



## Office of Inspector General Small Business Administration

May/June 2001 Update

### *Business Loan Programs*

Maryland Real Estate Company President Sentenced to Prison. The president of a Glen Burnie, Maryland, real estate company was sentenced on April 19, 2001, to serve 1 year and 1 day incarceration and 3 years on supervised release, and to pay a \$250 special assessment. The judge did not impose a fine or order restitution because the defendant has an approximately \$4 million outstanding debt to the Internal Revenue Service (IRS). He previously was found guilty of three counts of **making material false statements** and two counts of **mail fraud** in connection with a \$260,000 SBA-guaranteed loan. OIG's investigation established that on his SBA loan application and related documents, he listed the name, date of birth, and Social Security number (SSN) of his son, in lieu of his own. The defendant also submitted altered "copies" of income tax returns wherein he replaced his name and SSN with his son's. He used the fraudulent documents to obtain the loan from a non-bank participating lender to buy two parcels of commercial real estate. He also failed to disclose that he owed approximately \$3 million to IRS and others at the time he applied for the loan.

Texas Loan Packager Pleads Guilty to Conspiracy and Lying. A Dallas, Texas, loan packager pled guilty on May 21, 2001, to 1 count of **conspiracy** and 1 count of **making material false statements**. The guilty pleas involved two loan packages she prepared for two gas stations for which she was previously indicted. The loans were for \$200,000 and \$355,000, respectively. Specifically, she

conspired with others to provide false documents including Federal tax returns, tax return verifications, and capital injections. She prepared 39 SBA loan packages with a total loan value of over \$14,516,400. These loan packages contained 164 fraudulent tax returns, 49 fraudulent tax return verifications, false oil company and commercial leases, over \$1,750,000 in bogus capital injections, and false inventory purchases. She also paid two IRS employees to prepare the false tax return verifications to match the false tax returns she prepared. As part of her plea agreement, she agreed to fully cooperate in the prosecution of all additional subjects associated with the \$14,516,400 in SBA-guaranteed loans. SBA/OIG is conducting this investigation jointly with the Department of Treasury's OIG for Tax Administration.

### *Disaster Assistance Program*

Nevada Man Pleads Guilty to Lying to Get Disaster Loan. A Reno, Nevada, man pled guilty on April 30, 2001, to one count of **making material false statements** to SBA. As part of the plea agreement, the Government agreed to dismiss the one count of **mail fraud** on which he had also been indicted. The defendant obtained a \$213,600 disaster home loan following floods in Washoe County, Nevada, in December 1996, and January 1997. His original disaster loan application had been declined because SBA was unable to verify his income tax return and could not determine his repayment ability. He requested reconsideration of his loan application and submitted new information regarding additional employment income. He claimed he was employed at a Reno restaurant for 10 months in 1996 and earned \$60,000; however,

the investigation disclosed he was employed at the business for 3 months and earned only \$2,060. Based on his lies, SBA sent the loan proceeds to a title company in Reno for his benefit. OIG joined the Nevada Attorney General's Office in this case.

## ***Government Contracting and Business Development Programs***

Defunct Pennsylvania Construction Company's President Sentenced to Prison. The president of a defunct Philadelphia, Pennsylvania, construction company was sentenced on May 2, 2001, to 1 year and 1 day incarceration, 3 years supervised release, and \$1,987,924 restitution to the victims (subcontractors) for which he is liable jointly and severally with the company's vice president. He previously pled guilty to 15 felony counts in connection with alleged schemes to defraud SBA, the Department of the Navy, and the Department of Agriculture (USDA): 1 count of **conspiracy to defraud the Government**; 12 counts of **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 his 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. The other counts related to falsely reported payments to subcontractors and false progress payment certifications. SBA/OIG joined the Naval Criminal Investigative Service (NCIS), the Defense Criminal Investigative Service, USDA/OIG, and the Department of Labor OIG in the investigation based on a referral from NCIS. The sentencing of both the vice president and the company (each also adjudicated guilty of the scheme) is set for July 10, 2001.

