



Office of Inspector General U.S. Small Business Administration

November 2010 Update

Business Loan Programs

Former Bank Official Indicted. On November 10, 2010, a former vice president/loan compliance officer of a Dixon, Missouri, bank was charged by superseding indictment with one count of conspiracy and four counts of making false statements to the SBA. The superseding indictment added the conspiracy charge to the four false statement charges on the original indictment filed in February 2010. It is alleged that a business obtained a \$1.6 million SBA 7(a) loan from the bank for the stated purposes of acquiring working capital and refinancing debt. In connection with the loan application, the SBA required that the bank provide an affidavit attesting to, and loan payment histories demonstrating that, none of the business's loans to be refinanced with the SBA loan had been more than 30-days past due in the previous three years. As part of the conspiracy, the former vice president/compliance officer assisted others in preparing false affidavits representing that (1) the business had not been more than 30-days past due on any obligation to the bank when, in fact, it had been on multiple occasions, and (2) a particular loan was an obligation of the business when it was not. In addition, the former vice president/compliance officer forged the signature of another bank official on one of the affidavits. The OIG is conducting this investigation jointly with the Federal Bureau of Investigation (FBI).

Government Contracting and Business Development

Settlement Agreement. On November 9, 2010, a McLean, Virginia construction company and its president agreed to pay \$150,000 to settle claims that they used false statements to obtain a contract from the Department of Veterans Affairs (VA). Specifically, it is alleged that the president submitted an application to

the SBA to have the business certified as a Historically Underutilized Business Zone (HUBZone) company and then used this certification to wrongfully obtain a VA contract to install fire alarms, which had been set aside for a qualified HUBZone company. The application represented that the company's principal office was located in a designated HUBZone in Maryland when, in fact, no company employees worked at that location, and the president's office was in Vienna, Virginia, which is not a designated HUBZone location. The company is no longer participating in the HUBZone program and has relocated to McLean, Virginia. The SBA OIG conducted the investigation jointly with the VA OIG and in conjunction with the Department of Justice - Civil Fraud Section.

Additional Debarments. During November, the U.S. Air Force's Deputy General Counsel for Contractor Responsibility issued additional debarments from Federal contracting to two individuals affiliated with an Alaskan Native Corporation (ANC) defense contractor headquartered in Yorba Linda, California. In all, 24 companies and 7 individuals have been suspended and 8 companies and 4 individuals debarred from Federal contracting as a result of this investigation. The suspension and debarment actions resulted from the concealment of business and ownership relationships by principals of the ANC company and its affiliated entities in order to gain preferential treatment under the 8(a) and ANC programs. The SBA OIG is conducting this investigation jointly with Defense Criminal Investigative Service; U.S. Army, Criminal Investigation Command; U.S. Air Force, Office of Special Investigations; U.S. Naval Criminal Investigative Service; and the FBI.

NARA Employee Sentenced. On November 30, 2010, a property management specialist (PMS) at the National Archives and Records Administration

(NARA) was sentenced to 15 months in prison followed by three years of supervised release. He was also ordered to pay restitution of \$958,280.64. The restitution was ordered jointly and severally with a co-conspirator who was previously sentenced. The defendants were involved in a scheme to embezzle \$958,280 from the NARA. The PMS was responsible for property management and project oversight for NARA's Facilities and Personal Property Management Branch located at the Archives II facility in College Park, Maryland. The co-conspirator was a facility support manager for a company that had a government contract to provide facility management at the Archives II facility. The PMS used his government purchase card to pay three purported businesses operated by the co-conspirator for goods and services that were either never provided or provided at inflated prices. The businesses were listed on contracting documents as 8(a) certified, but there was no record of their 8(a) certification with the SBA. Furthermore, the businesses did not have any offices or employees. The conspirators caused NARA to deposit the payments into the sham businesses' accounts and then shared the proceeds. The SBA OIG conducted this investigation jointly with the NARA OIG.

