



Office of Inspector General Small Business Administration

February 2000 Update

Business Loans

Audit Report Issued on Early Defaulted SBA Guaranteed Loans. On February 14, 2000, a final audit report was issued on a \$965,000 SBA loan that defaulted in September 1996. The loan was selected by the Office of Inspector General (OIG) as part of its ongoing program to audit early defaulted SBA-guaranteed loans early. An early default is a loan which is charged off or transferred to liquidation within 36 months of origination.

The loan was not originated in accordance with SBA rules and regulations or prudent lending practices. The lender neither evaluated nor notified SBA of a known discrepancy between the tax returns submitted by the borrower in support of his loan application and a verification response from the Internal Revenue Service (IRS). The IRS verification showed that the tax returns submitted with the application had not been filed. SBA inappropriately paid \$485,051 to honor the guarantee of a loan that should not have been made. The Agency concurred with OIG's finding and recommendations.

Washington Chiropractic Clinic Owner Sentenced for Bank Fraud. The former owner of a chiropractic clinic in Seattle, Washington, was sentenced on February 18, 2000, to

30 months in prison and 5 years of supervised release. He was also ordered to pay restitution of \$21,098 to the participating lender, \$54,795 to SBA, and \$83,330 to a private-sector grantor. He previously pled guilty to one count of **bank fraud**. In 1994, he had received an \$80,000 SBA-guaranteed loan to purchase chiropractic equipment for his clinic. OIG's joint investigation with the Federal Bureau of Investigation (FBI) found that he made false statements to obtain the loan and later converted loan proceeds to his personal use.

In addition, the investigation found that on his SBA loan application and on applications to obtain three federally guaranteed student loans he falsely claimed that he was a U.S. citizen. Once he has served his prison sentence, the Immigration and Naturalization Service will decide whether to institute deportation proceedings.

His indictment further charged that he used the U.S. mail to fraudulently obtain a \$187,000 grant from a non-profit organization. (*Updated from the December 1999 Update.*)

Additional Indictments from Investigation of California Broker. Additional defendants have been charged as the result of the investigation of a business and SBA-loan broker in Upland, California. All involve charges of **making**

false statements to a federally insured financial institution by submitting altered copies of tax returns in support of applications for SBA-guaranteed loans.

On December 14, 1999, the broker was charged in a criminal information with two counts in connection with applications he submitted for SBA-guaranteed loans of \$700,000 and \$550,000.

A former accountant from Alta Loma, California, and a mini-mart owner from California City, California, were indicted on January 26, 2000, on nine counts. The accountant was charged with preparing altered copies of tax returns submitted with four SBA-guaranteed loan applications. The mini-mart owner was charged in connection with his \$550,000 loan application and with aiding and abetting the accountant's alleged crimes.

On November 15, 1999, a gas station owner doing business in Hesperia, California, was charged in a one-count criminal information in connection with his \$450,000 application.

The four above-mentioned were among six loan applications presented in 1991 by the broker to a now-defunct bank for SBA guaranty consideration. These six applications, totaling \$2,722,500, were submitted as individual credit situations, each standing on its own merit, but officials of the bank allegedly knew that each application was part of a much larger scheme. In this scheme, approximately \$4 million, consisting of \$1,250,000 of undisclosed non-SBA financing from the bank plus the proceeds of the six SBA loans, was raised to enable an existing SBA borrower at the bank to buy an oil company. This borrower was closely associated with the other six borrowers' principals, and his purchase of the oil company was allegedly accomplished using simultaneous escrows and falsification of documents to support the capital injection

requirements. OIG conducted the investigation jointly with FBI. (*Updated from the December 1999 Update.*)

California Liquor Store Owner Pleads Guilty to Bank Fraud. The former owner of a liquor store in San Diego, California, pled guilty on February 7, 2000, to an information charging him with one count of **bank fraud**. OIG initiated its investigation based on a referral from SBA's San Diego District Office that pointed out discrepancies concerning real properties the owner had listed on his application for an SBA-guaranteed loan and in a Chapter 7 bankruptcy filing. In personal and business financial statements submitted with his application for the \$161,500 business loan, he indicated that he owned three pieces of real estate. The investigation revealed that, in fact, he had transferred ownership of two of the properties to his brother in Michigan two years before the application. He is scheduled for sentencing on May 1, 2000.

Virginia Taxicab Company Owner Sentenced for Making False Statement to SBA. The president and owner of a taxi company in Culpeper, Virginia, was sentenced on February 1, 2000, to serve 5 years on probation (the first 6 months on monitored home detention) and to pay \$21,613 in restitution. She previously pled guilty to one count of **making a false statement to SBA** to obtain a \$35,000 Low-Doc loan for her business. She had represented on the loan application, that she had no previous criminal history. OIG's investigation established, however, that she had been arrested in five separate incidents. (*Updated from the November 1999 Update.*)

New York Bridal Shop Owner Charged with Misuse of Social Security Number. The owner of a now-defunct bridal shop in Bronx, New York, was arrested on February 9, 2000, pursuant to an arrest warrant charging her with one count of **misuse of a Social Security**

number. The underlying criminal complaint charges that, in 1994, she used the name and Social Security number of another person to obtain a \$100,000 Section 7(a) SBA-guaranteed loan from a development corporation in Albany, New York. In 1997, she allegedly again used the name and Social Security number of this person to obtain a \$50,000 loan from a development corporation in Bronx, New York. After making only a few payments, she defaulted on both loans, causing a loss in excess of \$150,000. SBA/OIG initiated its case based on a referral from the Social Security Administration/OIG and has investigated it jointly with that office.

