



Office of Inspector General U.S. Small Business Administration

February 2011 Update

Business Loan Programs

Pennsylvania Businessman Sentenced

On February 11, 2011, a Pennsylvania businessman was sentenced to 6 years probation, and ordered to pay \$75 in fines and \$4,998 in restitution. In addition, he was ordered not hold a fiduciary position for six years. The subject had previously pled guilty to three counts of theft by deception based on charges initiated by the Tredyffrin Police Department, the Phoenixville Police Department, and the New Garden Township Police Department. Specifically, he had misrepresented to the complainants that he could secure SBA loans for them. He accepted application fees from the complainants knowing he was not an SBA-approved lender. This was a joint investigation with the Tredyffrin Police Department, the Phoenixville Police Department, and the New Garden Township Police Department.

Texas Businessman Sentenced

On February 14, 2011, a Texas businessman was sentenced to 5 years probation (including 8 months house arrest), and ordered to pay a \$10,000 fine, a \$100 special assessment fee, and \$297,320 in restitution. He had previously pled guilty to one count of conspiracy. The businessman, through his company, sold convenience stores to another firm, which had obtained a \$1 million SBA-guaranteed loan and a \$300,000 conventional bank loan. The subject conspired with others by representing to the lending bank that money had been received at the closing from purchaser when it had not. This was a joint investigation with the Federal Bureau of Investigation (FBI).

Alabama Business Owner Pleads Guilty

On February 24, 2011, a former gas station owner pled guilty to one count of making false statements. The subject was the owner of a gas station that he sold to an individual utilizing an SBA loan of \$76,000. The guilty plea was made in response to a criminal

information accusing him of presenting false tax information to the SBA and the purchaser in order to artificially inflate the annual sales revenues of the gas station.

Disaster Loans

Disaster Assistance Recipient Indicted

On February 2, 2011, a Mississippi woman was indicted on two counts of false or fraudulent statements and two counts of theft of government funds. The indictment charges that she claimed addresses on her applications for disaster assistance following Hurricane Katrina that were not her primary residence in an attempt to fraudulently receive benefits from the affected agencies. The woman received an SBA disaster home loan of \$43,000, but has since repaid the remaining balance owed to the SBA as a result of this investigation. This is a joint investigation with the U.S. Housing and Urban Development (HUD) Office of Inspector General (OIG), the U.S. Department of Homeland Security (DHS) OIG, and the Mississippi State Auditor's Office.

Mississippi Man Indicted

On February 2, 2011, a Mississippi man was indicted on one count of theft of government funds and one count of fraud and swindles. The indictment alleges that the subject misrepresented on his SBA loan application that his primary residence had been damaged by Hurricane Katrina in order to secure a \$144,900 disaster home loan. Of that amount, \$121,300 was disbursed. As a result of this investigation, the subject repaid the remaining balance of his SBA loan. The subject also made the same claims when completing applications for Federal Emergency Management Agency (FEMA) and Mississippi Development Authority grant benefits. This is a joint investigation with the HUD OIG, DHS OIG, and the Mississippi State Auditor's Office.

New Jersey Business Owner Indicted

On February 9, 2011, a New Jersey business owner and her company were indicted in the Superior Court of New Jersey on one count of theft by deception--second degree and three counts of theft by deception--third degree. The indictment alleges that the owner and her business, a defunct retail and design company, submitted misrepresentations and made false statements in connection with an SBA disaster loan. Specifically, it is alleged that she submitted fraudulent invoices and correspondence when originally applying for the \$80,100 loan related to floods in the local area, and when requesting additional funds from the SBA which were denied. This is a joint investigation with the State of New Jersey, Office of the Attorney General, Division of Criminal Justice.

Audit of SBA's Processing of Insurance Recovery Checks

On February 10, 2011, the OIG issued a report on an audit of the processing of insurance recovery checks at two Disaster Loan Servicing Centers. Based on a review of a sample of checks processed by the servicing centers, the OIG determined that the centers did not have adequate or effective procedures for processing insurance recovery checks. As a result, significant errors in Duplication of Benefits (DOB) determinations were made.

The Disaster Loan Servicing Centers made inaccurate DOB determinations and inappropriately returned or retained some insurance checks. Specifically, 36 of 77, or 47 percent, of the checks from our sample that were processed by the Birmingham servicing center had inaccurate DOB determinations. Of the 36 inaccurate determinations made by the Birmingham servicing center, 32 checks totaling \$477,102 were returned to borrowers in error, and 4 checks totaling \$108,956 were erroneously applied to outstanding loan balances. Additionally, 22 of 97, or 23 percent, of the checks from our sample that were processed by the El Paso servicing center also had inaccurate DOB determinations. The El Paso servicing center improperly returned 19 checks totaling \$148,778 and improperly applied 3 checks totaling \$15,036.

