

REDACTED

AUDIT OF the Y2K Loan to [Ex. 4]

AUDIT REPORT NO. 0-21
JULY 20 2000

This report may contain proprietary information subject to the provisions of 18 USC 1905 and must not be released to the public or another agency without permission of the Office of Inspector General.



U.S. Small Business Administration
Washington, D.C. 20416

**OFFICE OF
INSPECTOR GENERAL**

Date: July 20, 2000

To: Elaine F. Guiney, District Director
Massachusetts District Office

From: *Robert G. Seabrooks*
Robert G. Seabrooks, Assistant Inspector General
for Auditing

Subject: Memorandum Audit Report-Audit of the Y2K Loan to ☐
Ex. 4 ☐

Attached is a copy of the subject report. The report contains one finding and recommendation addressed to your office. Your letter dated July 12, 2000, stated you agreed with the recommendation and planned to implement corrective action.

The recommendation is subject to review and implementation of corrective action by your office in accordance with existing Agency procedures for audit follow-up. Please provide your revised management response to the recommendation within 30 days from the date of this report using the attached SBA Form 1824, Recommendation Action Sheet. The SBA Form 1824 should be sent to:

Audit Manager
OIG Atlanta Field Office
233 Peachtree Street, Office 1803
Atlanta, Georgia 30303

Any questions or discussions of the issues contained in this report should be directed to Gary Duncan at (202) 205-7732.

Attachment





U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
Washington, DC 20416

MEMORANDUM
AUDIT REPORT

Issue Date: July 20, 2000

Number: 0-21

To: Elaine F. Guiney, District Director
Massachusetts District Office

From: *Robert G. Seabrooks*
Robert G. Seabrooks, Assistance Inspector General
for Auditing

Subject: Memorandum Audit Report – Audit of the Y2K Loan to [Ex. 4]

BACKGROUND

The Y2K Loan Program, authorized by the Small Business Year 2000 Readiness Act (Act) in April 1999, was established to help small businesses become Y2K compliant and to provide relief for business economic injury due to Y2K problems occurring after January 1, 2000. Use of program funds included the repair and acquisition of information technology systems (hardware and software) and the purchase of consulting and other third party services and related expenses.

Loans approved under the Y2K loan program can have an SBA guarantee of 90 percent on loans of \$100,000 or less and 85 percent on loans over \$100,000. As of March 31, 2000, 104 loans valued at \$8.1 million were approved under the Y2K program, with no economic injury applications received. The program ends December 31, 2000. This audit was done because the Act requires the OIG to periodically review a representative sample of Y2K loans to mitigate the risk of fraud and ensure safety and soundness of the program.

This report provides results of an audit of a Y2K loan made to [Ex. 4] (borrower). The business, located in [Ex. 4] MA, is a financial management software and service provider for surrounding municipalities for tax and fee collection and management of tax title properties. The loan, approved on [Ex. 4] 1999, was for upgrades to computer software and hardware to make the system Y2K compliant.

AUDIT SCOPE AND OBJECTIVE

Loan number [Ex. 4] with an SBA guarantee of 85 percent was judgmentally selected and reviewed to evaluate the safety and soundness of the nationwide Y2K loan program. Our sample selection criterion was based upon the loan amount, geographical location of loan, type of loan processing, and credit report information.

The audit objective was to determine whether Y2K loans were processed, disbursed, and proceeds used in accordance with the Act. For the five loans selected, we reviewed (1) repayment ability; (2) character and creditworthiness; (3) eligibility for the loan; (4) compliance with the loan authorization and law; and (5) use of proceeds. We conducted on-site reviews of lender files and borrowers' financial records and held discussions with vendors and appropriate SBA officials. The audit was conducted in accordance with Government Auditing Standards. Audit fieldwork was conducted between February and April of 2000.

Audit Results

Finding Undisbursed Funds for a Loan are not needed for Y2K Compliance

As of April 20, 2000, the borrower had corrected its Y2K problems after having received only about \$381,000 of the [Ex. 4] loan proceeds. We determined the [Ex. 4] in undisbursed loan funds will not meet the usage criteria set forth for the Y2K Loan Program. The lender acknowledged that the remaining funds were no longer needed for Y2K compliance problems. To bring its computer system into Y2K compliance, the borrower engaged a firm to replace its entire computer system prior to January 1, 2000. Due to problems with the initial contractor, another firm was hired in October 1999 to complete the system upgrade. Because of the approaching yearend deadline, the second contractor opted to rewrite the system software in lieu of replacing the entire system. This work was substantially completed as of January 6, 2000.

The Act states that a small business concern that receives a loan guaranteed under the Act shall only use the proceeds to address the Year 2000 computer problems. Further, SBA Procedural Notice 5000-603 states that there can be no mixed use of proceeds in a Y2K loan. The Notice also states that if a borrower needs loan proceeds for non-Y2K purposes, a separate companion loan must be processed.

Recommendation:

We recommend that the District Director, Massachusetts District Office, take the following action:

- 1A. Require the lender to limit disbursements for loan number [Ex. 4] to the amount needed for Y2K purposes as required under the Act.

District Office Response

The District Director stated that she agreed with the conclusions reached in the report and that she planned to instruct the bank to formally cancel the undisbursed balance of the loan. In addition, she stated that:

1. she planned to notify the bank of its right to submit a new application for a 7(a) loan to fund the non-Y2K related needs of the company, and;
2. her office will support any request the bank may make for either a refund of the excess amount of the guaranty fee paid on the Y2K loan or for application of the excess amount to any guaranty fee associated with a new loan to this company.

Evaluation of District Office Response

The District Director's response is acceptable.

The finding in this report is the conclusion of the OIG's Auditing Division based on testing of the Auditee's operations. The finding and recommendations are subject to review, management decision, and corrective action in accordance with existing Agency procedures for follow-up and resolution. This report may contain proprietary information subject to the provisions of 18 USC 1905 and must not be released to the public or another agency without permission of the Office of Inspector General.

Appendix

**Office of Inspector General
Audit Report Distribution**

<u>Recipient</u>	<u>Number of Copies</u>
Associate Deputy Administrator for Capital Access	1
Associate Administrator for Field Operations	1
Associate Administrator for Financial Assistance.....	1
Financial Administrative Staff..... Attention: Jeff Brown	1
General Counsel.....	2
General Accounting Office.....	1