



## Office of Inspector General Small Business Administration

August 2000 Update

### *Business Loans*

Final Audit Report Issued on SBA's Y2K Loan Program. OIG issued a final audit report on SBA's Y2K Loan Program. The program was authorized by the Small Business Year 2000 Readiness Act (the Act) in April 1999 to help small businesses become Y2K compliant and to provide relief from economic injury due to Y2K problems. The program ends December 31, 2000. The Act requires OIG to periodically review a representative sample of loans to mitigate the risk of fraud and to ensure the safety and soundness of the program. The auditors judgmentally selected and reviewed five loans, valued at \$992,000, made under the Y2K loan program. OIG found that, with one exception, the loans were generally processed, disbursed, and the proceeds used in accordance with the Act. The exception was a loan for which undisbursed loan proceeds of \$346,000 became ineligible for the Y2K program after loan closing. The Massachusetts District Office agreed with our recommendation to cancel the undisbursed loan proceeds. Additionally, our audit disclosed minor noncompliances with SBA's policies and procedures in the areas of equity injections, monitoring of disbursements, and use of proceeds for three loans.

Four Persons Associated with a Texas Gasoline Station and Convenience Store Indicted for Conspiracy and False Statements. Four persons associated with a gasoline station and convenience store in Grand Prairie, Texas, were indicted on August 2, 2000, on 1 count of **conspiracy** and 11

counts of **making material false statements** to induce a non-bank participating lender and SBA to fund a \$256,000 SBA-guaranteed loan. The firm's proprietor, a convicted felon, posed as his brother, using his brother's credit identifiers. The proprietor, along with the three sellers, allegedly submitted six falsified copies of tax returns, three fraudulent Internal Revenue Service (IRS) tax return verifications, and numerous other fraudulent documents in support of a \$75,500 capital injection into the business. OIG conducted this continuing investigation jointly with the Department of Treasury's OIG for Tax Administration.

Texas Dry Cleaning Business Owner Denied SBA Loan When Caught Trying to Obtain Monies Under False Pretenses. The owner of a dry cleaning business in Grand Prairie, Texas, allegedly engaged two illegal aliens to submit an SBA loan guaranty application for \$1,195,000 for the purported purchase of his business on July 25, 2000. The investigation found that the owner's sale of the business was a sham **to obtain SBA-guaranteed monies under false pretenses**. The participating lender declined the loan on July 28, 2000, allowing the funds to be used instead by a legitimate borrower. This result stems from the same investigation described in the preceding article.

Two Officers of California Residential Real Estate Company Pled Guilty to Conspiracy, Wire Fraud, False Statements, and Money Laundering. The president of a residential real estate company in Santa Fe Springs, California, pled guilty on

July 31, 2000, to 1 count of **conspiracy**, 9 counts of **wire fraud**, 11 counts of **false statements**, 9 counts of **money laundering**, and 1 count of **bankruptcy fraud**. The firm's corporate secretary pled guilty on August 11, 2000, to 1 count of **conspiracy**, 7 counts of **wire fraud**, 9 counts of **making material false statements**, and 2 counts of **money laundering**. At the request of the U.S. Attorney's Office for the Central District of California, SBA/OIG had joined the Department of Housing and Urban Development's OIG, the Federal Bureau of Investigation (FBI), and IRS in their investigation. The real estate company had obtained a \$550,000 SBA-guaranteed loan by using a false Social Security number (SSN), fraudulent checks, and false financial statements in, and by omitting the secretary's criminal record from the SBA application. The defendants also allegedly devised a double escrow scheme involving \$4.5 million in fraudulent Federal Housing Authority-insured loans, made in connection with the sale of eight properties, on which the defendants would then collect rent payments. During plea negotiations, the U.S. Attorney's Office dropped charges relating to the alleged false statements to SBA regarding the criminal history. The president and the secretary are scheduled to be sentenced on October 10 and October 23, 2000, respectively.

New York Photo Studio Owner Charged with Submitting False Statements. The owner of a now defunct photo studio in Bronx, New York, was indicted on August 3, 2000, on one count of **submitting false statements**. The indictment charges that in 1995, the defendant falsely stated in an application for a \$260,000 SBA-guaranteed loan that he was a U.S. citizen and that he did not have any prior criminal convictions. In fact, he had been convicted in 1986 of alien smuggling and was a Federal fugitive wanted by the U.S. Marshals Service on a parole warrant issued in 1989. Further, Immigration and Naturalization Service (INS) records showed that the defendant was not a U.S. citizen, but rather a legal resident alien facing deportation proceedings. SBA purchased the loan guaranty in 1997 and eventually charged off the \$249,166 outstanding balance. On May 26, 2000, a sealed arrest warrant was issued for the defendant on charges stemming from his statements regarding the loan application.

While searching for the defendant, OIG learned that he had assumed another identity and was residing in Florida. SBA/OIG shared this information with deputy marshals who, on July 26, 2000, arrested the defendant. Fingerprint records confirmed that the defendant and his alias were the same person. SBA/OIG initiated this investigation based on information provided by the Marshal Service and worked it jointly with the Social Security Administration (SSA)/OIG.

