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[Review of Alleged Racial Discrimination by the SBA St. Louis District Office]. CED-78-115; B-149685. May 22, 1978. 4 pp.

Report to Rep. Joseph P. Addabbo, Chairman, House Committee on Small Business; SBA Oversight and Minority Enterprise Subcommittee; by Elmer B. Staats, Comptroller General.

Issue Area: Non-Discrimination and Equal Opportunity Programs: Discrimination in Federal Financial Assistance Programs (1005); Domestic Housing and Community Development Programs: Focus and Grants to Business (2110).

Contact: Community and Economic Development Div.

Budget Function: Community and Regional Development: Community Development (451).

Organization Concerned: Small Business Administration.

Congressional Relevance: House Committee on Small Business: SBA Oversight and Minority Enterprise Subcommittee. Rep. Joseph P. Addabbo.

Authority: 18 U.S.C. 1905.

The Small Business Administration (SBA) investigated alleged racial discrimination against black small businessmen by the SBA St. Louis district office. The investigation was conducted to determine whether 18 individuals had been discriminated against by the St. Louis district office in such areas as loan processing, loan servicing, and management assistance. The investigators interviewed 14 of the 18 individuals and reviewed loan files for 17 individuals. They could not locate three of the four individuals not interviewed, and the fourth failed to keep the appointment with the investigators. Four of those interviewed mentioned racial discrimination in their dealings with SBA; however, one person later admitted using this charge as a means of getting a loan, and the investigators believed that another charge was also a means of obtaining a loan. Two others mentioned racial discrimination, but their allegations were against other agencies. One person complained about the size of 8(a) contracts. Eight individuals encountered specific difficulties with SBA and other governmental organizations in their attempts to obtain financing. An analysis of 66 loan files showed that there was no significant difference in the time it took minorities and nonminorities to apply for and receive loans. The SBA investigators made a conscientious effort to contact all individuals and to give them the opportunity to discuss complaints. The conclusions drawn by SBA were reasonable. (RRS)

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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

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B-149685

May 22, 1978

The Honorable Joseph P. Addabbo
Chairman, Subcommittee on Minority
Enterprise and General Oversight
Committee on Small Business
House of Representatives

Dear Mr. Chairman:

As requested in your October 6, 1977, letter, we have monitored the Small Business Administration's (SBA's) investigation of alleged racial discrimination against black small businessmen by the SBA St. Louis district office. We have reviewed the resulting SBA investigative report issued on February 2, 1978. Congressman William L. Clay originally requested the investigation after he received complaints from constituents concerning improper treatment by the St. Louis district office personnel. On July 7, 1977, the Congressman's office agreed to have a team of investigators from SBA's Office of Equal Employment Opportunity and Compliance conduct the investigation, subject to monitoring by our Office.

SBA's investigation mainly was to determine whether 18 individuals, whose names were provided to us by Congressman Clay's office, had been discriminated against by the St. Louis district office in areas such as loan processing, loan servicing, and management assistance. The investigation also attempted to determine whether minority and prospective minority businesses have, in general, experienced discrimination in dealing with the district office personnel.

The investigators interviewed 14 of 18 individuals referred by Congressman Clay's office and reviewed loan files for 17 individuals. The investigators could not locate three of the four individuals not interviewed, and the fourth failed to keep the appointment with the investigators and subsequent efforts to locate her were unsuccessful. However, district office files were located and reviewed for three individuals.

The investigators also interviewed 17 SBA regional and district office officials and 18 officials of business organizations, banking institutions, and minority associations in the St. Louis metropolitan area. They also randomly selected and reviewed or interviewed the following:

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- Thirty-three minority and 33 nonminority active loans approved during July 1, 1973, through June 30, 1977.
- Twenty-four files for loan applications which were canceled, declined, or withdrawn during July 1, 1975, through August 9, 1977.
- Seventeen individuals who made loan inquiries during calendar year 1977.
- Ten individuals who had received financial assistance from SBA and requested management assistance during the month ending July 25, 1977.

The following summarizes what SBA found concerning 17 of 18 individuals.

- Four mentioned racial discrimination in their dealings with SBA. However, one individual later admitted using this charge as a means of getting a loan and the investigators believed that another individual's charge was also a means of getting a loan reconsidered. The investigators determined that the loan applications for the two remaining individuals were declined because of adverse credit factors.
- Two others mentioned racial discrimination, but the investigators found that their allegations were against another Federal agency and a local county government.
- One complained about the size of 8(a) contracts awarded to him under the program and about the expense and paper work involved to remain in the 8(a) program. The investigators pointed out the need for improvements in the district office's 8(a) program and have recommended that specific actions be taken, including reviewing the amount of time and money required to be spent by approved 8(a) contractors for retention in the program.

Eight individuals' problems were related to specific difficulties encountered with SBA and other governmental organizations in their attempts to obtain financing or other assistance. For example, one individual's SBA loan was canceled because she was unable to get a liquor license from the State liquor licensing board to open a restaurant-lounge business, while another individual was unable to

obtain an SBA loan to pay off a debt owed to the Internal Revenue Service. Of the two remaining individuals, one complained about faulty equipment she purchased at an SBA auction. Although the investigators did not interview the other individual, their search of her loan file did not disclose any reason why she might have complained about SBA's handling of her loan.

As part of our effort, we attended and observed 13 of 14 interviews. The remaining interview was made by telephone. We believe that the investigators made a conscientious effort to contact all individuals and that those contacted were given the opportunity to discuss complaints and to provide evidence. We ensured that a specific question of SBA discriminatory actions was a part of each interview. Furthermore, we believe that the conclusions drawn by SBA as they relate to the 17 complainants were reasonable in view of the facts developed during their review.

Congressman Clay's request pointed out that black applicants for SBA assistance experienced problems, such as unending delay, excuses, and indecisiveness and negative attitudes from SBA personnel. The investigators' analysis of the 66 loan files showed that there was no significant difference in the time it took minorities and nonminorities to apply for and receive loans from SBA. Moreover, their interviews with 10 individuals who received financial assistance from SBA and who had applied for management assistance from SBA showed that 8 had received management assistance and were generally satisfied with the services. However, the investigators' discussions with 17 individuals who had inquired about SBA loans and with 1 individual referred by Congressman Clay's office disclosed instances in which SBA personnel showed indecisiveness or negative attitudes toward assisting small business clients in obtaining financial or other assistance.

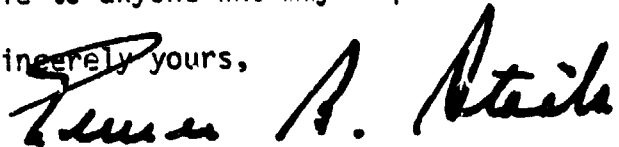
The investigators made recommendations to improve the St. Louis district office operations and SBA has taken action to implement them. These recommendations, if implemented, should improve district office operations.

We have arranged for SBA to send you a copy of the narrative portion of their report. The report contains information of a proprietary nature, the further release of which may be prohibited by 18 U.S.C. 1905. Also, according to SBA, the report contains information which is subject to the provisions of the Privacy Act.

We will provide copies of this report to the Administrator, SBA, and to Congressman William L. Clay, 30 days after the report's issuance

date unless you publicly release its contents prior to that time. Also, copies of our report will be available to anyone who may request it.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Thomas A. Steinhilber". The signature is written in a cursive style with a large, prominent initial 'T'.

Comptroller General
of the United States