



Office of Inspector General Small Business Administration

April 1998 Update

Business Loans

California Loan Broker Investigation Continues to Yield Results. Two new actions have resulted from the investigation of an Inglewood, California, loan brokerage firm:

- The owner of a car wash in Lomita, California, pled guilty on April 6, 1998, to one count of **making a false statement to a Federally-insured lender** by submitting altered individual income tax returns for 1987-89 with his application for a \$1,000,000 SBA-guaranteed loan. He also submitted altered individual income tax returns for 1990 and 1991 in response to the requirement, in his Loan Authorization and Agreement, to provide
- information about his financial condition throughout the time the loan was in force. The man is currently making loan payments quarterly through the U.S. Trustee's Office pursuant to a bankruptcy reorganization plan.
- The former owner of a gas station in Compton, California, was arrested by SBA/OIG special agents on April 7, 1998. By agreement, he surrendered at the U.S. Courthouse in Los Angeles. A week earlier, he had been charged with one count of **making a false statement to a Federally-insured lender** by submitting altered individual income tax returns for 1987-89 with his application for a \$225,000

SBA-guaranteed loan. The man subsequently defaulted on the loan, leaving an unpaid balance of \$225,000.

These actions resulted from an extensive investigation, conducted jointly with the FBI and the IRS, based on allegations from an anonymous complainant. The investigation focused on loans submitted to one specific participating lender bank by the loan Washington State Meat Processor Sentenced for Making False Statements. The former owner of a meat processing and packaging business in Endicott, Washington, was sentenced on March 30, 1998, to 5 years probation and \$43,614 restitution. He previously pled guilty to **making false statements** to an SBA/OIG special agent. The investigation found that, to sell his business for an increased price, the man had provided to SBA and a participating lender tax returns altered to show higher income than he had reported to the IRS. When interviewed about the tax returns submitted to SBA and the participating lender, he made false statements to the special agent regarding their accuracy. This investigation, conducted jointly with the IRS, was based on a referral from SBA's Spokane District Office.

Texas Trade School Owner Pleads Guilty to Conspiracy. A co-owner of a school for automotive machinists in Houston, Texas, pled guilty on April 9, 1998, to one count of **conspiracy** to make false statements to a Federally-insured financial institution. As part of the plea agreement, the Government agreed to dismissal of all the other charges on which he and his wife/ co-owner had been indicted. Their

brokerage firm. The firm's portfolio at that bank totaled approximately 170 loans, originally valued at more than \$60 million. Partially as a result of the default rate of these allegedly fraudulent loans, the bank was closed by the Office of the Comptroller of the Currency in April 1994. The investigation has focused on a sample of these loans and is continuing.

company obtained a \$240,000 SBA-guaranteed loan in 1991. The OIG's investigation found that the couple submitted to a participating lender bank loan disbursement requests that falsely cited \$69,877 of construction work that was never completed. The indictment also charged that the man fraudulently endorsed loan disbursement checks totaling \$56,540. This investigation was initiated based on information developed during Operation Clean Sweep's research at SBA's Houston District Office.

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Disaster Assistance

California Mini-Market Owner Pleads Guilty to Making False Statements. The owner of a Los Angeles, California, mini-market pled guilty on April 15, 1998, to one count of **making false statements** to SBA. After the mini-market was burned down during the 1992 civil unrest, the man had obtained disaster loans totaling \$116,000. With SBA approval, he relocated to Oregon City, Oregon, and opened an Asian-food restaurant. The OIG's investigation found that, to receive further disbursements of disaster loan

funds, he falsely certified that he had spent the previously-disbursed loan funds in accordance with the Loan Authorization and Agreement. He submitted to SBA a Borrower's Progress Certification with an invoice showing purchases exceeding \$94,000 from a restaurant equipment supplier. The investigation found that he purchased Georgia Businessman Indicted on Host of Charges Related to Sale of Airplane.

A Valdosta, Georgia, businessman was indicted on April 14, 1998, on one count of **conspiracy**, two counts of **mail fraud**, and two counts of **knowingly making material false statements** to influence SBA to disburse a \$288,500 disaster loan to an aviation firm in Miami, Florida. The amount of the loan was based on representations to SBA as to what it would cost the firm to replace an airplane destroyed by Hurricane Andrew. The businessman, who purportedly sold the aviation firm a replacement airplane, allegedly participated in a scheme to deceive SBA through the use of such falsified documents as a purchase contract and a bill of sale. He represented that the value of the aircraft was \$290,000 when, the OIG's investigation found, it was only worth \$46,000. The OIG initiated this investigation, which is continuing, based on a referral from the FBI.

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Surety Bond Guarantees

Audit Finds That California Surety Company Inappropriately Obtained SBA Bond Guarantees. On April 23, 1998, the OIG issued a contract audit of

only approximately \$2,000 of items from the supplier and instead used at least \$56,000 of the loan funds as a down payment on a home. He subsequently filed for bankruptcy, and SBA incurred a loss of approximately \$91,000. The case was referred to the OIG by SBA's Portland District Office.

claims submitted to SBA by a surety company in Calabasas, California. The audit was requested and funded by the Associate Administrator for Surety Guarantees (AA/SG). The audit found that the **surety did not always comply with SBA's policies and procedures for underwriting, claimed unallowable and unallocable expenses, and calculated fees accurately but did not remit them to SBA in a timely manner.**

Specifically, the surety issued bonds after the start of work and after a contractor defaulted on a prior bond, failed to obtain a general indemnity agreement, made a duplicate payment, misallocated a loss between two bonds, did not maintain all required documentation, and did not remit recoveries and surety fees to SBA in a timely manner. The audit identified inappropriate claims and unremitted fees of \$385,074. Also, the surety inappropriately obtained SBA bond guarantees totaling \$934,886. The report recommended that the AA/SG seek reimbursement on ineligible bonds, deny payment on any future claims on the remaining ineligible bonds, direct the surety to revise policies and procedures, and obtain surety fees owed to SBA. The AA/SG agreed and the surety has paid \$288,731 leaving a remaining balance of \$96,343.

Editor's Notes:

The following identifies the use of adjectives in these **Updates** to describe tax returns fraudulently submitted in support of loan applications:

Fictitious tax returns: The applicant submits "copies" of tax returns never filed with the IRS.

Altered tax returns: The applicant submits altered copies of tax returns actually submitted to the IRS.

Bogus tax returns: The applicant submits tax returns containing false information to both the IRS and SBA.

Most audit and inspection reports can be found on the Internet at:

WWW.SBAONLINE.SBA.GOV/IG/REPORTS.HTML

Other IG related material can be found at:

WWW.IGNET.GOV

The Activity Update is produced by the SBA/OIG, Karen S. Lee, Acting Inspector General.

Comments or questions concerning this update or requests for copies of OIG audits, inspections, or other documents should be directed to Johnny Cahn, SBA/OIG, 409 Third Street, SW, Washington, DC, 20416-4110.

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