOP should require that lenders seeking admission to the SBA business loan programs provide additional documentation so that SBA can perform an adequate due diligence review of the applicant's lending policies and procedures. In addition, the OIG provided extensive comments on the

*...the OIG identified significant concerns and, through Agency adoption of OIG recommendations, prompted more robust controls in and enhancements of a number of Agency directives.*

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## Significant OIG Activities

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Agency's proposal to implement a Rural and Small Lender Advantage program to promote SBA lending in rural communities. The OIG recommended that the Agency not place undue reliance on a borrower's credit score in determining whether to approve the loan and made helpful recommendations to ensure that lenders are properly screening borrower eligibility. Another significant OIG effort involved an Agency notice establishing procedures and criteria for Agency managers to review their employee's email, which the Agency proposed to issue in response to an OIG Audit Report. As a result of OIG's review and recommendations, the Agency issued a notice that established clear guidance and effective controls.

### **OIG Fraud Awareness Briefings**

During this reporting period, the OIG conducted four fraud awareness presentations for over 225 representatives of lending institutions, federal and local agencies, and law enforcement organizations. Topics included loan agent and lender fraud, as well as fraud indicators in SBA's loan, 8(a), government contracting, and surety bond programs.



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# Statistical Highlights

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## 6-Month Productivity Statistics October 1, 2007 through March 31, 2008

### Summary of Office-Wide Dollar Accomplishments

Totals

A. Potential Investigative Recoveries and Fines .....	\$18,765,990*
B. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$2,619,739
C. Loans Not Made as a Result of Name Checks .....	\$16,772,644
D. Disallowed Costs Agreed to by Management .....	\$5,051,676
E. Recommendations that Funds Be Put to Better Use Agreed to by Management .....	\$293,823
<b>Total</b> .....	<b>\$43,503,872</b>

### Efficiency and Effectiveness Activities Related to Audits and Other Reports

A. Reports Issued .....	11
B. Recommendations Issued .....	62
C. Dollar Value of Costs Questioned.....	\$4,317,000
D. Dollar Value of Recommendations that Funds Be Put to Better Use .....	\$37,700,000
E. Collections as a Result of Questioned Costs .....	\$450,818

### Audit and Report Follow-up Activities

A. Recommendations for which Management Decisions were made During the Reporting Period .....	53
B. Disallowed Costs Agreed to by Management .....	\$5,051,676
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management .....	\$293,823
D. Recommendations without a Management Decision at End of Reporting Period .....	38

### Legislation/Regulations/Standard Operating Procedures (SOPs)/Other Reviews

A. Legislation Reviewed .....	0
B. Regulations Reviewed .....	4
C. Standard Operating Procedures and Other Issuances** Reviewed .....	63
<b>Total</b> .....	<b>67</b>

\* Includes \$1,766,667 from civil settlements in prior periods that was not reported previously.

\*\* This category includes policy notices, procedural notices, action memoranda, and other Agency initiatives, which frequently involve the implementation of new programs and policies.

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# Statistical Highlights

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## 6-Month Productivity Statistics October 1, 2007 through March 31, 2008

### Indictments, Convictions, and Case Activity

A. Indictments from OIG Cases .....	43
B. Convictions from OIG Cases.....	29
C. Cases Opened .....	49
D. Cases Closed.....	28

### Investigations Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations .....	\$18,765,990*
B. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$2,619,739
C. Loans Not Approved as a Result of the Name Check Program.....	\$16,772,644
<b>Total.....</b>	<b>\$38,158,373</b>

### SBA Personnel Actions Taken as a Result of Investigations

A. Dismissals.....	1
B. Resignations/Retirements .....	2
C. Suspensions .....	0
D. Reprimands.....	0
E. Other.....	0

### Program Actions Taken as a Result of Investigations

A. Debarments Recommended to the Agency .....	8
B. Debarments Pending at the Agency .....	13
C. Proposed Debarments Issued by the Agency .....	5
D. Final Debarments Issued by the Agency .....	8
E. Proposed Debarments Declined by the Agency .....	4

### OIG Hotline Operation Activities

A. Total Fraud Line Complaints.....	85
B. Total Complaints Referred to Investigations Division .....	23
C. Total Complaints Referred to SBA or Other Federal Investigative Agencies.....	7
D. Total Complaints Referred to Other Entities .....	22
E. Total Complaints Needing No Action .....	33

\* Includes \$1,766,667 from civil settlements in prior periods that was not reported previously.

# Appendices

## Appendix I OIG Reports Issued October 1, 2007 through March 31, 2008

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
<i>Disaster Loans</i>				
Review of the Adequacy of Supporting Documentations for Disbursements	8-07	01/29/2008	\$0	\$0
Annual Credit Reviews for Gulf Coast Hurricane Disaster Loan Disbursements	8-10	03/28/2008	\$0	\$29,200,000
Withdrawal of Disaster Loans Applications to Individual and Businesses Impacted by the Gulf Coast Hurricanes	8-11	03/28/2008	\$0	\$0
<b>Program Subtotal</b>	<b>3</b>		<b>\$0</b>	<b>\$29,200,000</b>
<i>Small Business Access to Capital</i>				
Audit of UPS Capital Business Credits Compliance with Selected 7(a) Lending Requirements	8-08	03/21/2008	\$4,317,000	\$0
Loan Classifications and Overpayments on Secondary Market Loans	8-09	03/26/2008	\$0	\$8,500,000
<b>Program Subtotal</b>	<b>2</b>		<b>\$4,317,000</b>	<b>\$8,500,000</b>
<i>Small Business Development, Contracting, Education, and Training</i>				
Audit of Grant Disbursements to Women's Business Centers	8-05	11/20/2007	\$0	\$0
<b>Program Subtotal</b>	<b>1</b>		<b>\$0</b>	<b>\$0</b>
<i>Agency Management</i>				
Fiscal Year 2008 Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration	8-01	10/16/2007	\$0	\$0
Controls Over Access to Employee Emails by SBA Managers	8-02	10/19/2007	\$0	\$0
Audit of SBA's Fiscal Year 2007 Financial Statements	8-03	11/15/2007	\$0	\$0
GFRS for Fiscal Year 2007	8-04	11/17/2008	\$0	\$0
Audit of SBA's Fiscal Year 2007 Financial Statements – Management Letter	8-06	12/14/2007	\$0	\$0
<b>Program Subtotal</b>	<b>5</b>		<b>\$0</b>	<b>\$0</b>
<b>TOTALS (all programs)</b>	<b>11</b>		<b>\$4,317,000</b>	<b>\$37,700,000</b>

