



## Office of Inspector General U.S. Small Business Administration

June 2008 Update

### *Business Loan Programs*

Ongoing Investigation. The following cases are part of an ongoing investigation, being conducted jointly with the U.S. Secret Service, relating to a scheme in which a lender's former executive vice president and others conspired to fraudulently qualify loan applicants for SBA-guaranteed loans.

- On May 1, 2008, the former president of a Detroit, Michigan gas station was sentenced to 36 months probation and ordered to pay \$958,000 in restitution to an SBA preferred lender. The restitution is to be paid jointly by him and his brother, the former president of another gas station, who was previously sentenced. The investigation determined that the brothers conspired to fraudulently obtain a \$990,000 SBA-guaranteed loan from the preferred lender in Troy, Michigan. According to their indictment, they conspired with others to fraudulently qualify the second brother for an SBA-guaranteed loan, which was used to purchase a gas station and convenience store from the first brother. The object of their scheme was to refinance and consolidate delinquent debts owed by the financially-troubled gas station owned by the first brother using proceeds from the loan made to the "straw buyer" – the gas station owned by the second brother. The conspiracy was aided through the use of a false sales agreement, an inflated purchase price, and a bogus down payment.
- On June 5, 2008, the former owner of a gas station and convenience store in Allen Park, Michigan was sentenced to five years probation (of which the first eight months is to be spent in home confinement) and was ordered to pay restitution of \$880,000 (less any recovery from liquidation) to an SBA lender. Since the lender already

liquidated the property and applied the proceeds to the loan balance, the former owner owes \$577,004.21 in restitution to the lender. The former owner previously pled guilty to making a false statement to the SBA in order to obtain an \$880,000 SBA-guaranteed loan from the lender. Specifically, he falsely stated that he would be the sole owner of the business when, in fact, he knew he would only own 30 percent. In addition, he falsely represented that he was contributing \$300,000 as his equity injection, when he had not contributed any of his own money to the business. The lender canceled the SBA guaranty during the course of this investigation, so SBA suffered no loss.

### *Disaster Loan Program*

OIG Issues Report on the Disaster Loss Verification Process. On June 20, 2008, the OIG issued an audit on the Disaster Loss Verification Process. The audit determined that some loss verification reports did not accurately estimate the replacement value of damaged property due to both overstatements and understatements of damages. Of the 315,000 Gulf Coast hurricane loss verification reports completed as of July 2006, OIG estimated 16,272 overstated damages by at least \$367 million, and 6,709 understated damages by at least \$4 million. This occurred because loss verifiers: (1) incorrectly calculated the square footage of the damaged property; (2) were not properly trained; (3) did not always meet with borrowers on-site; and (4) did not enter all required data into SBA's Disaster Credit Management System (DCMS), which calculates loss estimates. Also, the Office of Disaster Assistance (ODA) did not effectively monitor the quality of the loss verifications completed between October 1, 2005 and March 31, 2006, nor implement its required loss verification Quality Assurance Surveillance Plan. In addition, between October 2005 and March 2006, ODA spent \$10.3 million for 88,692 loss verifications on loan

applications that were never approved because they were declined during pre-processing due to applicants' creditworthiness or lack of repayment ability.

The report contained seven recommendations. ODA agreed with three recommendations, partially agreed with three recommendations, disagreed with one recommendation. Differences will be addressed during the audit resolution process.

Shrimp House Operator Indicted. On June 4, 2008, the operator of a shrimp house in Port Arthur, Texas was indicted on three counts of false statements. According to the indictment, he submitted a disaster loan application to SBA claiming that the business had a location in Abbeville, Louisiana, that had sustained an estimated \$2.8 million in disaster damage resulting from Hurricane Rita. He allegedly submitted a false Commercial Lease Agreement to show that the seafood company occupied real property in Abbeville during the hurricane. It is further alleged that he submitted a fraudulent invoice to SBA that falsely showed more than \$1.9 million in hurricane-related repair expenses. The OIG is conducting this investigation jointly with the Bureau of Alcohol, Tobacco, and Firearms and the Department of Homeland Security OIG.

## ***Government Contracting and Business Development***

Contractor Pleads Guilty. On March 26, 2008, a contractor at the National Archives and Records Administration (NARA) pled guilty to one count of conspiracy. On January 28, 2008, a property management specialist at NARA also pled guilty to one count of conspiracy. Both were involved in a scheme to embezzle \$958,280 from the agency. The property management specialist 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 contractor was a facility support manager for a company that had a government contract to provide facility management at the Archives II facility. The contractor's duties included supervising the Archives II loading dock. The property management specialist used his NARA government purchase card to pay three businesses, purportedly operated by the contractor, for goods and services that were never provided or provided at

inflated prices. The businesses were listed on contracting documents as 8(a) certified, but there is no record of their 8(a) certification with the SBA. Furthermore, the businesses did not have any offices or employees. This case was initiated based on a referral from NARA. The OIG is conducting this investigation jointly with the NARA OIG.

This monthly update is produced by the SBA OIG, Eric M. Thorson, Inspector General.

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