



Office of Inspector General U.S. Small Business Administration

October 2003 Update

NOTICE: The monthly update on activities of the SBA's Office of Inspector General is posted on the internet at <http://www.sba.gov/IG/igreadingroom.html>.

You may access this site at any time and find the latest monthly updates along with other Inspector General reports and documents. If you wish to receive a monthly reminder by e-mail, please send your name, telephone number, and e-mail address to teresa.clouser@sba.gov or you may contact her at (202) 205-6580. Also, if you would like to continue receiving the monthly updates through the mail, please let her know. If we do not hear from you, you will not receive the monthly update printed document or the e-mail notice.

Business Loan Programs

Texas Man Sentenced. A San Antonio, Texas, man was sentenced on October 15, 2003, to 19 months in a Federal correctional facility, followed by 5 years of supervised release. He was also ordered to pay \$152,528.63 in restitution. He previously pled guilty to one count of **bank fraud** after he was indicted on one count of **bank fraud**, one count of **conversion of collateral pledged to SBA**, and one count of **money laundering**. According to the indictment, he submitted inflated income statements to misrepresent his net worth in connection with a \$213,000 SBA-guaranteed loan obtained to start an ice cream business in Las Vegas, Nevada. He further misrepresented the source of his required equity injection by concealing personal loans obtained prior to funding. After his loan went into default, he concealed pledged proceeds and converted collateral equipment to impede full liquidation of collateral. This case was initiated based on a request from the Federal Bureau of Investigation (FBI). The SBA OIG conducted this investigation jointly with the Bureau of Alcohol, Tobacco and

Firearms, the FBI, and the Internal Revenue Service (IRS).

Three Texas Convenience Store Owners Sentenced/Indicted for Making False Statements.

The owner of a convenience store and service station in Grand Prairie, Texas, was sentenced on September 24, 2003, to 6 months incarceration and fined \$2,500 for **making a false statement to the SBA**. He was prosecuted and sentenced for inducing a financial institution and SBA into funding a \$675,000 SBA-guaranteed loan by falsely representing himself as a citizen of the U.S. on SBA Form 912. This investigation was initiated based on a referral from the Immigration and Naturalization Service (INS). The SBA OIG conducted this continuing investigation jointly with the Department of Treasury's OIG for Tax Administration, Department of Homeland Security (DHS), Social Security Administration (SSA), Department of Agriculture, and the Texas Alcoholic Beverage Commission.

A convenience store owner in Fort Worth, Texas, was sentenced on September 24, 2003, to 2 months incarceration and fined \$5,000 for **making a false statement to the SBA**. He was prosecuted and sentenced for inducing a bank and SBA to fund a \$435,000 SBA-guaranteed loan by falsely representing himself as a citizen of the U.S. on SBA Form 912. This investigation was initiated based on a referral from the INS. The SBA OIG conducted this continuing investigation jointly with the Department of Treasury's OIG for Tax Administration, DHS, SSA, Department of Agriculture, and the Texas Alcoholic Beverage Commission.

A convenience store and service station owner in North Richland Hills, Texas, was indicted on

October 21, 2003, on one count of **False Claim of United States (U.S.) Citizenship**, and one count of **Making a False Statement to the SBA**. He was indicted for inducing a bank and the SBA into funding a \$1,200,000 SBA-guaranteed loan by falsely representing himself as a citizen of the U.S. on SBA Form 912. The OIG is continuing investigation jointly with the Department of Treasury's OIG for Tax Administration, DHS, SSA, Department of Agriculture, Texas Department of Public Safety, and the Texas Alcoholic Beverage Commission.

Bank Releases SBA From Two Loan Guaranties. On October 17, 2003, **South Shore Bank (SSB)**, a SBA PLP, **released the SBA from two separate guaranties** for loans made to two borrowers in Rockford, Illinois. By releasing the SBA from its guaranty obligations, the SBA experienced a **cost avoidance of \$296,469**. The Illinois District Office made the release request to SSB after reviewing the Report of Investigation presented by the SBA OIG. In April 2000, the SBA approved a \$540,000, 61 percent SBA-guaranteed loan and a \$560,000, 75 percent SBA-guaranteed loan. Both loans were made to the borrowers to assist them in purchasing two separate businesses in the Rockford, Illinois area. The borrowers were required to inject \$300,000 (\$150,000 for each loan) as part of the loan authorization agreements. As proof of the equity injection, they provided cashier's checks and a personal check to the loan officer at closing. Four of the six cashier's checks had a different name as a remitter. A personal check from the individual was also submitted as part of the proof of equity injection. The checks from the other individual were the result of a \$229,000 loan from the individual to the borrowers. The loan from the individual to the borrowers was for the sole purpose of assisting the borrowers to meet the equity injection requirement for the SBA loans. SSB never questioned this proof of equity injection and approved both loans without further inquiry. The SBA case was initiated based on a referral from the SBA Illinois District Office.