# Appendices

## Appendix II OIG Reports with Questioned Costs

		Reports	Recommend- ations*	Questioned Costs**	Unsupported Costs**
A.	No management decision made by September 30, 2007***	3	3	\$ 1,107,934	\$1,073,715
B.	Issued during this reporting period	1	2	\$17,000	\$4,300,000
	Universe from which management decisions could be made in this reporting period – Subtotals	4	5	\$ 1,124,934	\$5,373,715
C.	Management decision(s) made during this reporting period	3	4	\$751,676	\$5,373,715
	(i) Disallowed costs	2	3	\$751,676	\$4,300,000
	(ii) Costs not disallowed	1	1	\$0	\$1,073,715
D.	<b>No management decision made by March 31, 2008</b>	<b>1</b>	<b>1</b>	<b>\$373,258</b>	<b>\$0</b>

\* Reports may have more than one recommendation.

\*\* Questioned costs are those which are found to be improper, whereas unsupported costs may be proper but lack documentation.

\*\*\* Information is different from what was previously reported due to database corrections.

## Appendix III OIG Reports with Recommendations that Funds Be Put to Better Use

		Reports	Recommend- ations*	Recommended Funds For Better Use
A.	No management decision made by September 30, 2007 **	1	1	\$293,823
B.	Issued during this reporting period	2	4	\$37,700,000
	Universe from which management decisions could be made in this reporting period – Subtotals	3	5	\$37,993,823
C.	Management decision(s) made during this reporting period	1	1	\$293,823
	(i) Recommendations agreed to by SBA management	1	1	\$293,823
	(ii) Recommendations not agreed to by SBA management	0	0	\$0
D.	<b>No management decision made by March 31, 2008</b>	<b>2</b>	<b>4</b>	<b>\$37,700,000</b>

\* Reports may have more than one recommendation.

\*\* Information is different from what was previously reported due to database corrections.

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## Appendix IV OIG Reports with Non-Monetary Recommendations

		Reports	Recommendations
A.	No management decision made (for at least one recommendation in the report) by September 30, 2007 **	9	26
B.	Issued during this reporting period	9	56
	Universe from which management decisions could be made in this reporting period – Subtotals	18	82
C.	Management decision(s) made (for at least one recommendation in the report) during this reporting period	12	49
D.	<b>No management decision made by March 31, 2008*</b>	<b>8</b>	<b>33</b>

\* Adding the number of reports for C. & D. will not result in the subtotal of A. & B. because any single report may have recommendations that fall under both C. & D.

\*\* Information is different from what was previously reported due to database corrections.

## Appendix V OIG Reports From Prior Semiannual Periods with Overdue\* Management Decisions as of March 31, 2008

Title	Report Number	Date Issued	Status
Audit of the Contract Bundling Process	5-20	5/20/05	Agency has not responded to four recommendations in the report.
Audit of an SBA-Guaranteed Loan	6-22	5/17/06	Agency has not responded to one recommendation in the report.
SBA's Use of the Loan and Lender Monitoring System	7-21	5/2/07	Agency has not responded to five recommendations in the report.
SBA's Oversight of Business Loan Center, LLC	7-28	7/11/07	Agency has not responded to one recommendation in the report.
Quality Assurance Reviews of Loss Verifications	7-29	7/23/07	Agency has not responded to two recommendations in the report.
Review of SBA's Subcontracting Assistance Program	7-33	9/28/07	Agency has not responded to one recommendation in the report.

\* Overdue is defined as more than 180 days from the date of issuance.

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## Appendix VI OIG Reports Without Final Action as of March 31, 2008

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
0-14	7(a) Service Fee Collections	3/30/00	8/22/00	12/31/04
2-29	Audit of Internal Control Over Colson Services Corporation's Contract as Central Servicing Agent for SBA's Certified Development Company Loan Program	9/16/02	12/12/02	8/15/08
3-08	SBA's Oversight of the Fiscal Transfer Agent for the 7(a) Loan Program	1/30/03	4/15/07	**
3-30	Early Default Card Systems, Inc	6/19/03	12/21/04	6/30/07
3-34	SBA's Compliance with JFMIP Property Management System Requirements	7/23/03	9/11/03	12/31/07
3-35	National Women's Business Council	7/28/03	3/31/05	12/31/05
4-13	Audit of an Early Defaulted Loan	3/2/04	4/6/04	6/30/07
4-16	SBA's Administration of the Procurement Activities of Asset Sale Due Diligence Contracts and Task Orders	3/17/04	***	9/1/08
4-22	Business Development Provided by SBA's 8(a) Business Development Program	6/2/04	7/14/04	**
4-34	Audit of SBA's Process for Complying with the Federal Managers' Financial Integrity Act Reporting Requirements	7/29/04	***	**
4-40	Audit of a SBA-guaranteed Loan to Elatec Technology Corporation and HK Equipment, Inc.	9/13/04	4/5/06	6/30/07
4-41	Audit of Selected SBA General Support Systems	9/10/04	***	**
4-42	Audit of SBA's Email System	9/10/04	12/31/06	12/31/06
4-44	SBA-Sponsored and Cosponsored Events Conducted by District Offices	9/24/04	***	9/30/05
5-04	Review of the Small Disadvantaged Business Certification Program	11/4/04	4/1/05	9/30/05
5-12	Audit of SBA's Information Systems Controls – FY 2004	2/24/05	4/18/05	4/15/05
5-14	SBA Small Business Procurement Awards are not Always Going to Small Business	2/24/05	8/17/06	6/30/07
5-20	Audit of the Contract Bundling Process	5/20/05	5/23/06	12/30/06
5-23	SBA's Administration of its Special Appropriation Grants	9/24/04	***	9/1/08

\*\* Target dates vary with different recommendations.

\*\*\* Management decision dates vary with different recommendations.

