



Office of Inspector General U.S. Small Business Administration

July 2007 Update

Business Loan Programs

Business Owner Sentenced. On June 20, 2007, a Chicago area business owner was sentenced to one year probation pursuant to a plea agreement filed on April 25, 2007. She pled guilty to one count of conspiracy to make false statements to a financial institution. The charges arose from a loan application submitted by her husband for a \$594,000 SBA 504 loan to buy a new property and make improvements for an interstate trucking firm. Though the husband claimed on the application that he was a U.S. citizen, the investigation revealed that he and his wife were residing in the U.S. illegally. When SBA requested evidence of naturalization, the husband presented a counterfeit certificate of naturalization and offered a \$5,000 cash bribe to an SBA official. (The SBA official had notified the OIG of the potential bribe and cooperated with OIG's investigation efforts.) The husband called his wife to withdraw half of the bribe amount from their account and meet him to exchange the cash. He paid the SBA official the \$2,500 cash, requested that the loan be closed without delay, and agreed to pay the remaining \$2,500 after the loan closing. The husband's sentencing is scheduled for August 3, 2007. The OIG is conducting this ongoing investigation jointly with the Department of Homeland Security/Immigration and Customs Enforcement. The Illinois District Office provided significant cooperation in this case.

Mortgage Broker Sentenced. On July 13, 2007, a mortgage broker who owned a mortgage company in Houston, Texas, was sentenced to sixty months in prison followed by three years of supervised release. The mortgage broker was also ordered to pay a \$3,000 fine. Following a two-week trial in February 2007, he was convicted of one count of conspiracy, one count of conspiracy to commit money laundering, one count of bank fraud, and four counts of money laundering. The charges arose from his involvement in a multi-

million dollar scheme to defraud the SBA and launder hundreds of thousands of dollars in loan proceeds. Evidence presented established that the mortgage broker and other co-conspirators devised a fraudulent land-flip scheme to obtain an SBA-guaranteed loan of \$2.4 million to fund the purchase of a warehouse. Once the loan was funded, the mortgage broker and his co-conspirators laundered approximately \$473,000 of the proceeds. This case was initiated from information derived from another OIG investigation.

Company Principals Enter PreTrial Intervention Program. On June 22, 2007, the principal of a now defunct electronic imaging company and the principals of a machinery dealer agreed to enter into the PreTrial Intervention Program (PTI). The imaging company principal entered the program for a period of eighteen months; the machinery company principals each entered for a period of twelve months. The PTI agreement amended the charge against each of them to one count in the third degree of theft by failure to make required disposition of property received. Upon completion of the PTI agreements, the Court will accept a plea of not guilty from each of them. In addition, the imaging company principal agreed to 200 hours of community service and \$25,000 restitution to the SBA; the machinery company principals each agreed to 100 hours of community service and \$50,000 restitution to the SBA. The charges relate to a \$1 million SBA-guaranteed loan to the imaging company for the purpose of purchasing machinery from the machinery company. The OIG found during the investigation that instead of purchasing machinery, the principal used most of the proceeds for unauthorized purposes, including buying out a former partner, paying taxes, and making unauthorized payments to the machinery company principals.

Business Owner Pleads Guilty. On May 16, 2007, a New York business owner pled guilty to one count of bank fraud and one count of bankruptcy fraud. The plea resulted from his use of a false Social Security

Number when applying for SBA-guaranteed loans for two of his businesses. He also failed to disclose that he had outstanding Federal and State tax liens totaling \$257,362. Based on this false information, a loan of \$1,550,000 was approved for one business, and a loan of \$100,000 was approved for the second business. The bankruptcy charge relates to the owner making false statements on the Statement of Financial Affairs document, which he completed when he filed for bankruptcy. The OIG is conducting this joint investigation with the Federal Bureau of Investigation (FBI).

Disaster Loan Program

OIG Issues Report on an Audit of Quality Assurance Reviews of Loss Verifications. On July 23, 2007, the OIG issued an audit on Quality Assurance Reviews of Loss Verifications. This report substantiated a complainant's allegation that Quality Assurance Reviews (QAR) conducted of disaster loss verifications were altered to reduce the number of exceptions, allowing the Most Efficient Organization (MEO) under an A-76 contract to meet performance requirements. Specifically, the OIG found that 72 of 246 QARs reviewed were materially altered, lowering the MEO's exception rate for the 246 QARs from 4.8 percent to 0.6 percent, a rate that was well below the 2 percent maximum exception rate stipulated in SBA's Letter of Obligation. Also, while copies of the original QARs were available from the complainants, the Office of Disaster Assistance (ODA) could not produce the originals, which may have been destroyed.

The QARs were altered by the Supervisor of Loss Verifications at the Fort Worth Processing and Disbursement Center in collaboration with MEO managers. In most cases, reviewers were not consulted about the changes. Further, in contrast to the reviewers' answers, which were generally supported by references or explanations, the alterations were not supported by documentation as required by the Letter of Obligation, nor were there credible bases for the changes. The manager made statements regarding the impact that adverse findings would have on ODA, and the QAR results were altered in collaboration with the MEO, bypassing the reviewers. Further, because ODA both managed the MEO and performed the QAR, and would also incur the penalties for non-performance, the OIG believes it lacked the independence needed to fairly evaluate the performance of the MEO.

Consequently, the OIG believes the QAR process was compromised, allowing a senior official to alter results in order for ODA to avoid penalties and to retain the work under the A-76 contract.

The OIG recommended that SBA reassign responsibility for the QAR to an independent organization outside of ODA and that it perform a new QAR of the loss verification process. The OIG also recommended that SBA take steps to ensure that the initial QAR results are documented and that any changes justified in writing and coordinated with the reviewers. Finally, given the seriousness of the SBA supervisor's misconduct, the Agency should evaluate the circumstances and consider whether disciplinary action is appropriate.

Couple Pleads Guilty. On July 24, 2007, a Florida couple pled guilty in U.S. District Court for the Southern District of Mississippi. The husband pled guilty to one count of false, fraudulent claims and one count of false statements and the wife pled guilty to one count of false statements. The couple was indicted for providing false statements in an attempt to receive Gulf Coast Hurricane benefits to which they were not entitled. Based on their false statements on their application and during the loss verification inspection, the couple received \$50,000 of an approved \$112,500 loan from SBA. They stated that their primary residence was in Mississippi when in fact they lived in Florida and were not affected by any of the hurricanes. The couple also received \$6,706 from FEMA. The OIG is conducting this joint investigation with the FBI and the Mississippi State Auditor's Office.

Statutory/Regulatory/Policy Reviews

In an 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 15 Agency initiatives, including proposed legislation, SBA Standard Operating Procedures, and Agency notices containing directives to its employees.

This monthly update is produced by the SBA OIG,
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