



## Office of Inspector General U.S. Small Business Administration

July 2006 Update

### *Disaster Loan Program*

South Carolina Business Owner Sentenced. On July 26, 2006, the owner of a Darlington, South Carolina, manufactured home sales dealership was sentenced to 30 months imprisonment, 5 years probation, and ordered to pay restitution of \$834,942, as a result of his earlier guilty plea to one count of mail fraud and one count of bank fraud. The business owner obtained an SBA disaster loan in the amount of \$487,600 for economic injury resulting from the 2001 terrorist attacks in New York City. He claimed that the finance company he used was located in New York and had stopped financing manufactured homes because of the tragedy. The investigation disclosed that the finance company was actually located in Vermont and, although the company did stop financing manufactured homes in September 2001, the decision had nothing to do with the terrorist attacks. The investigation further disclosed that the business owner used the proceeds to pay himself \$405,000, allegedly as repayment for an officer loan. The bank fraud charge, which related to defrauding a lender of more than \$347,342, was worked by the Federal Bureau of Investigation (FBI). The SBA case was originally referred by the SBA's South Carolina District Office.

Debarment Action Taken. Two co-owners of a house located in St. Thomas, Virgin Islands, were debarred by the SBA on July 26, 2006, from participating in Federal financial and non-financial assistance programs. This action was based upon earlier guilty pleas by one co-owner for making material false statements and participating in fraud upon creditors, and by the other co-owner for compounding a crime. The investigation revealed that they falsely represented to the SBA, the Federal Emergency Management Agency (FEMA), the Home Protection

Roofing Program (funded by FEMA), and insurance companies that their house had sustained hurricane damage when, in fact, it had been damaged by a previous hurricane and had been knowingly purchased it with the damage in an "as is" condition. This investigation was based on a referral from the Department of Justice. The SBA OIG conducted this joint investigation with the Department of Homeland Security OIG.

New York Woman Sentenced. On July 19, 2006, a New York woman was sentenced to 24 months in prison, 3 years supervised release, and a \$700 special assessment fee. In addition, she was ordered to pay restitution of \$9,482 and \$7,024, respectively, to two charitable organizations which provided aid based on fraudulent application data that she submitted. The sentencing resulted from her guilty plea on May 19, 2006, to one count of conspiracy to commit false statements, one count of making false statements, and five counts of mail fraud for falsely claiming physical damage and economic injury as a result of the 2001 terrorist attacks in New York City. The woman and a co-defendant applied for a \$1 million SBA disaster loan for a wealth management company they owned. The loan was denied because the woman had never filed U.S. Federal tax returns. The investigation determined that company was not located in the immediate vicinity of the World Trade Center on September 11, 2001. In addition, no evidence could be found to substantiate that the company was even in business at that time. The co-defendant pled guilty and was previously sentenced. This investigation was based on a referral from SBA's Niagara Disaster Office. The SBA OIG conducted this joint investigation the Social Security Administration, OIG.

## ***Business Loan Programs***

Advisory Memorandum Issued. On July 12, 2006, the OIG issued an advisory memorandum based on a survey of the Quality Assurance Review (QAR) process at SBA's National Guaranty Purchase Center (NGPC) in Herndon, Virginia. The objective of the survey was to gain an overview of the QAR process and determine if it was effective in identifying (1) improper purchases and (2) guaranty purchase process areas in need of improvement. We found that implementation of the NGPC's Quality Assurance plan had not been achieved, the QAR checklist was not complete, and procedures to address identified deficiencies had not been developed. We made five recommendations to correct the identified deficiencies.

Illinois Business Owner Pleads Guilty. On July 5, 2006, the president and partial owner of a Mount Prospect, Illinois, electrical company pled guilty to a criminal information charging him with filing a false Federal income tax return. The guilty plea relates to an S Corporation (Form 1120S) tax return for 2001 that fraudulently represented \$430,500 as part of the cost of goods sold of the company. The investigation disclosed that the man's cousin falsely represented to the SBA that his business made \$430,500 in electrical supply sales to the electrical company, which then falsely claimed the purchases on the company's tax return. This scheme affected the approval of a \$1.1 million SBA loan to the purchasers of the cousin's business by making that business appear more profitable than it actually was. The cousin was previously charged with one count of wire fraud. The OIG is conducting this investigation jointly with the FBI.