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## Appendix VI OIG Reports Without Final Action as of March 31, 2008

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
5-24	Criteria For Overcoming The Presumption of Social Disadvantage is Needed	9/28/05	3/9/06	7/31/06
5-28	Review of SBA Procedures For Cash Gifts	9/30/05	6/30/06	9/1/08
6-01	Independent Evaluation of SBA's Information Security Program	10/7/05	***	**
6-04	Audit of SBA's Fiscal Year 2005 Financial Statements	11/14/05	5/10/06	**
6-07	The 1502 Reporting Process	12/9/05	***	12/31/07
6-09	Audit of SBA's Administration of the Supplemental Terrorist Activity Relief (STAR) Loan Program	12/22/05	***	**
6-10	FY 2005 Financial Statements Management Letter	1/18/06	***	6/30/07
6-15	Monitoring Compliance With 8(a) BD Regulations During 8(a) BD Contract Performance	3/16/06	9/29/06	12/30/07
6-18	The Central Contractor Registration Needs To Be Modified	3/21/06	4/3/06	9/30/06
6-26	Survey of the Quality Assurance Review Process	7/12/06	4/6/07	3/31/08
6-32	Economically Disadvantaged Status of an 8(a) Program Participant's Owner	9/25/07	9/25/06	9/30/07
7-03	Audit of SBA's Fiscal Year 2006 Financial Statements	11/15/06	12/30/06	6/30/07
7-08	Audit of the SBAExpress and Community Express Loan Purchase and Liquidations Process	12/29/06	12/4/06	**
7-11	Audit of SBA's Fiscal Year 2006 Financial Statements Management Letter	1/16/07	4/6/07	9/30/07
7-13	Review of the Small Business Administration's Protection of Sensitive Agency Information	2/9/07	6/6/07	**
7-14	Evaluation of SBA's Information Security Program	3/15/07	3/6/07	9/30/07
7-16	Vulnerability Technology Security Assessment	3/6/07	2/28/07	**
7-19	Audit of Two 8(a) Sole-Source Contracts Awarded to Contractors in the Mentor/Protégé Program	3/30/07	***	**

\*\* Target dates vary with different recommendations.

\*\*\* Management decision dates vary with different recommendations.

# Appendices

## Appendix VI

### OIG Reports Without Final Action as of March 31, 2008

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
7-23	Audit of the Guaranty Purchase Process for Section 7(a) Loans at the National Guaranty Purchase Center	5/8/07	4/27/07	9/30/07
7-26	Audit of Liquidation of Disaster Loans	10/23/07	10/23/07	11/22/07
7-27	Size Determinations Made by District Offices	6/27/07	7/18/07	7/30/07
7-28	SBA's Oversight Of Business Loan Center, LLC	7/11/07	9/27/07	**
7-31	Audit of the E-Application System	8/20/07	10/16/07	**
7-33	Review of SBA's Subcontracting Assistance Program	9/28/07	9/30/07	9/30/07
8-03	Audit of SBA's FY 2007 Financial Statements	11/15/07	11/12/07	**
8-06	Audit of SBA's FY 2007 Financial Statements - Management Letter	12/14/07	12/18/07	**
8-08	Audit of UPS Capital Business Capital Compliance with Selected 7(a) Lending Requirements	3/21/07	***	**
8-10	Annual Credit Reviews for Gulf Coast Hurricane Disaster Loan Disbursements	3/28/08	3/28/08	4/25/08
8-11	Withdrawal of Disaster Loan Applications to Individuals and Business Impacted by the Gulf Coast Hurricanes	3/28/08	3/28/08	4/28/08

\*\* Target dates vary with different recommendations.

\*\*\* Management decision dates vary with different recommendations.

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## Appendix VII Summary of Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of March 31, 2008\*

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
3-08	1/30/03	Initiate a new procurement action for fiscal transfer agent activities and terminate the existing contract with the fiscal transfer agent when a new contract can be enacted.	12/10/03	6/30/07
3-08	1/30/03	Review fiscal transfer agent activities and identify contract costs for fees and services. Report these contract costs in proposed Master Reserve Fund financial statements so future fiscal transfer agent contracts will have historical cost data for comparison purposes.	10/15/03	12/31/07
4-16	3/17/04	Develop and implement procedures to monitor contractor compliance with the 50 percent rule when applicable.	5/12/04	9/1/08
4-16	3/17/04	Ensure the amount of subcontracting is reviewed and documented in the contract file for awards of 8(a) and small business set-aside contracts and task orders to small businesses.	5/12/04	9/1/08
4-16	3/17/04	Revise SOP on Procurement and Grants Management as soon as possible, incorporate policies to address the outstanding items described above within six months of the issuance of this report.	5/12/04	9/1/08
5-04	11/4/04	Develop and implement procedures to ensure that Small Disadvantaged Business reviewers properly apply all four criteria for determining economic disadvantage, per 13 CFR 124.104(c), using 8(a) Program thresholds for maximum income and total assets, and industry financial performance comparisons.	4/1/05	9/30/05

\* These are a subset of the universe of recommendations without final action.

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## Appendix VII Summary of Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of March 31, 2008\*

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
5-12	2/24/05	For all SBA internal and contractor supported general support systems and major applications, e.g., Egan Mainframe, SBA and Corio UNIX, Network and Windows 2000; Loan Accounting System (LAS), Sybase, Mainframe, Joint Accounting and Administration Management System (JAAMS) Oracle, and related application functions: (1) develop and document policies and procedures clearly outlining what activities should be logged, who should be responsible for reviewing logs, what the logs should be reviewed for, how often logs should be reviewed, and how long logs should be retained; (2) assign responsibility within the Office of the Chief Information Officer for the review of application and general support system security logs; and (3) retain audit logs for a sufficient period of time (at least 90 days).	4/13/05	4/15/06
7-03	11/15/06	Ensure that system owners for DCMS, FRIS, JAAMS and LAS standardize software change requests and that software change testing documentation is developed in a more consistent and complete manner.	6/29/07	10/30/07
7-08	12/29/06	Determine if lender actions warrant a denial of liability on \$14,232 in guaranties associated with the two loans that were either missing a Form 1919 or where the form was incomplete; and \$9,015 on guaranty.	12/4/07	5/31/07
7-08	12/29/06	Determine if loan proceeds on the 45 loans sampled during the audit were used in accordance with the terms of the loan authorizations, and take appropriate corrective actions.	12/4/07	5/31/07

\* These are a subset of the universe of recommendations without final action.