Projecting the sample results to the universe of 21,568 checks processed by the Birmingham servicing center during fiscal years 2008 and 2009, at least \$3,498,799 in duplicate benefits were returned to borrowers in error. Similarly, we projected that at least \$667,362 in duplicate benefits was returned in error by the El Paso

servicing center from a universe of 9,990 checks. We also identified an additional \$529,444 in insurance checks that resulted in duplicate benefits that were undetected by the Birmingham servicing center, which were outside of the sampled universe.

The incorrect DOB determinations and disposition of insurance recovery checks occurred because: (1) SBA did not have adequate procedures to evaluate insurance checks for duplicate benefits; (2) some employees lacked the expertise and tools to calculate remaining loan eligibility needed for the DOB determination; and (3) the centers did not adequately document information to support the DOB determination so that it would be available if a check for the same borrower was subsequently received.

We recommended that the SBA improve the system for processing insurance recovery checks. We further recommended that the servicing centers: assign the insurance recovery check processing to selected individuals; fully document the justification for the decision to return or retain each check; and recover duplicate benefits identified in this audit.

Texas Man Pleads Guilty

On February 16, 2011, a Texas man pled guilty to one count of wire fraud. The subject had received an SBA disaster business loan for \$196,300 for Hurricane Rita damages. On his SBA loan application, he answered "no" to ever being convicted of a criminal offense or ever being indicted or on probation. A criminal history check revealed that he had been arrested on numerous occasions and had been convicted of various crimes including possession of a controlled substance, burglary, resisting arrest, destruction of property, malicious mischief, burglary of a vehicle, and assault. The investigation also determined that he had submitted fictitious receipts and estimates to the SBA regarding his Hurricane Rita business loan. This loan is currently in default for the entire amount.

The subject had also applied for Hurricane Ike business and home loans that were put on hold pending the outcome of the fraud allegations relating to the Hurricane Rita loan. A review of bank records revealed that the subject used SBA loan money to pay off his Chapter 13 bankruptcy, as well as college tuition for his daughter, new furniture, a car for his wife, and loans to his family and friends. The investigation uncovered that the subject only spent

approximately \$50,000 on actual business property and expenses from the \$196,300 SBA loan.

Louisiana Woman Sentenced

On February 23, 2011, a Louisiana woman was sentenced to 37 months in federal prison and 3 years supervised release, and was also ordered to pay restitution in the amount of \$476,905.75 and a special assessment fee of \$400. She had previously pled guilty to possession of a falsely obtained passport, false statements, theft of government funds, and mail fraud. The woman had applied for and received 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 her father's loan. In addition, she fraudulently recorded the SBA lien on her uptown mansion to satisfy SBA's requirement to secure the loan with collateral. This was a joint investigation with the DHS OIG and the HUD OIG.

Agency Management

Review of the SBA's Procurement of Information Technology Hardware and Software Through ISIKA Technologies

On February 25, 2011, the OIG issued a report the results of an audit of the SBA's procurement of information technology (IT) hardware and software through ISIKA Technologies, Inc. (iTechnologies). The OIG found that the SBA inadequately planned and inappropriately awarded two 8(a) sole-source Indefinite-Delivery/Indefinite-Quantity (IDIQ) contracts and a Blanket Purchase Agreement (BPA) to the company for the procurement of the IT hardware and software. As a result, the SBA: (1) did not have reasonable assurance that it received the best value in these contracts; (2) violated the Competition in Contracting Act and federal regulations; and (3) misled Federal Procurement Data System – Next Generation (FPDS-NG) users by providing inaccurate data. In total, the SBA reported nearly \$7.6 million in obligations to the FPDS-NG.

The OIG recommended that the SBA immediately terminate the iTechnologies contracts and re-solicit the IT hardware and software requirement using full and open competition procedures; implement and provide annual training; exclude the iTechnologies IT hardware and software contract awards and all

associated delivery orders and BPA calls from SBA calculations; implement and provide annual training to contracting officers on reporting contract data to FPDS-NG; conduct a comprehensive review of data submitted to FPDS-NG for SBA contracts awarded to iTechnologies, reconcile all discrepancies identified, and correct any inaccurately reported data; and hold contracting officers accountable for FPDS-NG data accuracy requirements by incorporating FPDS-NG data accuracy reporting requirements in each contracting officer's performance plan.

This update is produced by the SBA OIG,
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