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

New York Small Business Investment Company President Indicted for Misapplication of Funds and Embezzlement. The president of a New York City small business investment company (SBIC) was indicted on April 30, 2001, on one count of **misapplication of SBIC funds** and four counts of

**embezzlement of SBIC assets**. The indictment charged that he:

- (1) Improperly negotiated for his personal use \$84,400 in checks drawn on the SBIC's bank account;
- (2) caused the illegal transfer of a Bedford, New York, parcel of real estate valued at \$363,613 from the SBIC without consideration to a second company that he solely owned;
- (3) caused the illegal transfer of a Dobbs Ferry, New York, property valued at \$361,296 from the SBIC without consideration to yet another company that he owned;
- (4) improperly caused \$33,869 in loan payments from a Westbury, New York, borrower to be diverted from the SBIC to the solely owned company and later converted to his own use; and
- (5) illegally caused \$119,096 in loan payments from a Raritan, New Jersey, borrower to be diverted to the solely owned company and converted to his own use.

These and other actions of the defendant allegedly caused a loss to SBA of over \$6 million and forced SBA to liquidate the SBIC in December 1992. OIG based this investigation on a referral from SBA's Office of General Counsel.

## ***Office of Inspector General***

### SBA Acting Administrator Submits OIG Semiannual Report to Congress.

On May 31, 2001, the Acting Administrator transmitted OIG's Semiannual Report to Congress. It addresses the OIG's audits, inspections, and investigations for the reporting period of October 1, 2000, through March 31, 2001. During this period, OIG achieved \$20,364,440 in potential dollar results (\$8,004,382 in potential investigative recoveries, including judicially awarded fines and restitution; \$7,534,002 in loans not made as a result of investigations and name checks; \$3,371,798 in disallowed costs agreed to by SBA management; and \$1,454,258 in management commitments to use funds more efficiently), 32 indictments, and 28 convictions. The report is available on our website at

<http://www.sba.gov/IG/igreadingroom.html>

Assessment of SBA Performance Measures.

At the request of the Chairman of the House Government Reform Committee, on May 11, 2001, OIG submitted an assessment of what we consider to be SBA'S ten most significant performance measures and the data underlying those measures. For the request, OIG used the measures in SBA's FY 2002 Performance Plan because they improve substantially on the measures in the FY 2000 Performance Report. Our assessment was based primarily on five OIG audits and two inspections that reviewed GPRA implementation, and the validity and reliability of underlying performance data of selected major Agency programs.

In addition to identifying the ten most significant performance measures for achieving SBA's mission, OIG also indicated (1) the extent to which the performance measure is a useful indicator of performance, (2) whether the data or information underlying the measure is valid and accurate, and (3) what actions SBA is taking, or plans to take, to resolve measure and data problems.

OIG believes that, of the ten measures, four are useful in indicating program performance, four are somewhat useful, and two are not useful. To respond to the FY 2001 management challenge to improve the "managing for results process," SBA is developing specific guidance concerning the preparation of organizational performance goals and indicators. In the audits and inspections relating to the ten measures identified in this report, OIG found data validity and accuracy problems that SBA has also agreed to address. The OIG assessment can be found at <http://www.sba.gov/IG/igreadingroom.html> under Memoranda and Letters.

OIG Has an Updated Website. OIG recently updated its website to be Section 508 compliant and to be more user friendly. Please visit our new Reading Room to view our audit and inspection reports, monthly updates, semiannual reports, commercial activities reports, memoranda and letters, top ten management challenges, and testimony.

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 on our publications, suggestions for possible audits, or referrals of possible incidents of waste, fraud, or abuse.

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

Comments or questions concerning this Update or request for copies of OIG audits, inspections, and/or other documents should be directed to:

Vanessa Piccioni, SBA/OIG,  
409 Third Street SW., 5<sup>th</sup> Floor  
Washington, DC 20416  
Email: [OIG@SBA.GOV](mailto:OIG@SBA.GOV)  
Telephone number (202) 205-6580  
FAX number (202) 205-7382

Many audit and inspection reports can be found on the Internet at  
<http://www.sba.gov/IG/igreadingroom.html>

If you are aware of suspected waste, fraud, or abuse in any SBA program, please call the:

**OIG FRAUD LINE at (202) 205-7151**  
or

**TOLL-FREE FRAUD LINE (800) 767-0385**