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## Appendix VII Summary of Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of March 31, 2008\*

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
7-08	12/29/06	Recover \$7,414 from a lender that awarded an SBA loan to an ineligible company.	12/4/07	5/31/07
7-08	12/29/06	Review the 2,729 loans for compliance with SBA rules and regulations and improper payments.	12/4/07	5/31/07
7-08	12/29/06	Recover \$27,134 for the two purchased SBA Express loans reviewed for which the lender failed to disclose material facts.	12/4/07	5/31/07
7-23	5/8/07	Seek recovery of \$36,407 on the guaranties paid on the 6 loans listed in the report.	4/27/07	9/30/07
7-26	6/1/07	Develop and implement procedures to ensure that all the names and identification numbers of delinquent borrowers are entered into the SBA database and transferred to Treasury.	10/23/07	11/22/07
7-26	6/1/07	Follow up on the 88 loans that were miscoded or which did not identify all responsible parties to ensure that Treasury was sent the correct or missing information.	12/4/07	5/31/07
7-28	7/11/07	Take further action to mitigate the risk posed and to promote consistent and uniform enforcement actions by developing standard operating procedures to complement revised 13 CFR that describe circumstances under which it will suspend or revoke PLP authority or how it will do so.	9/27/07	10/31/07
7-31	9/27/07	Establish appropriate controls to ensure data entered into E-Application is accurately transferred to the Electronic 8(a) Review System.	10/16/07	6/30/09

\* These are a subset of the universe of recommendations without final action.

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## Appendix VIII Summary of Significant Recommendations October 1, 2007 through March 31, 2008

Report Number	Title	Date Issued	Recommendation
8-02	Controls Over Access to Employee Emails by SBA Managers	10/19/07	Immediately communicate to individuals having system administrator rights that requests for email retrievals must be approved by the Chief Information Officer.
8-02	Controls Over Access to Employee Emails by SBA Managers	10/19/07	Revise internal policies and procedures to establish appropriate protocols for conducting administrative inquiries and reviews of employee emails.
8-03	Audit of SBA's FY 2007 Financial Statements	11/15/07	Implement a formal sanctioning policy for these personnel and contractors who do not complete the required annual computer security training program.
8-03	Audit of SBA's FY 2007 Financial Statements	11/15/07	Develop and implement specific policies and procedures outlining the day-to-day actions performed by data center employees.
8-03	Audit of SBA's FY 2007 Financial Statements	11/15/07	Develop and implement policies for end user computing, specifically enforcing user-level access controls over existing programs and data objects.
8-09	Loan Classifications and Overpayments on Secondary Market Loans	3/23/08	Revise current procedures for classifying loans in the Loan Accounting System to ensure that loan currency is not solely based on the next installment due date.
8-09	Loan Classifications and Overpayments on Secondary Market Loans	3/23/08	Ensure that SBA is in compliance with the 1086 agreement by actively monitoring the Fiscal and Transfer Agent's monthly default reports, adhering to all requirements, and taking appropriate action on the reported loans.
8-09	Loan Classifications and Overpayments on Secondary Market Loans	3/23/08	Modify the 1086 agreement to require lenders to request guaranty purchase when interest is 120 days or more days past due and seek reimbursement from lenders for interest accrued in excess of 120 days on loans SBA purchases directly from the secondary market.

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## Appendix VIII Summary of Significant Recommendations October 1, 2007 through March 31, 2008

Report Number	Title	Date Issued	Recommendation
8-09	Loan Classifications and Overpayments on Secondary Market Loans	3/23/08	Discontinue the practice of including the amount of SBA's ongoing guaranty fees in the purchase payment to the Fiscal and Transfer Agent.
8-10	Annual Credit Reviews for Gulf Coast Hurricane Disaster Loan Disbursements	3/28/08	Reinstitute the requirement that updated income tax returns and financial documents be collected along with updated credit reports during annual credit reviews.
8-10	Annual Credit Reviews for Gulf Coast Hurricane Disaster Loan Disbursements	3/28/08	Rescind Notice 07-53 to ensure that credit reviews are performed for loans that are disbursed 12 months beyond the original loan authorization date.
8-10	Annual Credit Reviews for Gulf Coast Hurricane Disaster Loan Disbursements	3/28/08	Require written justification for disaster assistance policy that is made outside of the Agency's required policies and procedures clearance process.
8-10	Annual Credit Reviews for Gulf Coast Hurricane Disaster Loan Disbursements	3/28/08	Implement internal system controls into DCMS that ensure disbursements do not occur after expired deadlines.

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## Appendix IX

### Events/Activities Where SBA Used its Cosponsorship Authority\* Small Business Act, Section 4(h) October 1, 2007 through March 31, 2008

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Emerging 200 Small Business Program	04/01/08	12/31/08	Memphis, TX	Memphis Shelby County Office of Economic Development, Office of the Mayor City of Memphis, TN and Office of the Mayor Shelby County
Conference and Small Business Week Awards Luncheon	05/01/08	05/01/08	Carmel, IN	National Federation of Independent Business, Indianapolis SCORE Chapter #6, The Central Indiana Women's Business Center, Indiana Small Business Development Center Network
Small Business International Trade Symposium Series	03/27/08	3/27/08	Miami, FL	U.S. Dept. of Commerce, ASBDC's
How to Grow your Business Internationally	04/03/08	04/03/08	Middletown, CT	Liberty Bank, Middlesex Chamber of Commerce, US Department of Commerce, Department of Economic and Community Development
Business Essentials; Business Blueprints; Web Design and Development/E-Commerce; Finding Money You Need for Your Business	04/29/08	04/29/10	Fayetteville, GA	Fayette County Public Library
Santa Ana District Small Business Week Awards Program 2008	09/27/08	09/27/08	Anaheim, CA	SCORE Association, Rancho Santiago Community College District
Small Business Week Awards Dinner	05/19/08	05/19/08	Newark, DE	Delaware Community Development Corporation, DelVal Business Finance Corporation and MidAtlantic Business Finance Corporation

\* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

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**Appendix IX**  
**Events/Activities Where SBA Used its Cosponsorship Authority\***  
**Small Business Act, Section 4(h)**  
**October 1, 2007 through March 31, 2008**

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Indiana Small Business Week Seminars	4/29/08	4/30/08	Fort Wayne, IN	Office of Senator Richard Lugar, Ft. Wayne Indiana SCORE Chapter 50, Ft. Wayne Women's Bureau, Women's Enterprise, Northeast Indiana SBDC
20th Annual High Tech Conference for Small Business	3/3/08	5/5/08	Los Angeles, CA	Jet Propulsion Laboratory/NASA
3rd Annual Export Training Assistance Partnership	3/26/08	5/21/08	Newport Beach, CA	SCORE Chapter 114, US Commercial Service, Center for International Trade Development, Orange County SBDC, Orange County Hispanic Chamber of Commerce
Celebrate Success Awards Luncheon	5/22/08	5/22/08	Hyannis, MA	Cape Business Publishing
Small Business Week Breakfast & Awards Ceremony	4/30/08	4/30/08	San Juan, PR	Puerto Rico Bankers Association
Small Business Excellence Award Recognition	5/5/08	5/9/08	Albany & Syracuse, NY	New York Business Development Corporation
Small Business Awards Program	4/17/08	4/17/08	Mason, OH	EMTEC Southwest Central Ohio Procurement Technical Assistant Center, Greater Cincinnati SCORE Chapter 34
Matchmaker Primer Workshop and Mini-matchmaker	9/08	10/08	Wallingford, CT	Quinnipiac Chamber of Commerce

\* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

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**Appendix IX**  
**Events/Activities Where SBA Used its Cosponsorship Authority\***  
**Small Business Act, Section 4(h)**  
**October 1, 2007 through March 31, 2008**

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
National Entrepreneurship Week Kickoff	2/25/08	2/25/08	Washington, DC	Consortium for Entrepreneurship Education
Small Business Workshop	3/27/08	3/27/08	Gary, IN	Centier Bank, Hammond Development Corporation, Indiana Minority Enterprise Center
Business Women's Forum	9/1/08	9/1/08	Hartford, CT	Waterbury Regional Chamber of Commerce
Procurement Workshop Series	9/08	6/09	New Haven	Gateway Community College Business Resource Center and New Haven SCORE Chapter 66
Small Business Week Recognition Program	5/20/08	5/20/08	Berlin, CT	Connecticut Small Business-Key to the Future
Federal Contracting Matchmaking Event	3/28/08	3/28/08	San Juan, PR	Colegio de Ingenieros y Agrimensores de Puerto Rico
SBA Day & Procurement Fair	4/17/08	4/17/08	Ontario, CA	County of San Bernardino/Economic Development Agency, Inland Empire WBC, Inland Empire SBDC
2008 Inner City Capital Connections Program	TBD	TBD	TBD	Initiative for a Competitive Inner City, Banc of America Capital Access Funds

\* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

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**Appendix IX**  
**Events/Activities Where SBA Used its Cosponsorship Authority\***  
**Small Business Act, Section 4(h)**  
**October 1, 2007 through March 31, 2008**

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Government Contracting Forum	2/1/08	2/1/08	Reston, VA	Greater Reston Chamber of Commerce
Series of GC/BD Workshops & Matchmaker Events	1/24/08	12/31/08	Providence, RI	Rhode Island Procurement Technical Assistance Center
Small Business Week Event 2008	5/19/08	5/23/08	Providence, RI	Joseph G.E. Knight SCORE Chapter #13
Small Business Week Event	6/4/08	6/4/08	Burlington, VT	Vermont Business Magazine
Small Business Week Event	5/22/08	5/22/08	Portland, OR	Score Chapter, West Coast Bancorp, Resource Capital, Oregon Business Development Corp. and Cascades West Financial Services
Financing for Veterans and the Military Community	01/23/08	1/23/08	Warwick, RI	Joseph G.E. Knight SCORE Chapter #13, Webster Bank NA
Small Business Week 2008	5/5/08	5/9/08	St. Louis, MO	Small Business Week of Eastern Missouri, Inc.
Black Business Conference	2/26/08	2/27/08	Detroit, MI	Chase Bank and Alpha Phi Alpha Fraternity, Inc.

\* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

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## Appendix IX

### Events/Activities Where SBA Used its Cosponsorship Authority\* Small Business Act, Section 4(h) October 1, 2007 through March 31, 2008

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Small Business Leadership Forum	1/30/08	1/30/08	Tempe, AZ	National Football League
Native American Business Association Seminar	2/23/08	2/23/08	Indianapolis, IN	Native American Business Association
Straight Talk 2008 & Straight Talk Series	1/26/08	4/8/08	Buffalo, NY	SCORE Buffalo Niagara - Chapter #45
Salute to Small Business, Regulatory Fairness Hearing & Roundtable	4/1/08	4/1/08	Columbia, SC	South Carolina Chamber of Commerce, Small Business Development Center of South Carolina, South Carolina Department of Commerce, South Carolina Export Consortium, Service Corps of Retired Executives, South Carolina Manufacturing Extension Partnership, South Carolina Women's Business Center, U.S. Department of Agriculture – Rural Development, U.S. Department of Commerce, SC Launch!, State Board for Technical and Comprehensive Education
Oklahoma Small Business Awards Luncheon	3/27/08	3/27/08	Midwest City, OK	Rose State College Small Business Development Center, Oklahoma City SCORE Chapter, Oklahoma Center for the Advancement of Science and Technology, Oklahoma Department of Commerce, The Journal Record Publishing Company

\* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

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## Appendix IX

### Events/Activities Where SBA Used its Cosponsorship Authority\* Small Business Act, Section 4(h) October 1, 2007 through March 31, 2008

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Annual Celebration of Small Business in Virginia	5/2/08	5/2/08	Richmond, VA	Small Business Awards Foundation, Inc.
Your Future Conference for Women	2/26/08	2/27/08	Mountain View, CA	Invent Your Future Enterprises
Small Business Training Conference & Matchmaking Summit	1/30/08	1/30/08	Miami, FL	U.S. Department of Veterans Affairs, City of Miami, FL and City of North Miami, FL Community Redevelopment Agency
New Mexico Small Business Week Awards Celebration 2008	5/9/08	5/9/08	Albuquerque, NM	Santa Fe Community College thru NM SBDC
Mid-America Lender's Conference for SBA Lenders	8/10/08	8/13/08	San Antonio, TX	The University of Texas at San Antonio, South West Texas Border SBDC, Central Texas Association of Government Guaranteed Lenders
Disaster Preparedness Guide	11/1/07	4/30/08	Washington, DC	Nationwide Mutual Insurance Company
Women's Business Roundtables	10/23/07	10/30/08	Worland, WY	Big West Auto Plex, Northwest College
Small Business Resource Days	11/14/07	9/30/09	Rhode Island Public Libraries	Center for Women & Enterprise, RI Coalition for Minority Investment, RI SBDC, SCORE

\* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

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# Appendices

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## Appendix IX

**Events/Activities Where SBA Used its Cosponsorship Authority\***  
**Small Business Act, Section 4(h)**  
**October 1, 2007 through March 31, 2008**

