



## Office of Inspector General Small Business Administration

December 1999 Update

### *Business Loans*

Maryland Realtor Indicted for Making False Statements, Mail Fraud. The president of a Glen Burnie, Maryland, real estate company was indicted on December 2, 1999, on one count of **making a false statement to SBA**, two counts of **making material false statements**, and two counts of **mail fraud** in connection with a \$260,000 SBA-guaranteed loan. OIG's investigation established that, on SBA loan-application and related documents, he listed the name, date of birth, and social security number of his son, in lieu of his own. He used the fraudulent documents to obtain the loan, from a non-bank participating lender, to buy two parcels of commercial real estate. The indictment also charges that he failed to disclose that he owed approximately \$3 million to the Internal Revenue Service and others at the time he applied for the loan.

Illinois Pork Processing Plant Owner Pleads Guilty to Making False Statements to Federally Insured Lender. The owner of a pork processing plant in Herscher, Illinois, was charged on December 28, 1999, with one count of **making false statements to a federally insured financial institution**, in connection with a \$490,000 SBA-guaranteed business loan. OIG's joint investigation with Federal Bureau of Investigation (FBI) revealed that he

submitted altered tax returns to the bank and SBA to obtain the loan, failed to make the promised \$150,000 capital injection, and sold most of the farmland pledged as collateral. He pled guilty on January 5, 2000 to **making false statements to a federally insured financial institution**.

Missouri Educational Center President Pleads Guilty to Making False Statements on Loan Application. The president of an educational center, in Kansas City, Missouri, pled guilty on November 29, 1999, to one of a seven count indictment that charged her with **making false statements to SBA** in connection with a \$387,000 guaranteed loan. Under the terms of the plea agreement, the Government agreed to dismiss the other six counts. She received the loan from an SBIC under the Preferred Lender Program to purchase a building and expand her child care operation. According to the indictment, she failed to disclose on her application that she owed delinquent taxes and had a prior arrest. She also allegedly made false statements to document her required \$111,000 cash injection. She made no regular payments on the loan, and the lender eventually foreclosed on the real property. SBA/OIG initiated this investigation based on information received from the Treasury Department's Inspector General for Tax Administration and conducted it jointly

with that office. (*Updated from the September 1999 Update.*)

Guilty Plea Results from Investigation of California Broker. The second prosecutive result has been reported from the investigation of a business and SBA-loan broker in Upland, California. On December 13, 1999, the oil company owner pled guilty to one count of **making false statements to a federally insured financial institution**. He submitted altered tax returns for 1989-1990 in support of his loan application. His loan was one of six loan applications presented by the representative of the now-defunct bank for SBA guaranty consideration. These applications, totaling \$2,722,500, were submitted as individual credit situations. Officials of the bank knew each application was part of a much larger \$4 million scheme. The proceeds of those six SBA loans, as well as other funds, were funneled to another existing SBA borrower at the bank, who was closely associated with all six borrowers' principals, to buy an oil company, in Pomona, California. The purchase of the oil company was accomplished through the use of simultaneous escrows and falsification of documents to support capital injection requirements. The investigation was conducted jointly with the FBI. (*Updated from the November 1999 Update.*)

Investigation of California Loan Brokerage Firm Yields Further Results. The continuing investigation of the Inglewood, California, loan brokerage firm recently produced two more sentencings. The former owner of a car wash depot in Hemet, California, and his brother, a former owner of a car wash in Palmdale, California, were sentenced on December 9, 1999, to serve 2 months in a halfway house and 5 years of supervised probation. In addition, the brothers respectively were ordered to pay \$259,071 and \$164,206 in restitution to SBA. Both men previously pled guilty to **making false state-**

**ments to a federally insured lender.** The brothers submitted altered individual income tax returns for 1987-89 in support of their applications for \$1 million SBA-guaranteed loans. Both defaulted on their loans, leaving unpaid balances of \$956,409 and \$956,418, respectively. SBA has subsequently liquidated their collateral. This investigation, conducted jointly with FBI, resulted in criminal charges against 18 individuals, all of whom have pled guilty. (*Updated from the September 1999 Update.*)

Former Chiropractic Clinic Owner in Washington Charged with Bank Fraud.

The former owner of a chiropractic clinic in Seattle, Washington, pled guilty on December 21, 1999, to one count of **bank fraud**. In exchange, the Government will not prosecute him on the other counts of bank fraud, making material false statements to SBA, making a false claim of citizenship, making false statements to a federally insured lender, and mail fraud on which he was also previously indicted. In 1994, he had received an \$80,000 SBA-guaranteed loan to purchase chiropractic equipment for his clinic. OIG's joint investigation with FBI found that he made false statements to obtain the loan and later converted loan proceeds to his personal use. (*Updated from the July 1999 Update.*)

**Agency Management and Financial Activities**

Top Ten Management Issues Facing SBA Identified by OIG. In December, OIG issued its response to the Congressional request for the most serious management issues facing SBA.

The OIG identified the following problems for FY 2000:

- SBA district offices do not consistently

apply guarantee purchase requirements.

- SBA needs to improve loan monitoring.
- SBA needs an effective oversight process for SBLCs.
- More participating companies need to obtain contracting opportunities in the Section 8(a) program.
- Participants who become wealthy are allowed to remain in the Section 8(a) program and be considered economically disadvantaged.
- SBA does not enforce its rules to limit pass-through procurement activity to non-Section 8(a) participants.
- SBA needs to develop and implement a program-based cost accounting system.
- SBA needs to improve its information system controls.
- SBA needs to put more emphasis on preventing loan agent fraud.
- Borrowers in SBA's business loan program need to have criminal background checks.

OIG will work with Agency officials to resolve these issues. OIG will review and update the list of top management issues in December 2000.

SBA Employee in Colorado Sentenced for Embezzlement and Misusing Social Security Number. A former voucher examiner in SBA's Office of Chief Financial Officer (OCFO), Denver, Colorado, was sentenced on December 7, 1999, to serve 6 months of home detention and 5 years probation and to pay \$21,284 in restitution to SBA. She previously

pled guilty to one felony count of **embezzlement**. OIG's investigation determined that she fraudulently entered information via her work computer in order to have \$21,000 of Government funds electronically deposited into her bank account. After OIG's investigation revealed that substantially more funds were embezzled than OCFO was aware of, OCFO conducted an internal review of its procedures and strengthened its internal controls. OIG initiated this investigation based on a referral from OCFO's Denver Finance Center. *(Updated from the September 1999 Update.)*

Management Letter. OIG issued a Management Letter to SBA outlining the two conditions identified during the audit of SBA's Fiscal Year 1998 financial statements but were not required to be included in the Auditor's Report as they were nonmaterial weaknesses. The first condition involved inappropriate transfer of SBDC funds between fiscal years. SBA did, upon questioning by the auditors reverse the accounting transaction. The second condition identified was that SBA did not conduct periodic inventories of their capitalized equipment.

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