



Office of Inspector General Small Business Administration

July 1999 Update

Business Loans

Massachusetts Businessman Sentenced for Making False Statements on Loan Application.

The president of a company located in Quincy, Massachusetts, was sentenced on June 17, 1999, to serve 5 months of incarceration, 5 months of home detention, and 3 years of supervised release. He was also ordered to pay restitution totaling \$216,838 to SBA and two other victims. He previously pled guilty to five counts of **making false statements on loan applications to a federally insured financial institution**. According to the charges to which he pled guilty, he had provided false documents and made false statements to obtain two loans and a credit line, totaling \$293,000. He falsely claimed that he had made an equity investment in his business, submitted false statements pertaining to the use of the loan proceeds, and submitted balance sheets containing false information about the business. The business was a wholesaler of specialty coffee and related equipment. The investigation was conducted jointly with the Federal Bureau of Investigation (FBI) and originated from a referral to OIG from SBA's Massachusetts District Office. *(Updated from September 1998 Update.)*

The President of Washington College Foundation Charged with Mail Fraud.

A superseding indictment was returned against a Seattle, Washington, man on July 8, 1999. The superseding indictment charged him with an additional count of **mail fraud** pertaining to a grant he obtained for a college foundation, a non-profit organization of which he was the president. The investigation found that he used the U.S. mail to submit false statements to the Boeing Employees Good Neighbor Fund for a \$187,000 grant. In addition, he used the U.S. mail to submit additional false documents to support his expenditures of the grant proceeds. Previously, while operating an injury rehabilitation clinic, he was charged in a 7-count indictment. The original charges included two counts of **bank fraud**, one count of **making false statements to SBA**, one count of **false claim of citizenship**, and three counts of **making false statements on loan applications**. The original indictment pertained to his February 1994, application for an \$80,000 SBA-guaranteed business loan from a participating lender to purchase chiropractic equipment for his clinic. The investigation found that he made false statements on his loan application documents to obtain the loan, and later converted loan proceeds to his personal use. In addition, the investigation found that he falsely claimed that he was a U.S. citizen

on SBA's Statement of Personal History form, and on three loan applications in order to obtain guaranteed student loans from a Federally insured financial institution. The joint SBA/OIG and FBI investigation is still ongoing. (Updated from February 1999 Update.)

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Disaster Assistance

Pennsylvania Attorney Pleads Guilty to Failing to File Federal Income Tax. On June 22, 1999, an attorney in Harrisburg, Pennsylvania, pled guilty to one count of **failing to file a Federal income tax return**. He was previously indicted on one count of **making false statements** to SBA by overstating his income, and by omitting a theft conviction, on his application for three SBA disaster loans. As part of his plea agreement, the indictment was dismissed and a criminal information charging him with the tax charge was substituted. He made the allegedly false statements in connection with applications for \$40,000 in disaster assistance relating to floods in Pennsylvania's Susquehanna River valley in 1996. The loans were declined when SBA discovered that his income certification did not match the income reported on his Federal tax returns. The case, worked jointly with the FBI, was based on information provided by SBA's Disaster Assistance Area 3 office. (Updated from the January 1998 Update.)

Colorado Telemarketer Convicted of Making False Statement on Loan Application. The owner of a telemarketing company in Denver, Colorado, was convicted on July 22, 1999, on two counts of **making false statements to SBA**. He obtained a \$1.5 million SBA disaster loan after his company sustained damage from the Northridge, California, earthquake. He relocated his business to Denver and falsely reported that he used \$1.2 million

of the loan proceeds to purchase new equipment from a second company. The OIG's investigation found that the owner controlled the second company and that most of the equipment listed on the telemarketing company's invoices was salvaged out of the earthquake-damaged building in California or was already owned by him or his other companies. OIG initiated this investigation based on an anonymous telephone call. (Updated from December 1998 Update.)

California Shopping Center Owner Sentenced for Grand Theft and Insurance Fraud. The owner of a shopping center in Los Angeles, California, was sentenced in Superior Court, Los Angeles County, on July 9, 1999, to two years in prison and ordered to pay a \$200 fine, \$281,800 restitution to SBA, and \$521,371 restitution to an insurance company. The owner had previously pled guilty to one count of **grand theft** and one count of **insurance fraud**. Both charges are violations of the California Penal Code. The OIG's investigation was initiated based on a referral from a Los Angeles City Fire Department arson investigator and an auditor from the Bureau of Alcohol, Tobacco, and Firearms (ATF). The case was prosecuted by the Los Angeles County District Attorney's Office pursuant to a declination from the United States Attorney's office because the Federal statute of limitations had expired before the crime was discovered. The investigation was conducted jointly with agents from ATF and the California State Department of Insurance. (Updated from December 1998 Update.)

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Agency Management and Financial Activities

Inspection Report Identifies Management Issues in a "Paperless" Environment. OIG issued an inspection report on June 30, 1999,

which identifies potential security, legal, and organizational challenges that managers need to be aware of before converting existing paper procedures to an electronic process. To conserve limited resources and address security and privacy concerns, OIG recommends that SBA (1) identify the types of data requiring the highest level of security, (2) develop contracts, appropriately protective of the Agency's interests, applicable to any certification authority or registration authority that the Agency might use in a Public Key Infrastructure, (3) limit the amount of information in the digital certificates used to verify an electronic document's authenticity, and (4) create a computer screen notice reminding SBA employees and contractors of their security responsibilities. Until uniform standards are developed for electronic transactions, OIG recommends that the Agency ensure that its contractual agreements with resource partners and small businesses include each party's (1) electronic identity, (2) responsibility for providing information that is accurate, and (3) recourse if the other fails to meet the terms of the agreement. Finally, OIG recommends the formation of a central coordination group to identify the work processes that are appropriate for electronic conversion. Approved electronic initiatives would then be referred to the Business Technology Investment Council for detailed policy and cost evaluation.

SBA Employee Sentenced for Theft of Government Property. A former office automation assistant in SBA Headquarters was sentenced on July 7, 1999, to serve 3 years on probation and perform 25 hours of community service. She was also ordered to pay SBA full restitution of \$3,918. The restitution amount was less than SBA's original loss due to deductions for (1) annual leave hours that would have actually accumulated had she properly reported her leave; 2) useful items she wrongfully purchased that were returned to SBA; and 3) her final paycheck, which SBA withheld. She previously pled guilty to one

misdemeanor count of **theft of Government property.** (Updated from April 1999 Update.)

SBA Employee Sentenced for Felony Theft. A former office automation assistant in SBA's Cleveland District Office was sentenced on June 15, 1999, in Cuyahoga County, Ohio, to serve 6 months in jail and ordered to pay SBA \$1,093 in restitution. She previously pled guilty to one count of **felony theft 5**, a violation of the Ohio Revised Code. The charge was based on a theft of cash from the district office's imprest fund in October 1998. The employee resigned on December 11, 1998, from her employment with SBA. (Updated from April 1999 Update.)

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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

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