



Office of Inspector General Small Business Administration

April 2001 Update

Business Loan Programs

Former Missouri Dry Cleaning Company President Pleads Guilty to Lying to Obtain a Loan. The former president of a defunct Kansas City, Missouri, dry cleaning business pled guilty on March 28, 2001, to one count of **making false statements to a federally-insured bank**. The Government agreed to dismiss nine counts of **making false statements to federally-insured banks** and **using false Social Security numbers** (SSNs). In his guilty plea, the defendant admitted to making false statements to a participating lender in order to receive a \$98,235 SBA-guaranteed loan that he immediately defaulted on. He provided a false tax return for the business and falsely claimed that he had no criminal history. A Suspicious Activity Report filed by the bank resulted in a joint investigation by SBA/OIG, the Secret Service, the Social Security Administration's OIG, and the Postal Inspection Service. The investigation determined that he made false statements, used false SSNs, and provided false tax returns to obtain five other personal loans. He defaulted on all six loans, resulting in total lender losses of about \$197,000.

New Jersey Die Cutting Company Owner Sentenced to Incarceration. The owner of a Fairfield, New Jersey, die cutting company was sentenced on March 29, 2001, to 4 months incarceration, 2 years supervised release, and a \$10,000 fine. He previously pled guilty to one count of **bankruptcy fraud**. He had received a now-defaulted \$940,000 SBA-guaranteed loan from a non-bank

participating lender. In connection with his 1995 personal bankruptcy petition, he concealed a condominium he owned. During the investigation, OIG obtained the court file pertaining to the defendant's bankruptcy proceedings in which he claimed to own no real property. The investigation uncovered a deed and mortgage that revealed that he took ownership of the condominium in 1994, and tax records showing his ownership continuing to the present. SBA's New Jersey District Office referred the case to OIG which worked it jointly with the Federal Bureau of Investigation (FBI).

Former Iowa Meat Company President Indicted for SBA and Bank Fraud. The former president of a Cumming, Iowa, meat company was indicted on March 29, 2001, on one count each of **concealing a material fact from SBA** and **bank fraud**. The first charge was in connection with a \$1.4 million SBA-guaranteed loan he received from a participating lender to purchase the company. Allegedly, he bounced a check and perpetrated a check kite to make it appear that the required equity injection was made, as well as concealed a promissory note to the seller. The second charge alleged that he converted vehicles pledged to the participating lender on this same loan. His company failed and the defendant defaulted on the loan, leaving an unpaid balance of over \$1.25 million. OIG initiated its joint investigation with FBI based on a referral from SBA's Iowa District Office.

Three Arizonians Indicted for Conspiracy, Wire Fraud, False Statements, and Money Laundering. Two Phoenix business brokers were indicted on

March 22, 2001, on one count of **conspiracy**, six counts of **wire fraud**, three counts of **making material false statements**, and five counts of **money laundering**. OIG's joint investigation with FBI was based on a referral from SBA's Arizona District Office and revealed that the two defendants submitted fraudulent documents to private lenders in order to obtain financing for clients seeking business acquisition loans guaranteed by SBA. They allegedly came up with a "no money down" plan for clients interested in purchasing a business at 100 percent financing who would have otherwise not qualified for and SBA-guaranteed loan. The scheme inflated the purchase price that covered the actual selling price plus the down payment or cash injection. To cover up the scheme, the defendants arranged for the buyer to obtain a real estate license and listed as an asset on the borrower's SBA paperwork the commission that the borrower would be earning for the sale of the business, which equaled their required down payment. For the scheme to work, the defendants also arranged for third party injectors to loan, just before closing, the required down payment to the borrowers who needed to prove to SBA that they had the cash injection. The records indicated that they disguised receipt of the down payment from the third party injector as if the buyer had supplied the funds for the down payment. After the loan closed, the defendants received an inflated commission and arranged for a portion of the commission that was loaned by the third party injectors (plus a fee of about 5 percent for a few days' use of the third party's money) to be wired back to the third party.

The investigation also recently yielded a guilty plea to one count of **making material false statements** from a client of the first two defendants. He had obtained a \$900,000 loan to purchase six fast-food franchises in Arizona. The investigation revealed that, at the direction of the first two defendants, the client submitted false financial information to obtain an SBA-guaranteed loan. In his plea agreement, the client admitted knowing that he did not have the cash injection needed to close his loan and being aware that the other two defendants had obtained a temporary cash injection from a third party so he could obtain his loan. In total, the first two defendants brokered approximately \$2.9 million in loans to small

business owners throughout Arizona. To date, \$2.5 million appears to be uncollectible, resulting in losses to SBA and the lenders.

Ohio Real Estate Business President Convicted of Theft and Forgery. The president of an Ohio real estate business was convicted on March 26, 2001, on 36 of the 40 counts on which he was indicted. Two of the counts on which he was convicted charged him with **aggravated theft by deception over \$100,000** and **forgery utterance over \$100,000** in connection with a \$439,000 SBA-guaranteed business loan. He deposited funds associated with a \$5 million bad check to an escrow account established with a title company. He induced the title company to issue a \$427,074 check from the escrow account in the name of a Section 504 lender based on his representations that these funds were designated for paying down the outstanding balance on the SBA loan. He then forged an endorsement on the check and deposited the money to his business account instead. The Montgomery County (Ohio) prosecutor's request that OIG join its investigation was facilitated by SBA's Columbus District Office.