New York Businessman Sentenced for Bank Larceny. The owner of a Buffalo, New York, coffeehouse was sentenced on August 22, 2000, to 6 months home confinement, 40 hours community service, 1-year probation, and \$40,000 restitution. He previously pled guilty to one count of **bank larceny** in connection with a \$38,000 LowDoc loan made through a participating lender bank. The investigation revealed that the defendant had filed tax returns with IRS that were significantly different from the "copies" of tax returns that he had submitted to the bank as part of the loan application process. The investigation, conducted jointly with FBI, was based upon a referral from SBA's Buffalo District Office.

Texas Clothing Manufacturer Convicted of Social Security Number Fraud and Making False Statements. The owner of a clothing manufacturer in Dallas, Texas, was convicted at trial on August 16, 2000, on one count each of **SSN fraud** and **making material false statements** to obtain a \$675,000 SBA-guaranteed loan. The Government subsequently dismissed the one count of misappropriation of SBA collateral on which she had also been indicted. Using a false name, the defendant applied for the loan to open a second business in Prattville, Alabama. In the loan application, she gave a false SSN and a false name as part of an effort to conceal the fact that her previous business had defaulted on an SBA loan and that she had previously filed for bankruptcy. The defendant also submitted fictitious tax returns and supporting IRS documentation, falsified financial statements, and other documents to obtain the loan. This loan was disbursed in 1996. The defendant then failed to purchase the equipment pledged as collateral and allegedly spent most of the loan proceeds for unauthorized personal purchases including two homes, cars, furniture, and other items. She

immediately defaulted on this loan, with a \$689,983 loss to the non-bank lender and SBA. The defendant is being held in Federal custody pending her sentencing, which is set for November 8, 2000. OIG initiated this investigation based on a referral from the participating lender and worked it jointly with the Department of Treasury's OIG for Tax Administration and SSA/OIG.

## ***Disaster Assistance***

SBA Recovers \$161,798 from Louisiana Seafood Company Whose Loan Application Failed to Disclose Criminal Record. On April 14, 2000, SBA recovered \$161,798 toward the outstanding balance of a Grand Isle, Louisiana, seafood company's disaster loan. OIG's investigation has documented that the company and two of its principals **submitted false documents** to obtain approval of a \$325,600 disaster business loan. The applicants failed to disclose that they had been indicted for, and subsequently pled guilty to, violations of the Lacey Act. In their guilty pleas, they admitted participating in the illegal transportation and sale of approximately 6,200 pounds of closed-season red snapper. OIG initiated its ongoing investigation based on an anonymous Fraud Line complaint.

California Man Pleads Guilty to Filing False Information, Perjury, Grand Theft, and Identity Theft. On June 27, 2000, a resident of Inglewood, California, pled guilty in Torrance Municipal Court to all eight felony counts (three counts of **perjury**, three counts of **filing false information with the California Department of Motor Vehicles (CalDMV)**, one count of **identity theft**, and one count of **grand theft** against SBA) with which he was previously charged. He was sentenced to 32 months in State prison and ordered to pay SBA \$153,560 in restitution. OIG's joint investigation with CalDMV documented that in 1995 the defendant obtained a \$137,300 disaster home loan following the Northridge earthquake using the name and SSN of his brother. The defendant also quitclaimed his disaster-damaged Los Angeles property to his brother so the ownership and title vesting of the property would match his forged identity. The defendant also forged pay stubs and W2 forms with his brother's

name, SSN, and income to match the IRS verifications used by SBA to confirm the applicant's income. In addition, the investigation showed that the defendant had California driver's licenses (bearing his photograph) concurrently in his own name/date of birth and in his brother's name/date of birth. OIG initiated the investigation based on a referral from SBA's Santa Ana Loan Servicing and Liquidation Office.

## ***Government Contracting and Minority Enterprise Development***

New York Construction Company Project Manager Pleads Guilty to Conspiracy. The project manager of a Long Island City, New York, construction company pled guilty on August 7, 2000, to one count of **conspiracy**. As part of his plea agreement, the Government agreed to dismiss the one count of altering, forging, or counterfeiting a bond on which he had also been indicted. On April 25, 1997, the construction company entered into a \$379,079 Section 8(a) contract with the Federal Bureau of Prisons (BOP). As a condition of the contract, the construction 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 the spring of 1997, the defendant allegedly submitted to a BOP contracting officer payment and performance bonds purportedly issued to the construction company by an insurance company. OIG's joint investigation with FBI found that the insurance company never issued the bonds and that the signatures on them were forged. According to the indictment, the defendant knowingly submitted forged bonds and conspired with others to defraud the Government through the counterfeit bonds and the alteration of other records. The president of the construction company previously pled guilty to one count of conspiracy in connection with his role in the construction company's submission of fraudulent payment and performance bonds. OIG initiated the case based on a referral from BOP.