<b>Name/Subject of Event</b>	<b>Event Start Date</b>	<b>Event End Date</b>	<b>Location of Event</b>	<b>Name(s) of Cosponsor(s)</b>
Online Training Module	11/1/07	10/31/09	World Wide Web	FranNet, LLC

\* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

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## Appendix X Legal Actions Summary October 1, 2007 through March 31, 2008

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
AL	DL	An individual altered a bill of sale for his houseboat, which was used as his primary residence, in order to secure an SBA disaster loan of \$21,800. He also made false statements to the SBA regarding the use of loan proceeds.	Individual indicted and pled guilty.	None
AL	DL	The owner of a charter plane company produced fraudulent documents showing that SBA had released its lien against two properties being held as collateral on his \$177,800 SBA disaster loan. The owner received \$92,526 from the sale of the properties, which should have been paid to the SBA as collateral for his September 11 economic injury loan.	Owner sentenced to 63 months in prison, 36 months probation, and over \$1.3 million in restitution.	IRS, AAPD
CA	BL	The owner of a cowhide company is alleged to have falsified purchase orders, invoices, contracts, financial statements, and tax returns in order to receive more cash advances from his \$2 million SBA Export Working Capital line of credit. The additional funds were used to pay off debts from a failed seafood import company started by the owner.	Owner indicted.	FBI
CA	BL	The owner of a dry cleaning business allegedly falsified his capital injection and failed to disclose his prior criminal record on his application for a \$650,000 SBA-guaranteed loan.	Owner indicted.	None
CA	BL	An individual falsely claimed to be a U.S. citizen on his application for a \$35,000 SBA Express loan and a \$1,445,000 residential loan. It is alleged that he also operated a sophisticated identity theft ring for the purpose of obtaining fraudulent SBA Express lines of credit, conventional and/or residential loans, and credit cards.	Individual pled guilty in state court and was sentenced to prison time served (344 days), 3 years probation, restitution of \$1,479,650 and a \$200 fine. Federal charges involving the identity theft ring have also been filed.	LAPD, CDOI, DHS/ICE, USPIS, SSA/OIG

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## Appendix X Legal Actions Summary October 1, 2007 through March 31, 2008

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
CO	BL	The former office manager for a plastic surgeon allegedly used the doctor's personal information and signature stamp without his authorization to fraudulently obtain two SBA-guaranteed Express loans, totaling \$150,000, and an additional \$180,948 in non-SBA loans.	Office manager charged in state court via criminal complaint.	DDAO
DC	BL	The part owner of a Small Business Investment Company (SBIC) stole over \$1.9 million from the SBIC by issuing checks, wire transfers, and other payments for her personal benefit through another firm. The SBIC was licensed and funded by SBA to lend money to start-up technology businesses.	Part owner sentenced to 8 months confinement, 3 years supervised release, and \$153,658 in restitution.	FBI
DE	GC	A state employee conspired with another individual to fraudulently obtain abandoned stock certificates from the Department of Unclaimed Property. The co-conspirator then applied for a \$309,000 SBA-guaranteed loan through the Small Business Loan Source, to purchase a tanning franchise and used the funds obtained from the fraudulently obtained stock certificates for the equity injection.	Both indicted; employee pled guilty.	FBI, IRS
FL	DL	An individual falsely claimed that his apartment in New Orleans had been damaged as a result of Hurricane Katrina in order to receive a \$40,000 SBA disaster loan.	Individual indicted and pled guilty.	None
IA	BL	Two individuals allegedly enlisted "front" borrowers and provided fraudulent documentation to a lender in order to influence the approval of an SBA-guaranteed loan and two other direct loans totaling over \$4 million.	Both individuals indicted.	FBI

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## Appendix X Legal Actions Summary October 1, 2007 through March 31, 2008

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
IL	BL	The owner of an investment corporation allegedly created counterfeit statements as evidence that his clients possessed adequate funds to use as equity injections for two SBA-guaranteed loans to purchase a hotel and gas station. Three other individuals are alleged to have applied for and received over \$2.5 million in loans, which they knew they were not qualified to receive.	Four individuals indicted.	None
IL	BL	The former owner and a former employee of a finance company are alleged to have provided fraudulent equity injection documentation to a lender in order to influence the approval of at least 25 SBA-guaranteed loans for businesses seeking to purchase gas stations and convenience stores.	Former owner and employee indicted.	FBI
IL	BL	A businessman applied for two SBA-guaranteed loans totaling \$860,000 and allegedly neglected to disclose that he had been arrested and faced theft and fraud charges related to another business.	Businessman indicted.	None
LA	DL	A business owner conspired with his CPA to fraudulently obtain disaster loans totaling approximately \$3 million and then destroyed a forged SBA financial document in order to impede the investigation.	Business owner indicted and pled guilty. CPA previously pled guilty and is awaiting sentencing.	USSS
LA	DL	An individual is alleged to have provided altered building permits in order to induce SBA to release Hurricane Katrina disaster funds for a \$19,500 home loan and a \$49,600 business loan.	Individual indicted.	None

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## Appendix X Legal Actions Summary October 1, 2007 through March 31, 2008

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
LA	DL	An individual falsified her primary residence when applying for a \$142,600 SBA disaster assistance loan.	Individual pled guilty and was sentenced to 5 years probation, a \$15,000 fine, and restitution of \$130,009.	LSPD, DHS/OIG, USDA/OIG
MI	BL	The former manager of a gas station and convenience store conspired with others, including the former president of the gas station, to fraudulently obtain a \$944,000 SBA-guaranteed loan. The fraud involved numerous false equity injection documents, including a phony gift affidavit signed by the former manager.	Former manager sentenced to 30 months in prison, 36 months supervised release, and restitution of \$868,456. This restitution is to be paid jointly with the former president, who received 24 months in prison and 36 months supervised release.	USSS
MI	BL	The former executive vice president of an SBA non-bank lender conspired with a loan broker and others to fraudulently qualify loan applicants for SBA-guaranteed loans, totaling over \$76 million, primarily for the purchase of gas stations. The scheme involved using false and counterfeit documents to verify the borrowers' required equity injections.	Former executive vice president pled guilty.	USSS
MI	BL	An individual allegedly provided false information concerning her financial status and the required equity injection to obtain an \$825,000 SBA-guaranteed loan, in name only, for her brother-in-law who was the owner and intended operator of the business.	Individual pled guilty.	USSS
MI	BL	A seller conspired with two separate borrowers to falsify equity injections so each borrower could obtain an SBA-guaranteed loan to purchase a gas station/convenience store from him. The loans totaled over \$2.7 million.	All three individuals have pled guilty and are awaiting sentencing.	USSS