Final Action Completed on Audit of 504 Loan Program Oversight. In an audit of the 504 Loan Program Oversight, the OIG recommended that the Associate Administrator for Lender Oversight implement an oversight tracking system to monitor the scheduling and performance of oversight reviews. As

a result, an oversight tracking system was implemented and demonstrated to the OIG.

Agency Completes Final Action on Two Recommendations Resulting from an audit of the Small Business Lending Company (SBLC) Oversight Process. In this audit, the OIG recommended that the Agency take appropriate measures to ensure that all problematic loans identified during the FY 2001 examination are properly flagged in the Delinquent Loan Collection System (DLCS). As a result, all problematic loans identified during the FY 2001 examinations have been properly flagged in the DLCS. The OIG also recommended that the Office of Lender Oversight take immediate action to refer all potentially fraudulent loans identified during the FY 2001 examination to the OIG for investigations. All potentially fraudulent loans identified during the examination have been referred to the OIG for examination/investigation.

Disaster Loan Program

Two New York Businessmen Convicted. Two New York businessmen were convicted on October 3, 2003, for **false statements, conspiracy, mail fraud, and wire fraud**. Their convictions were the result of a two-week trial in the Southern District of New York. In the wake of the September 11, 2001, terrorist attacks, they applied for and received an SBA disaster loan in the amount of \$228,200 for their business. Both stated to the SBA, in writing and verbally, that their company had been located in 2 World Trade Center, Suite 2112; that they were subleasing office space from their parent company (which was legitimately located in 2 World Trade Center); and that they lost approximately \$94,000 worth of machinery, office equipment, supplies, furniture, and fixtures. They also claimed that they lost all financial backing from their parent company and their entire customer base. The investigation revealed that their business was not located in 2 World Trade Center on September 11, 2001. Further, officials of their parent company stated that there was no financial backing of their company, that they had been fired, and did not own any office equipment. In addition to applying for disaster assistance from the SBA, they applied for and received aid from the following entities: The New York State Empire State Development Corporation (funded by the Department of Housing and Urban Development), The New York City Economic Development Corporation, The Federal Emergency Management

Agency, The American Red Cross, and Safe Horizon, Inc. They also applied for assistance with the New York City Partnership/Civic Capital Corporation, but did not receive assistance. In each application, they stated that their business was located at 2 World Trade Center and was destroyed in the attacks. The total fraudulent gain was approximately \$350,000. The case was initiated by the SBA OIG based on a referral from the Niagara Falls Disaster Office.

Agency Management

Agency Completes Final Action on Two Recommendations Resulting from an Audit of SBA's Compliance with JFMIP Property Management System Requirements. In the audit, the OIG recommended that the Associate Administrator for Administration inform all property managers of the importance of recording property values and acquisition dates in the Fixed Asset Accounting System (FAAS). As a result, on September 10, 2003, an SBA Information Notice was sent to Management Board Members, District Directors, and Office Directors reminding them to inform all accountable officers that, in accordance with SOP 00 13 4, they must record all information requested by FAAS. The second final action was completed when the Assistant Administrator for Administration designated the Chief, Facilities Management Branch, as the Security Manager of FAAS, to review audit logs and the activities of the FAAS Master User in order to monitor adherence to accountable property requirements.

Agency Completes Final Action on Recommendation Resulting from an Audit of Travel Card and Purchase Card Controls. In this audit, the OIG recommended that the Assistant Administrator for Administration issue a notice to all SBA purchase approving officials and their supervisors to reinforce the requirement that approving officials are required to review the credit card statement reconciliations on a monthly basis and certify that payments are for authorized purchases made in accordance with procurement regulations. As a result, SBA Procedural Notice, "Audit of Administrative Transactions" was issued to all supervisors on August 22, 2003.

This monthly update is produced by SBA OIG,
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The OIG has established an e-mail address (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 such documents please contact:

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