Former Nebraska Bank President Sentenced for Making False Statements to SBA. The former president of a Keystone, Nebraska, bank was sentenced on February 16, 2001, to 3 years probation, \$14,640 restitution to a borrower, and a \$5,000 fine. He previously pled guilty to **submitting a false statement to SBA**. OIG's investigation found that he requested and received cash payments from two local small businessmen applying for SBA-guaranteed loans. Although he told the businessmen he needed these sums for expenses, he falsely reported on an SBA settlement sheet that the bank collected no additional fees. He actually pocketed the money he received. OIG initiated this case based on a complaint directly from a borrower.

Montana Hot Tub Manufacturers Sentenced for Fraud. The two owners of an East Helena, Montana, hot tub manufacturing company were sentenced on January 22, 2001, to 3 years probation and joint restitution of \$13,000 (75 percent to SBA). Each previously pled guilty to one count of **bank larceny by fraud**. The hot-tub company had received a \$170,000 SBA-guaranteed Women's

Pre-Qualification loan. OIG's investigation revealed that the owners had arranged for a third party to generate a false invoice indicating that \$40,000 was needed to purchase manufacturing equipment (causing the bank to issue a check for that amount) when actually only \$27,000 was spent for the purchase. The defendants used most of the extra \$13,000 generated by this scheme to pay off an undisclosed \$8,000 business debt and pocketed the \$5,000 remainder. OIG initiated the investigation based on a referral from SBA's Montana District Office.

Michigan Company President Pleads Guilty to Bank Fraud. On March 26, 2001, the president of a Rochester Hills, Michigan, company entered a Rule 11 guilty plea to one count of **bank fraud**. His plea was in connection with a \$750,000 line of credit loan guaranteed by SBA. The loan proceeds were designated for specific projects approved by the participating lender bank. The disbursement process consisted of the defendant faxing disbursement requests on the line of credit, along with copies of checks designated for suppliers or other payees, to the bank. The bank would then credit his company's checking account for the amount requested. On 27 occasions, he submitted or authorized the submission of false information to the bank to obtain disbursements totaling over \$386,000 on his SBA line of credit loan. The total dollar loss to the Government as a result of SBA's guaranty of the loan exceeds \$629,000. OIG initiated its joint investigation with the Secret Service based on a referral from the bank through SBA's Michigan District Office.

Texas Restaurant Associates Indicted for Conspiracy and Lying to Obtain Loan. Two men associated with a Dallas, Texas, restaurant were indicted on April 24, 2001, on one count of **conspiracy** and nine counts of **making material false statements** to induce a non-bank lender and SBA to fund a \$258,000 SBA-guaranteed loan. The restaurant's proprietor and its seller allegedly submitted six falsified copies of tax returns, three fraudulent tax return verifications, and numerous other fraudulent documents in support of the loan application and a \$62,500 capital injection into the business. OIG conducted this investigation, which is continuing, jointly with the Department of Treasury's OIG for Tax Administration.

Government Contracting and Business Development Programs

North Carolina General Contracting Business and President Indicted for Mail and Wire Fraud. The president of a Raleigh, North Carolina, general contracting business was indicted on April 17, 2001, on seven counts of aiding and abetting **mail fraud** and two counts of aiding and abetting **wire fraud**. The business was indicted on the same charges. Both were charged with submitting falsely certified payment requests under various Section 8(a) contracts from the Army, the Navy, the Postal Service, and the Department of Veterans Affairs. To induce disbursements of contract funds, the falsely certified requests stated that all subcontractors and vendors had been paid. Through the fraudulent statements, the defendants diverted over \$900,000 that was due subcontractors and suppliers. The Government lost an additional \$700,000 by having to re-procure the completion of several contracts left incomplete by the business, which SBA terminated from the Section 8(a) program in 1997. OIG initiated this investigation based on a referral from the Army's Criminal Investigation Command.

Agency Management

Inspection Advisory Memorandum Issued. An inspection advisory memorandum on **Results of SBA Management Challenge Discussion Groups** was issued on April 4, 2001. OIG held discussions in late FY 2000 with selected groups of senior officials from SBA headquarters, regional, and district offices on potential management challenges facing the Agency and a new Administrator. While we found a strong sense of commitment to SBA's mission, we also found that the rapid changes the Agency has experienced have resulted in a number of concerns among some senior officials. The issues included the scope of the Agency's mission as it relates to changes in SBA's market, the regional field structure, centralization of functions and authority, workforce and program issues, and internal communication. The need for greater efforts to improve senior level communications was almost a constant in the meetings. In this memorandum OIG presents the issues raised and

suggests some actions that might be taken to help address them.

Office of Inspector General

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