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## Appendix X Legal Actions Summary October 1, 2007 through March 31, 2008

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
MI	BL	The president of a gas station and convenience store falsely stated that he did not have a criminal record in order to assume an existing SBA-guaranteed loan of \$640,000.	President sentenced to 6 months in prison, 3 years probation, and \$197,000 in restitution.	USSS
MI	BL	A former bank official participated in a scheme to defraud the SBA by supplying false verifications of deposit for loan applicants. The official also gave a loan broker unfunded official bank checks totaling more than \$2.8 million to be used in connection with fraudulent loan closings.	Former bank official sentenced to 2 years in prison, 5 years supervised release, and restitution of over \$3.9 million.	USSS
MI	BL	An individual conspired with a loan broker and multiple borrowers to obtain 20 SBA-guaranteed loans totaling \$12.5 million for purchases of gas stations, oil change businesses, restaurants, and a laundromat. The broker provided the borrowers with counterfeit documents and checks in order to make the borrowers appear more creditworthy and assist them in providing the required equity injection documentation.	Individual indicted. Loan broker pled guilty to a criminal information.	USSS
MI	BL	The buyer and the seller of a gas station/mini mart conspired to falsely represent that a \$300,000 equity injection was being made in order to secure an \$880,000 SBA-guaranteed loan for the buyer.	Buyer and seller indicted. Buyer pled guilty.	USSS
MI	BL	The former president of a gas station and convenience store conspired with others to make false statement about his education, employment history, net worth, required equity injection, and the percentage of the business that he owned in order to qualify for a \$760,000 SBA-guaranteed loan.	The former president charged via a criminal information.	USSS

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## Appendix X Legal Actions Summary October 1, 2007 through March 31, 2008

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
MI	BL	An individual conspired with others to obtain a \$1,335,000 SBA-guaranteed loan from a non-bank lender to purchase a gas station and convenience store. The individual claimed he was going to be the sole owner of the business when, in fact, he had an undisclosed partner.	Individual sentenced to 24 months probation. Two co-conspirators have been charged but remain international fugitives.	USSS
MS	DL	A man and his wife provided false statements regarding their residency in an attempt to receive Gulf Coast hurricane benefits to which they were not entitled. The couple received \$50,000 of the approved \$112,500 loan from the SBA.	Wife sentenced to 36 months probation and a \$500 fine. Husband sentenced to 18 months in prison, 36 months probation, a \$4,000 fine. Both ordered to pay joint restitution of \$47,078 to the SBA.	FBI, MSAO
MS	DL	An individual caused physical damage to his own residence in order to fraudulently receive SBA disaster assistance of \$40,000.	Individual indicted and pled guilty.	FBI, USPIS
NY	BL	The owner of a trading company received a \$250,000 SBA-guaranteed loan and secured it with his primary residence. The owner sold the property and hid the sale from the bank and SBA in order to keep a profit of approximately \$487,000.	Owner indicted and pled guilty.	None
NY	DL	A financial consultant received a \$140,600 SBA working capital disaster loan pursuant to the 2001 terrorist attacks in New York City. The funds were deposited into the trust account of the consultant's attorney and were later disbursed to the financial consultant, another company that he owned, and the attorney.	Financial consultant entered into a non-prosecution agreement and agreed to repay the loan. Attorney convicted of fraud involving misuse of his escrow account and sentenced to four years in prison.	None

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## Appendix X Legal Actions Summary October 1, 2007 through March 31, 2008

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
PA	BL	A businessman fraudulently obtained a \$993,000 SBA-guaranteed loan by pledging collateral not belonging to him and falsely claiming to have made a \$250,000 cash injection. In support of the loan application, an accountant prepared a fraudulent tax record, at the direction of the loan broker, to increase the likelihood of the loan being approved.	Loan broker indicted and pled guilty. Accountant previously pled guilty and is awaiting sentencing. Businessman sentenced to six months home confinement, three years probation, and restitution of \$993,000, to be paid jointly with the other defendants in this case.	FBI
TX	DL	The president of a lumber company and her husband purported to own several vacant lots, which they knew did not belong to them. The couple offered these lots to SBA as collateral in order to obtain a \$25,800 Economic Injury Disaster Loan.	Couple convicted by jury trial.	None
TX	GC	The president of a research and development company fraudulently obtained ten research contracts totaling over \$3 million under the Small Business Innovative Research program. The president misrepresented his company's history, status, physical facilities, and previous work performed.	The company and its president ordered to pay civil penalties of over \$5 million.	NASA/OIG, DCIS, USA/CID
TX	BL	Three family members conspired to submit fraudulent documentation relating to the capital injections required to obtain two SBA-guaranteed loans. The loans, totaling \$1.6 million, were for the purchase of two gas stations/convenience stores.	Two of the defendants sentenced to 36 months probation; one, to 24 months. All three ordered to pay joint restitution of \$492,187.	FBI

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## Appendix X Legal Actions Summary October 1, 2007 through March 31, 2008

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
TX	BL	A business owner falsely stated that he was “current” on all taxes in order to obtain an SBA loan of \$1,701,000	Owner pled guilty and was placed on community supervision for ten years. He was ordered to pay \$1,352,300 in restitution and perform 320 hours of community service.	FBI
TX	GC	Six individuals conspired in a multimillion dollar fraud scheme to steer fixed Department of Defense contracts to a company owned by one of the defendants.	The final three defendants pled guilty.	FBI, IRS, USA/CID, GSA/OIG, DOI/OIG, DCIS
TX	BL	The president of a slaughtering business allegedly used false representations and documents to convince at least four different lenders that he had sufficient collateral and income to repay \$1,236,500 in SBA-guaranteed loans and \$1,812,000 in non-SBA loans.	President indicted.	FBI
TX	BL	A former escrow officer of a title company conspired with others to devise a scheme to fraudulently obtain an SBA-guaranteed loan of \$2.4 million to finance the purchase of a warehouse. The scheme involved misrepresenting the purchase price of the property, falsifying part of the equity injection, and laundering approximately \$473,000 of the loan proceeds.	Former escrow officer sentenced to 96 months in prison, 5 years supervised release.	TCPA/CID
WA	BL	The former owner of a hauling business made false statements to the bank and SBA regarding his company’s tax liability in order to obtain a \$750,000 SBA-guaranteed loan. He then sold SBA collateral, hid the proceeds of the sale, and laundered those proceeds.	Former owner sentenced to 2 years in prison, 5 years supervised release, and ordered to pay a monetary judgment of \$157,756.	FBI, IRS

