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UNITED STATES GENERAL ACCOUNTING OFFICE  
REGIONAL OFFICE  
SUITE 300-D, 2420 W. 26TH AVENUE  
DENVER, COLORADO 80211

AUG 18 1975

Mr. E. Maine Shafer  
District Director  
Small Business Administration  
Post Office Box 3086  
Fargo, North Dakota 58102

DLG-04168  
AGC00002

Dear Mr. Shafer:

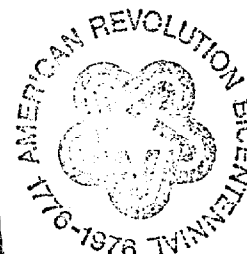
This is to notify you that we have completed our work on the Review of the Small Business Administration's management, organization, and review functions, code 07765. I wish to take this opportunity to express my appreciation for the assistance and cooperation extended Messrs. Goetz, Neely, and Buschy of my staff.

To obtain opinions on suggested modifications to SBA's Standards of Conduct Program, we interviewed several members of your staff. We were specifically interested in their opinions on the ownership of bank stock by SBA employees, expanding the requirement to file statements of employment and financial interest, and the responsibility to monitor these statements. We also interviewed selected employees and reviewed necessary documentation to resolve questions concerning potential conflict of interest situations. The results of this review did not disclose any matters requiring your attention.

During our examination of SBA review functions, we noted that circumstances, similar to those identified in two SBA internal audit reports, existed in the Fargo District. These items were discussed with you and appropriate regional personnel during our exit conferences and apply to:

1. Internal audit report 5-74, "Report of Audit on Review of Selected Aspects of Liquidation and Disposal Activities," dated August 1, 1973.
2. Internal audit report 8-74, Report of Audit on the Preliminary Review of Post Examination and Report Upon Purchase of Guaranteed Loans, dated May 3, 1974.

Although we did not perform a detailed review of your records concerning the subjects of these internal audit reports, the following circumstances were noted:



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1. Audit report 5-74 (as concerns supervisory controls to assure that prescribed procedures for liquidation actions are followed in a timely manner):

--A current inventory had not been accomplished on a loan in liquidation since August 1974, even though the borrower was selling equipment.

--A compromise offer was anticipated based on the 1974 crop year for a loan in liquidation since June 1973. Current data indicates a compromise offer on the 1975 crop year may be made.

--A loan in liquidation since October 1969 is awaiting current financial information prior to further action.

--Two loans in liquidation over 1 year have not been charged off for the reason that other cases have higher priority.

2. Audit report 8-74:

--Post purchase examination forms were available but were not being used to assure coverage of all required elements of the examination.

--The District Counsel is often unable to express an opinion on the legal aspects of the loan specialists' reports because some required data is not included in their reports.

We would appreciate your comments on corrective action taken or planned concerning these matters.

If we can be of any further assistance, please call either John Murphy or Charles Goetz at (303) 837-4621. I wish to again thank you for your cooperation during this audit.

Sincerely,

**IRWIN M. D'ADDARIO**

Irwin M. D'Addario  
Regional Manager

cc: Leonard Cole  
Acting Regional Director  
SBA Region VIII