



Office of Inspector General U.S. Small Business Administration

August 2003 Update

Business Loan Programs

Nevada Business Owner Pleads Guilty to Bank Fraud.

A Las Vegas, Nevada, business owner pled guilty to one count of **bank fraud** on July 30, 2003, in the Southern District of Texas. He is a resident of San Antonio, Texas, and formerly from Corpus Christi, Texas. He is scheduled to be sentenced on October 15, 2003. He was arrested during a search warrant executed at his residence. During the search, currency and checks in the amount of \$24,114.69 were seized. According to the indictment, he submitted inflated income statements to misrepresent his net worth in connection with a \$213,000 SBA-guaranteed loan he obtained to start a business in Las Vegas, Nevada. It was further alleged that he misrepresented the source of his required equity injection by concealing personal loans he obtained prior to funding. After his loan went into default, he allegedly concealed proceeds and converted collateral equipment to impede full liquidation of collateral. SBA sustained a loss of \$136,326.51. SBA OIG conducted this investigation as part of a task force in Corpus Christi, Texas, jointly with the Bureau of Alcohol, Tobacco, and Firearms; the Federal Bureau of Investigation; and the Internal Revenue Service.

New York Man Indicted for Interstate Transfer of Money and Making a False Statement. An owner and operator of a Bronx New York business was indicted on August 18, 2003, on charges of **interstate transfer of money** taken by fraud, and making a **false statement** to a Federally-insured bank. He applied for and received an SBA-guaranteed loan from a New York City bank in September of 1998, in the amount of \$300,000 of which \$250,000 was to be used for the purchase of machinery and equipment for the business. An invoice from a vendor was submitted to the bank for this equipment in furtherance of the

application. A two-party check in the amount of \$250,000 was issued at closing payable to both the company and the vendor. The remaining \$50,000 was for working capital and soft costs. The investigation revealed that the owner did not purchase any equipment from the vendor. Instead he forged the vendor's endorsement on the check and deposited the check into the business account in New Jersey. He then used the funds for various personal expenditures, such as paying off private debts and giving his brother-in-law \$100,000 to pay off his own business loan at another bank in New York City. Further, shortly after the loan closing, the owner abandoned the business. The business is now owned by his former partner under another name. This investigation was initiated pursuant to evidence collected while investigating a separate, but related, case.

Illinois Man Pleads Guilty to Bank Fraud and Making False Statements. A former president of a business in Bloomington, Illinois, pled guilty on August 18, 2003, to one count of **bank fraud** and one count of **making false statements to a bank**. He was previously indicted and charged with six counts of **bank fraud** and six counts of **making false statements to a bank**. The indictment related to an SBA-guaranteed loan for \$375,000. The purpose of the loan was to take over a heating/cooling/plumbing business from a family member. The investigation revealed that he submitted false and fraudulent invoices to the bank in order to receive disbursements from the loan. He submitted invoices from a fictitious business, submitted invoices for items that were never purchased, and submitted invoices that far exceeded the amount of equipment that was actually purchased. Additional investigation revealed that within a week after the loan closed, he took the \$125,000 capital injection out of his business and paid off a personal loan he previously secured in order to come up with the capital injection. This was a violation of the Authorization and Loan agreement, which

detailed that the capital injection was to be used as working capital and to purchase inventory. Sentencing is set for December 15, 2003.

Virginia Man Charged in an Information. The initial director of two management corporations was charged in an Information on August 19, 2003, with one count of **conspiracy to commit wire fraud**. The management corporations were borrowers that obtained two SBA-guaranteed loans totaling \$3,270,000 for the purpose of purchasing two adjacent motels in Norfolk, Virginia. The conspiracy count related to the director conspiring to inflate the purchase price of the properties by \$148,000 to fraudulently obtain loan proceeds from a business loan center and the bank. The director conspired to inflate the purchase price by a scheme to have the corporations pay \$550,000 from the loan proceeds to a development corporation, a company owned by the director, for repairs that never took place. He also conspired to pay \$200,000 to each of the stockholders of the corporations and disbursed \$198,000 of the loan proceeds to purchase another motel. He also conspired to submit false statements to the bank and the loan center regarding the assets and liabilities of the shareholders of the corporations. He accomplished this by falsely stating that he was giving a combined gift of \$825,000 to the two shareholders of the management corporations to be used as capital injection, knowing that it was not a gift and that it had to be paid back to him from the loan proceeds. Through the above scheme, he caused the loan center to wire loan funds in the amount of \$2,270,000 and the bank to wire loan funds in the amount of \$996,230 to the management corporations. This is an ongoing joint investigation with the FBI.

OIG Issues Audit Report on Early Defaulted SBA-Guaranteed Loan. OIG issued an audit report on an early defaulted SBA-guaranteed loan to P. O'Reilly on August 19, 2003. The audit revealed that the lender approved and disbursed a \$1.5 million SBA-guaranteed loan to a borrower whose cash flow was not sufficient to service the proposed debts. Consequently, SBA made an erroneous payment of \$282,447 when it honored the guarantee.

Agency Completes Final Action to Change Contract Provision for Audits of the Fiscal Transfer Agent (FTA) to Include Access Rights to Audit Reports and Work papers by OIG and the U.S. General Accounting

Office (GAO). In an Audit of SBA's Fiscal Transfer Agent for the 7(a) Loan Program OIG recommended that the Agency change the contract provision for audits of the FTA to include access rights to audit reports and working papers by the OIG and GAO. The Agency agreed to make the work papers available to OIG upon request through SBA and FTA, on the premises of either FTA or the Certified Public Accounting firm.