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## Appendix X Legal Actions Summary October 1, 2007 through March 31, 2008

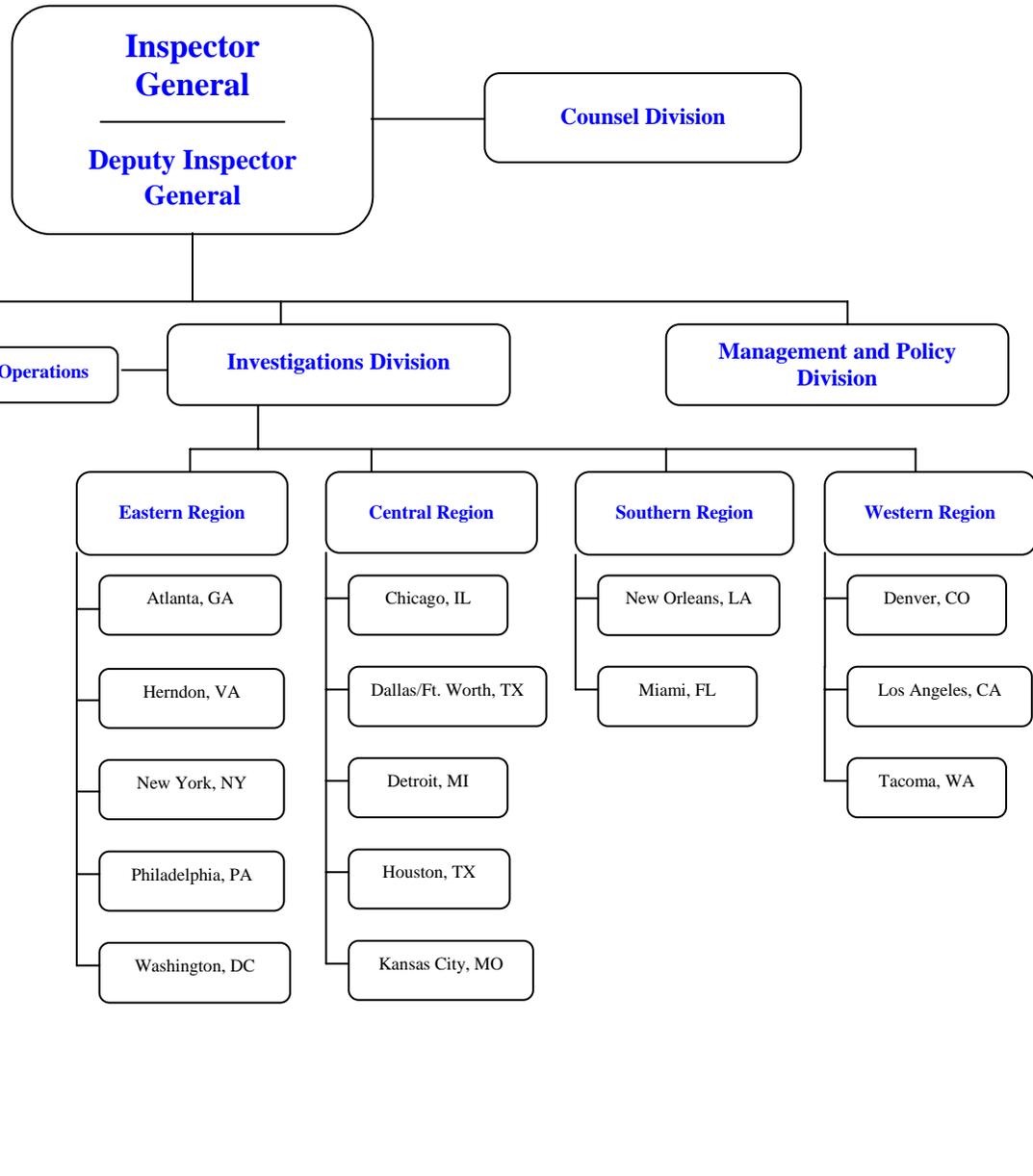
State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
WA	SB	A now defunct construction company obtained SBA surety bonds in order to perform public works contracts for state agencies and city municipalities. The president of the company is alleged to have falsely stated that he paid his subcontractors and suppliers and that his company was out of funds when, in fact, he was diverting contract proceeds of about \$87,000 to his personal use.	President charged in a superseding indictment with three additional counts.	FBI, NICB

**Program Codes:** BL=Business Loans; DL=Disaster Loans; GC=Government Contracting and Section 8(a) Business Development; SBDC=Small Business Development Center; SB=Surety Bond Guarantee

**Joint-investigation Federal Agency Acronyms:** AAPD=Auburn Alabama Police Department; CDOI=California Department of Insurance; DCIS=Defense Criminal Investigative Service; DDAO=Denver District Attorney's Office; DHS/ICE=Department of Homeland Security/Immigration and Customs Enforcement; DHS/OIG=Department of Homeland Security/OIG; DOI/OIG=Department of Interior/OIG; FBI=Federal Bureau of Investigation; GSA/OIG=General Services Administration/OIG; IRS=Internal Revenue Service; LAPD=Los Angeles Police Department; LSPD=Louisiana State Police Department; MSAO=Mississippi State Auditor's Office; NASA/OIG=National Aeronautics and Space Administration/OIG; NICB=National Insurance Crime Bureau; SSA/OIG=Social Security Administration/OIG; TCPA/CID=Texas Controller of Public Accounts/Criminal Investigative Division; USA/CID=United States Army/Criminal Investigations Division; USDA/OIG=U.S. Department of Agriculture/OIG; USPIS=United States Postal Inspection Service; USSS=United States Secret Service



**Appendix XI**  
**Small Business Administration**  
**Office of Inspector General**





# Make A Difference!

To promote integrity, economy, and efficiency, we encourage you to report instances of fraud, waste, or mismanagement to the SBA OIG HOTLINE.\*

## Call:

1-800-767-0385 (Toll Free)

## Write or Visit:

U.S. Small Business Administration  
Office of Inspector General  
Investigations Division  
409 Third Street, SW. (5<sup>th</sup> Floor)  
Washington, DC 20416

Or E-mail Us at [OIGHotline@SBA.GOV](mailto:OIGHotline@SBA.GOV)

\*Upon request, your name will be held in confidence.