Civil Judgements Filed Against Pennsylvania Businessman. Civil judgments totaling \$2,778,921 were filed in U.S. District Court on February 17, 2000, and March 16, 2000, against the president of a defunct Philadelphia, Pennsylvania, construction company and his wife. These judgments were

entered in favor of the bonding company due to the losses it incurred after the construction company defaulted on Section 8(a) and other Government contracts. Last month OIG reported the president's guilty plea to all 15 felony counts on which he was previously indicted. The charges, in connection with alleged schemes to defraud SBA, the Department of the Navy, and the Department of Agriculture, were 1 count of **conspiracy to defraud the Government**, 12 counts of **filing false claims**, 1 count of **major fraud against the United States**, and 1 count of **making a material false statement**. The false statement count related to the defendant representing his assets at \$40,000 to SBA on the same day that he represented his assets at over \$1.6 million to the bonding company. The defendant's sentencing is set for October 19, 2000. OIG joined the investigation at the request of the Naval Criminal Investigative Service.

## ***Surety Bond***

OIG Audit Findings Indicate that a Surety Did Not Comply With SBA Rules. An OIG audit found that the surety did not maintain complete underwriting documentation for seven of the eight bonds reviewed and it did not obtain SBA's consent prior to a material alteration of one bond. The alteration resulted in a significant amount of additional work that was not part of the original bonded contract. The audit also found that the surety failed to limit SBA's guarantee percentage on one bond when the contract exceeded the \$1.25 million statutory limit, and it did not pursue its rights to liquidate collateral on another bond. In addition, the surety misallocated the loss on one SBA guaranteed bond to another SBA guaranteed bond, did not have a valid power of attorney when executing a bond, and did not maintain a cancelled check to support one claim payment. As a result of the findings, the report recommended that SBA recover \$880,677 from the surety.

## ***Agency Management & Financial Activities***

Information on SBA's Discretionary Accounts Provided to Senator Enzi. On August 15, 2000, OIG responded to a request from Senator Enzi for

information relating to the SBA's "discretionary or reserve account(s)." Senator Enzi asked six specific questions as a result of a hearing on the Performance and Accountability Review of SBA's operations and programs held on July 20, 2000. OIG developed information on how the reserve account operates, provided the results of a sample of transactions, and explained how the account is used to monitor the status of allocations for "unforeseen budget expenditures." Senator Enzi also requested copies of the SBA ledgers pertaining to these accounts for FYs 1999 and 2000. OIG's response was coordinated with the Office of the Chief Financial Officer.

Former SBA Employee Indicted for Filing False Claims. The former coordinator of SBA's Business Information Center at the Mid-Delta One Stop Capital Shop, Itta Bena, Mississippi, was indicted on August 22, 2000, on four counts of **filing false claims** relative to her relocation from Texas (where her previous SBA job was) to Mississippi. The defendant obtained reimbursement of expenses for her two children and her husband when they allegedly did not relocate with her as she claimed. She began her new position in Mississippi on December 6, 1998. OIG's investigation determined that one child was in a reformatory facility until January 1999, and another child has been in an adult reformatory since October 1998 and is still incarcerated. The defendant's husband never moved to Mississippi. The total amount of false relocation expenses claimed was \$8,779. On August 9, 2000, the defendant was removed from SBA employment based on the results of this investigation that OIG initiated based on a referral from SBA's Mississippi District Office.

Former SBA Employee Sentenced for Knowingly Possessing Visual Depictions of Minors Engaged in Sexually Explicit Conduct. A former economic development specialist in SBA's Sacramento District Office was sentenced on July 12, 2000, to 27 months incarceration, 3 years supervised release, and a \$100 fee. He previously pled guilty to one count of **knowingly possessing visual depictions of minors engaged in sexually explicit conduct**. The defendant was arrested at his SBA office by special agents of OIG and FBI in September 1999, and retired just after being indicted. OIG initiated the investigation after receiving

complaints that he was accessing pornographic sites while on duty, using the computer SBA had assigned him. OIG presented the results of the investigation to an Assistant U.S. Attorney who requested that FBI join the case.

New York District Office Employee Arrested for Fraud and Misuse of Visas, Permits, and Other Documents. An employee in SBA's New York District Office was arrested on August 29, 2000, pursuant to a warrant charging him with one count of **fraud and misuse of visas, permits, and other documents**. The underlying criminal complaint charges that between October 1998 and July 2000, the defendant counterfeited and sold Panama Canal Zone birth certificates and Panama Canal Zone voter identification cards to individuals who used them to fraudulently obtain Social Security cards. The U.S. immigration law establishes that any person born in the Panama Canal Zone on or after February 26, 1904, whose father or mother was a citizen of the United States, is declared to be a citizen of the United States. The allegedly fraudulent documents at issue in this case would give an otherwise illegal immigrant the right to enter the United States, claim citizenship, and obtain employment. OIG joined this investigation after INS requested our assistance.

### *Office of Inspector General*

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The activity Update is produced by SBA/OIG,  
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