Two Iowa Business Owners Indicted. On June 20, 2006, two principals of a Bettendorf, Iowa, gas station were indicted by a Federal grand jury. Each was charged with one count of false statements and three counts of mail fraud in connection with a scheme to induce a lender and the SBA to approve a \$1.2 million SBA loan. The indictment alleges that, during the application process, they provided false account verification letters containing altered and inflated account balances. The OIG is conducting this investigation jointly with the FBI.

Utah Business Owner Sentenced. On July 5, 2006, a part owner of a vitamin and herb production company located in Provo, Utah, was sentenced to 24 months probation, 100 hours of community service, and a \$1,160 fine, and was ordered to pay \$36,866.19 in restitution. He had previously pled guilty to one count of forgery and one count of money laundering. A joint investigation with the Utah County Sheriff's Office determined that the man obtained a \$905,000 SBA loan on behalf of the company by falsely representing that he had authorization from the Board of Directors and that the board members were guaranteeing the loan. He then used the SBA loan to purchase a building in his name, represented to the board that they would be leasing the building from a disinterested third party, and collected excessive lease payments from the company under a fabricated name via a post office box. In addition, the Utah County Sheriff's Office investigation determined that he diverted over \$1.5 million in company funds under false pretenses in order to send his wife to school, purchase property, and pay other personal expenses. Information provided by the OIG was instrumental in developing Utah County's investigation and securing the prosecution of this individual. The case was initiated based on a referral from SBA's Salt Lake City District Office.

## ***Small Business Investment Company Program***

Cash Settlement Agreement Reached. The former CEO and manager of a St. Louis, Missouri, investment firm entered into a cash settlement agreement with the SBA and the U.S. Department of Justice to settle the government's claims against him in exchange for cash payments to the SBA totaling \$175,000. The firm was a Small Business Investment Company (SBIC) which was previously licensed by the SBA. A Civil Complaint filed in U.S. District Court for the Eastern District of Missouri alleged breaches of fiduciary duty by the former CEO and manager that involved the improper conversion of funds for his own personal benefit to the detriment of the business. This case was initiated based on a referral from SBA's SBIC Division, and information provided by the SBIC Division was instrumental in obtaining this civil remedy.

Agency Completes Final Action on Three Recommendations Made in the Audit of the SBIC Liquidation Process (Report 5-22). The Agency reported that it completed the following final actions: formally designated individuals as Collateral Cashier and Alternate Collateral Cashier; obtained a check for \$946.23, representing income to an SBIC receivership, to replace a check previously lost; and developed and implemented written procedures for filing IRS Forms 1099 and 1096 documents for receivership contractor personnel. Fourteen recommendations contained in the audit report remain open.

## *Agency Management*

Agency Completes Final Action on Recommendation Made in Audit of SBA's Financial Statements-Management Letter (Report 6-10). The Agency reported that the following final action has been completed. As a result of communication by the Deputy Chief Financial Officer last year, SBA's trading partners are responding much better to notifications in FY 2006. Notifications from SBA trading partners are researched by the Office of the Chief Financial Officer and are resolved on a monthly basis. Monthly reporting has proceeded without errors in FY 2005 regarding trading partner codes. Fourteen recommendations contained in the audit report remain open.

Agency Completes Final Action on Recommendation Made in the Audit of SBA's Implementation of the Joint Accounting & Administrative Management System (Report 3-32). The Agency reported that it has completed the following final action. The Office of the Chief Information Officer has revised the Information Technology Investment Manual to ensure separation of duties in the development and validation of cost/benefit analyses in future large scale development projects. All recommendations contained in the audit report have been completed.

This monthly update is produced by the SBA OIG,  
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The OIG has established an e-mail address ([oig@sba.gov](mailto: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 these documents please contact:

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