Government Contracting and Business Development Programs

Colorado Man Indicted for Bankruptcy Fraud, Concealing Assets, Money Laundering and Forfeiture. An Englewood, Colorado man was indicted on August 18, 2003, on 2 counts of **bankruptcy fraud**, 87 counts of **concealing assets**, 2 counts of **money laundering**, and 1 count of **forfeiture**. The SBA/OIG joint investigation with the Internal Revenue Service, the Federal Bureau of Investigations, and Defense Criminal Investigative Service, disclosed that the company was a certified SBA Section 8(a) company which generally sold computer equipment to the United States Government and was primarily controlled by an individual that is a non-minority. The individual, while an officer of the company, declared personal bankruptcy and received a discharge of approximately \$135,000 in debts. He specifically directed company employees to divert approximately \$690,000 of his company income to several bogus companies which he created in order to avoid paying creditors. He failed to disclose his income and control of the company to the bankruptcy court and the SBA. The investigation also disclosed that he hid other assets from the bankruptcy court including a Mercedes 400 SEL, Chevrolet Tahoe, and a personal residence. This investigation was initiated based on a call from a former company employee to the Denver SBA/OIG office.

OIG Issues Audit Report on The National Women's Business Council (NWBC). On July 28, 2003, OIG issued an audit report on the NWBC. The objective of the audit was to determine whether NWBC's expenditures and activities were appropriate and complied with laws and regulations. The audit disclosed that the former Executive Director and former Program Manager appeared to have violated Government ethics regulations. They continued to use their position as Government employees to engage in matters related to "Springboard"(venture capital forums initiated by

NWBC) forums after they developed a financial interest in Springboard 2000 Enterprises, Inc., a private non-profit entity they created to take over the Springboard forums.

Inappropriate activities identified in the NWBC audit included: (1) Not following Federal regulations for agreements with third parties for various services and activities; (2) Allowing third parties to retain leftover proceeds from forum events without justification; (3) Improperly authorizing cash awards to employees; (4) Using the Government purchase card for unallowable purchases; (5) Executing contracts without warranted contracting officer authority; (6) Violating the Federal Travel Regulations; (7) Misusing the Business Assistance Trust Fund; (8) Misusing the Government issued cellular phone for personal calls; (9) Engaging in unlawful lobbying activities; (10) Allowing a non-appointed individual to serve as a NWBC member, and; (11) Failing to prepare a required annual report to the President and Congress.

The OIG made 24 recommendations to the Administrator, General Counsel, Chief Financial Officer (CFO), and NWBC's Executive Director, to correct deficiencies identified in the audit, implement new controls to prevent such occurrences from happening in the future, determine whether some expended funds should be recovered, and recover improper unauthorized travel and other funds. OIG recommended that the CFO recover \$195,470 and seek justification or recover from outside parties \$579,368 in unsupported revenues the organizations retained from the Springboard forums.

Agency Completes Final Action to Ensure Compliance in the Monitoring of the SCORE Cooperative Agreement. In an audit of selected aspects of the SCORE program, OIG recommended that the Assistant Administrator for Administration in conjunction with the Associate Administrator for Business and Community Initiatives ensure there is a clear understanding of the role of each office in monitoring the SCORE cooperative agreement award and design monitoring procedures that integrate reviews of performance and financial data. The Agency agreed and is requiring the CEO of SCORE, the National Program Manager of SCORE and the SCORE Grant Manager to hold quarterly meetings to ensure compliance.

Agency Completes Final Actions on Three Recommendations Resulting from an Audit of Grants to the Texas Center for Women's Business Enterprise (TxCWE). A recommendation made to the Associate Administrator for Women's Business Ownership in the audit required the Center to implement appropriate internal controls to preclude the identified financial and accounting discrepancies from occurring in the future. The TxCWBE hired a certified public accountant, approved by SBA, to verify that the organization's internal controls are in place on an annual basis. The organization will be required to maintain financial management system standards as prescribed in OMB Circular A-110, Subpart C. Another recommendation was to ensure only trained examiners perform future monitoring of the Center. The Office of Women's Business Ownership provided the needed training. An additional recommendation required the Center to remit timely payments to the IRS in accordance with their installment agreement. WBO required TxCWBE to provide them with their IRS reimbursement pay schedule and copies of their cancelled checks or any other verifiable form of payment.

Agency Management

Agency Completes Final Action on Audit of SBA's Information Systems Controls – FY 2000. In an audit of SBA's Information Systems Controls – FY 2000, OIG recommended that the Office of the Chief Information Officer (OCIO) develop procedures to require review and approval of all proposed changes to server configurations. OCIO has developed server configuration change control procedures for web, file and print servers. These procedures require review and approval of proposed changes. This information has been placed on SBA's intranet.

Agency Completes Final Action on Audit of SBA's Information System Controls - FY 2002. In an audit of SBA's Information Systems Controls – FY 2002, OIG recommended that the Office of the Chief Information Officer (OCIO) develop and implement procedures to require that an interim certification be completed for operating systems and applications before implementation. Further, we recommended that the CIO complete a full certification and accreditation of the Windows 2000 network. OCIO has created an Interim Approval to Operate (IATO) accreditation. For a short time of 6 months to 1 year, an IATO can be utilized in

place of a full accreditation. Additionally, OCIO certified and accredited the Local Area Network/Wide Area Network (LAN/WAN).

The activity Update is produced by SBA/OIG,
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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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