Montana Café Owner Pleads Guilty to Making Material False Statement. The owner of a café in Cut Bank, Montana, pled guilty on February 23, 2000, to the one count of **making a material false statement** to SBA on which he was indicted in December 1998. OIG's joint investigation with the FBI determined that in order to obtain a \$54,000 SBA-guaranteed LowDoc business loan, he failed to disclose his extensive criminal record. The investigation showed that he had been arrested more than 20 times for various financial crimes. After his indictment, he fled Montana, so a warrant was issued for his arrest. Subsequently, OIG provided information concerning his whereabouts to FBI agents, who arrested him in Spokane, Washington. OIG initiated the investigation based on a referral from SBA's Montana District Office. (*Updated from the December 1998 Update.*)

8(a) Business Development

Pennsylvania Construction Company and Officers Indicted for Million-Dollar Contracting Fraud Schemes. A defunct Philadelphia, Pennsylvania, construction company and its president and vice president were indicted (under seal) on January 18, 2000. The charges

included one count of **conspiracy to defraud the Government**, twelve counts of **false claims**, one count of **major fraud against the United States**, and three counts of **making a material false statement** in connection with alleged schemes to defraud SBA, the Department of the Navy, and the Department of Agriculture (USDA). Two false statement counts relate to the vice president denying in his SBA Section 8(a) application that he had a criminal history. The investigation disclosed that he had seven prior arrests and three convictions. One count of making a false statement relates to the president of the company representing his assets at \$40,000 to SBA on the same day that he represented his assets at over \$1.6 million to a bonding company. SBA/OIG joined the Naval Criminal Investigative Service (NCIS), the Army Criminal Investigation Command, the Defense Criminal Investigative Service, USDA/OIG, and the Department of Labor/OIG in the investigation based on a referral from NCIS. Following the sealed indictments of these two men, warrants for their arrests were issued; the businessmen surrendered to Federal authorities on January 27, 2000.

New York Project Manager Arrested for Forging Bond to Defraud Government. The project manager of a construction company in Long Island City, New York, was arrested on February 10, 2000, on one count of **altering, forging, or counterfeiting a bond to defraud the Government**. The underlying criminal complaint states that on April 25, 1997, the company entered into a \$379,079 Section 8(a) contract with the Federal Bureau of Prisons (BOP). As a condition of the contract, the company was required to obtain payment and performance bonds to cover any cost resulting from its failure to perform adequately and/or pay its subcontractor. In late April 1997, the project manager submitted a payment and performance bond purportedly issued to the

construction company by an insurance company. OIG's joint investigation with FBI produced evidence that the insurance company never issued the bond and the signatures on it were forged. The construction company never paid its subcontractor.

The president of the company previously pled guilty to conspiracy for his role in the company's submission of fraudulent payment and performance bonds. Pursuant to a cooperation agreement with the Government, he stated that the project manager was responsible for obtaining bonding and insurance for company contracts. OIG initiated the case based on a referral from BOP.

Disaster Assistance

Florida Jewelry Store Owner Pleads Guilty to Making False Statements to SBA. The owner of a jewelry store in Miami, Florida, pled guilty on January 11, 2000, to one count of **making false statements to SBA** to induce the disbursement of \$20,400 of a \$70,400 SBA physical-damage disaster loan for her business. As part of the negotiated plea, the judge dismissed the other four counts on which she had been indicted. Immediately following her guilty plea, she was sentenced to serve 3 years on probation and to pay \$20,400 in restitution to SBA. Following Hurricane Andrew, she had applied for a loan purportedly to replace damaged equipment and inventory and to repair/replace damaged leasehold improvements. She received SBA's permission to open a new store in a different part of Miami from where the storm-damaged store was located. She submitted numerous receipts as documentation of her expenditures of the loan proceeds. After the loan defaulted, an on-site inspection by an SBA liquidation loan officer indicated that she may never have opened the new store. Subsequent inquiries determined that the "receipts" she submitted to SBA were

false and most were altered estimates. SBA charged off this loan in 1997. This indictment was returned as a result of a joint investigation with FBI and IRS. The investigation began in response to a request from SBA's South Florida District Office. (*Updated from the May 1999 Update.*)

The Activity Update is produced by the SBA/OIG, Phyllis K. Fong, Inspector General.

Comments or questions concerning this update or request for copies of OIG audits, inspections, or other documents should be directed to Donna M. Ching, SBA/OIG, 409 Third Street, SW, Washington, DC, 20416-4110. Most OIG inspection and audit reports are available on the Internet at www.sba.gov/ig.

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