



Office of Inspector General U.S. Small Business Administration

March 2005 Update

Business Loan Programs

Nevada Business Owner Indicted on 20 Counts. On March 1, 2005, the part owner of four Las Vegas florists was indicted on 20 counts via a superceding indictment. The indictment charged the business owner with one count of **bankruptcy fraud**, four counts of **misuse of Social Security numbers**, one count of **mail fraud**, one count of **wire fraud**, three counts of **identity theft**, one count of **false passport application**, one count of **aggravated identity theft**, one count of **credit card fraud**, one count of **money laundering**, and six counts of **bank fraud**. The six bank fraud counts relate specifically to his submission of false documentation relating to six SBA loans totaling \$300,000. The OIG investigation was based on a request for assistance from the United States Attorney's Office for the District of Nevada. This investigation is a joint effort between SBA, the Department of State Diplomatic Security Service, the Las Vegas Metropolitan Police Department, and the United States Secret Service.

Texas Restaurant Owner Indicted. On February 15, 2005, the owner of two restaurants in Austin, Texas, was indicted on three counts of **bank fraud**, three counts of **submitting false statements to a financial institution**, and two counts of **money laundering**. The indictment alleged that the restaurant owner obtained two SBA-guaranteed loans and a line of credit totaling \$1,078,500 by inflating personal property values and net worth in order to influence financial institutions to approve the loans, and that he then used the proceeds for personal expenses. This case was referred to the OIG by the SBA San Antonio District Office. SBA OIG is conducting this joint investigation with the Federal Bureau of Investigation (FBI) and the Internal Revenue Service (IRS).

Texas Business Owner and Co-Conspirator Convicted. On March 4, 2005, the owner of an escrow company

in Dallas, Texas, and his co-conspirator were convicted on all counts by a jury in the Northern District of Texas. The business owner and his co-conspirator were charged in an 11 count indictment with **conspiracy to commit bank fraud, bank fraud, and money laundering**. The charges relate to falsely obtaining nine SBA-guaranteed loans totaling \$9,500,000 for convenience stores located in the Houston area. The conviction also includes a provision for the business owner and his co-conspirator to forfeit any property derived directly or indirectly as a result of their offenses, up to a total of \$9,975,000. This case was referred to the SBA OIG by a financial institution. SBA OIG conducted this joint investigation with the FBI.

Former Virginia Business Owners Indicted. On March 8, 2005, the former owners of a contracting company in Springfield, Virginia, were charged with **conspiracy to commit bank fraud, conspiracy to provide material false statements, and making material false statements**, relating to a \$100,000 SBA-guaranteed loan. The indictment alleges that they spent the loan proceeds on personal items in lieu of purchasing equipment that was to serve as collateral for their loan. This case was referred by the SBA Washington District Office. SBA OIG is conducting this investigation jointly with the FBI.

New Jersey Attorney and Business Owner Plead Guilty. On March 7, 2005, a Princeton, New Jersey, Attorney pled guilty to a one count Information charging him with **misprision of a felony**. On March 8, 2005, the business owner pled guilty to a one count Information charging him with **conspiracy to commit false statements**. Their guilty pleas relate to a \$1,750,000 SBA-guaranteed loan for a New Jersey window manufacturing business. The terms of the loan required a third individual to make a \$700,000 capital injection into the business. The investigation revealed that the capital injection was never made and that the loan applicant conspired with his Attorney and the business owner to falsely represent to the lender that the injection was made. This case was

referred to the OIG by the SBA New Jersey District office.

Arizona Loan Applicant Pleads Guilty to False Statements. On February 28, 2005, pursuant to a Plea and Deferred Sentencing Agreement, an Arizona woman pled guilty in Federal court in the District of Arizona, to one count of making **false statements** to the SBA. The Arizona woman was the straw borrower on a \$462,000 SBA-guaranteed loan from a non-FDIC insured lender. During the application process, she provided several false gift letters as part of her equity injection. The applicant was also the straw borrower for a co-subject, who could not apply for the loans himself because of his prior Federal conviction for bribery. In 1997, the co-subject pled guilty to theft of Government property and false statements and was sentenced to 43 months in prison. The applicant's sentencing was deferred for 5 years. The applicant agreed to pay restitution of \$400 per month during this 5-year period for a total of \$24,000. She also must not be involved in any criminal activity during this period. This case was referred to the SBA by the FBI.

Agency Completes Final Action on Management Advisory Report on Pre-Demand and Demand Letters for Delinquent 9/11 Disaster Loans. The Agency reported to the OIG that it has dedicated sufficient staff resources to ensure the timely issuance of demand letters. One additional recommendation made in the report remains open.