Disaster Loans

Louisiana Resident Pleads Guilty. On November 10, 2010, a Louisiana woman pled guilty to possession of a falsely obtained passport, false statements, theft of disaster assistance, and mail fraud. The charges relate to her application for and receipt of a \$342,000 SBA Economic Injury Disaster Loan on behalf of her father for rental property damages caused by Hurricane Katrina. She perpetrated a complex scheme in which she submitted falsified receipts and rental agreements in order to induce the SBA to approve the loan. In addition, she fraudulently recorded the SBA lien on her uptown mansion in order to satisfy SBA's requirement to secure the loan with collateral. The SBA OIG is conducting this investigation jointly with the OIGs for the Departments of Homeland Security and Housing and Urban Development.

Agency Management

Usefulness of the Small Business Innovation Research Tech-Net Database. On November 12, 2010, the OIG issued a [report](#) that summarized the results of a limited-scope review of the usefulness of SBA's Small

Business Innovation Research (SBIR) Tech-Net database. The OIG performed this review to assess SBA's progress in completing enhancements to and expanding the Tech-Net database to allow Federal agencies to (1) identify duplicate awards and/or other potential fraud, and (2) better evaluate the performance of the SBIR program. A prior review by the Government Accountability Office (GAO) in 2006 and reports from various other OIGs identified data gaps and weaknesses in Tech-Net that prevented agencies participating in the SBIR program from using the database to identify duplicative awards.

The review determined that SBA had made limited progress in enhancing Tech-Net since the 2006 GAO review. Participating agencies were still experiencing difficulty in searching the database for duplicative awards and other indicators of fraud because information in the Tech-Net database was incomplete and the search capabilities of the system were limited. In addition, SBA had not developed the government-use component of Tech-Net to capture information on the commercialization of SBIR research and development projects. The OIG made several recommendations to correct the deficiencies. In response to the report, SBA noted that it has been undertaking a comprehensive upgrade of the Tech-Net database, which it said would address a number of concerns raised in the audit report.

Audit of SBA's Fiscal Year (FY) 2010 Financial Statements. On November 12, 2010, pursuant to the Chief Financial Officer's Act of 1990, the [Independent Auditors' Report](#) and accompanying reports on internal control and compliance with laws and regulations were issued for the fiscal year ending September 30, 2010. The audit, which was performed by KPMG LLP under a contract with the OIG, found that SBA's consolidated financial statements presented fairly, in all material respects, the financial position of SBA as of and for the years ending September 30, 2010 and 2009. The financial statements also presented fairly, in all material respects, SBA's net costs, changes in net position, budgetary resources, and combined statements of budgetary resources for the years then ended. With respect to internal control, the independent auditors continued to report a significant deficiency related to Information Technology security controls. In addition, 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 of 1996 because it did not consistently follow Treasury guidelines for referring delinquent debts for collection. The Agency concurred with the independent auditor's finding and agreed to implement the recommendations.

Report on Special-Purpose Financial Statements.

On November 12, 2010, pursuant to Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, and the Treasury Financial Manual, the Independent Auditors' [Report on Special-Purpose Financial Statements](#) was issued by KPMG LLP on SBA's reclassified balance sheet as of September 2010 and 2009, and the reclassified statements of net costs and changes in net position and Federal trading partner note for the year then ended. The independent auditors reported that the statements, including the Federal trading partner note, presented fairly in all material respects the financial position of SBA as of September 30, 2010 and 2009. Also, the results of operations and the changes in net position for the period then ended were in accordance with generally accepted accounting principles.

FY 2011 Management Challenges. On October 15, 2010, the OIG provided the Agency with its [Report](#) on the Most Serious Management and Performance Challenges Facing SBA in FY 2011. This report provided the OIG's current assessment of SBA programs and/or activities that pose significant risks, including those that are particularly vulnerable to fraud, waste, error, mismanagement or inefficiencies. In accordance with the Reports Consolidation Act of 2000, the Management Challenges Report was included in the [Agency Financial Report](#) that was issued by SBA on November 15, 2010.

The OIG was pleased to report that all recommended actions for one Management Challenge in the previous year's report, "Insufficient and Outdated SBA Controls Contribute to Excessive Risk of the SBIC Program," had been completed by the Agency. The OIG determined that SBA (1) was actively monitoring and timely transferring impaired Small Business Investment Companies (SBICs) to liquidations when warranted, and (2) had developed performance goals and indicators to evaluate effectiveness of the liquidation process of SBICs and was reporting annually on whether these goals had been met.

This update is produced by the SBA OIG,
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