Disaster Loan Program

Owner of Two New York Telecommunications Firms Changed with Making Material False Statements. On March 18, 2005, the owner/president of two New York telecommunications firms was charged by an Information with one count of **making material false statements**. The Information relates to a \$216,800 9/11 disaster loan obtained for one firm, and \$80,000 obtained for the second firm. The business owner stated on his applications that his companies were located in 2 World Trade Center on 9/11 and suffered both physical and economic injury as a result of the terrorist attacks. Specifically, he claimed that his firms lost a combined \$175,000 of machinery, equipment, furniture, and fixtures. The investigation revealed that the firms had moved out of the World Trade Center in July of 2001. Furthermore, former

employees advised that there was limited equipment in the offices when they were located there. The case was referred to the OIG by the SBA Niagara Disaster Office. This investigation is being conducted jointly by the SBA OIG and the U.S. Postal Inspection Service.

New York Resident Indicted for Mail Fraud and Stealing Public Money, Property, or Records. On March 17, 2004, a Bronx, New York, resident was indicted on one count of **mail fraud** and one count of **stealing public money, property, or records**. The indictment related to disaster applications that were filed with the SBA and the Federal Emergency Management Agency (FEMA). The New York resident filed a disaster application with FEMA alleging that she resided in the vicinity of the World Trade Center and claimed that personal property in her apartment was destroyed by debris when the towers collapsed. She also stated that her car, parked in the vicinity of the falling towers, was destroyed. The New York resident received \$1,668 from FEMA. Subsequently, she submitted an application with supporting documents to the SBA for a Disaster Home Loan on which she made the same statements regarding her apartment and car. SBA denied her application due to her poor credit history and lack of repayment ability. The investigation revealed that she never resided at the address she provided on her application and that her car had been repossessed in July of 2001 after she failed to make payment to her creditor. This case was referred to the OIG by the SBA Niagara Disaster Office. This investigation is being conducted jointly by SBA OIG and the Department of Homeland Security OIG.

Government Contracting and Business Development Programs

OIG Issues Report on Small Business Procurements. On March 8, 2005, the OIG issued a report on its review of selected small business procurements. The review was to determine whether certain large businesses: 1) were improperly awarded small business set-aside contracts, and 2) met the small business size standards when they were originally awarded Multiple Award Contracts (MACs). Although the Federal Procurement Data System (FPDS) identified seven small business set-aside contracts awarded to two of the four businesses that were reviewed, we could only document that one of the seven was actually a small business set-aside contract. For this contract, the company improperly

certified as a small business. As to the remaining six contracts, FPDS data was inaccurate or could not be confirmed because the procuring agency no longer had complete records. Two out of the eight MACs reviewed were awarded to companies that were not small at the time they certified they were small, while the remaining six MACs were awarded to small companies. For one of the two MACs awarded to a company that was not small, the company made statements in its offer to obtain the award that showed that it was other than small. The second MAC was awarded based on a false certification that the company was a small business manufacturer and regular dealer. While this report contains no recommendations, two of the matters are still under review.

Two Individuals Debarred From Participating in the SBA 8(a) Program. As a result of an OIG recommendation, the Agency debarred two individuals based upon false statements in connection with their participation in the 8(a) program. The OIG investigation determined that one of the individuals was running the day-to-day operations of an 8(a) company in violation of program rules because: 1) he had not been identified to SBA as the operator, and 2) he had already graduated from the 8(a) program. An 8(a) participant that graduates from the 8(a) program can no longer participate in the 8(a) program. In addition, the individual created false financial statements in order to obtain the bonding necessary for the firm to bid and receive contracts. The bonding company lost approximately \$6 million on the defaulted contracts. The second individual, an employee of the 8(a) firm, started a second company and wrongfully obtained admission to the 8(a) program based upon false representations that he owned 100 percent of the second concern. Both individuals pled guilty to making false statements to SBA and to conspiracy to commit mail fraud. SBA regulations authorize debarments to protect the public interest by ensuring that the Federal Government conducts business only with responsible persons. On March 10, 2005, the Agency debarred these individuals for 3 years based on their convictions, and will place their names on the Excluded Parties List System (which can be found at <http://epls.arnet.gov/>).

Statutory/Regulatory/Policy Reviews

In effort to proactively identify and correct potential Agency inefficiency and management problems at the onset of policy and regulatory development, the OIG reviewed, cleared, and/or provided comments, as appropriate, on 20 Agency initiatives, including proposed legislation, Agency Standard Operating Procedures, and Agency notices containing directives to its employees.

This monthly update is produced by the SBA OIG, Peter L. McClintock, Acting Inspector General.

The OIG has established an e-mail address (oig@sba.gov) that we encourage the public to use to communicate with our office. We welcome your comments concerning this update or other OIG publications. To obtain copies of such documents please contact:

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Many audit and inspection reports can be found on the Internet at <http://www.sba.gov/IG/igreadingroom.html>

If you are aware of suspected waste, fraud, or abuse in any SBA program, please call the:

OIG FRAUD LINE at (202) 205-7151
or
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