



## Office of Inspector General U.S. Small Business Administration

August 2007 Update

### *Business Loan Programs*

Former Business Owner Pleads Guilty. On July 26, 2007, the former owner of a dump truck hauling business in Tacoma, WA, pled guilty to one count of bank fraud, 1 count of bankruptcy fraud, and 1 count of evasion of payments to the Internal Revenue Service (IRS). Per the plea agreement, the former owner agreed to: (1) forfeit the proceeds from the unlawful activity, including an investment account frozen at the time of his arrest (valued at about \$68,000); and (2) a monetary judgment of \$157,756. He had been indicted on December 6, 2006, but the indictment was sealed until he was arrested on December 12, 2006, by agents of the SBA OIG; the Federal Bureau of Investigation (FBI), the IRS, and the Pierce County Sheriff's Office. The investigation found that the former business owner made false statements to SBA and to a federally-insured bank regarding his company's tax liability in order to obtain a \$750,000 SBA-guaranteed loan. He hid the proceeds from converted collateral and evaded payments to the IRS for past due payroll taxes by failing to disclose assets. He also became a police officer during the investigation, but his probationary period was terminated when the police department learned of this investigation. Based on a referral from the participating lender, the OIG is conducting this joint investigation with the FBI and IRS.

Israeli Tourist Charged. After his arrest in California on July 27, 2007, an Israeli tourist claiming to be an American citizen was charged with 3 counts of false financial statements, 3 counts of attempt to file false or forged instruments, and 2 counts of grand theft of personal property. He allegedly submitted fraudulent documents in order to secure a \$35,000 SBAExpress guaranteed loan, a \$1 million residential loan, and a \$400,000 home equity line of credit. The investigation revealed that he falsely claimed on his credit applications, including the SBA Form 1919 for

the SBAExpress program, that he was a U.S. citizen when, in fact, he was an Israeli citizen in the United States on a tourist visa. He also used a Social Security number on his applications that was not issued to him. The tourist originally fled to Israel on June 11, 2007, when he discovered he was being investigated. However, on July 22, 2007, he was detained by the U.S. Immigration and Customs Enforcement office in San Diego, CA, after he tried to re-enter the United States through Mexico, falsely claiming to be a U.S. citizen. The OIG is performing this ongoing investigation jointly with the Los Angeles Police Department and the California Department of Insurance

Detroit Woman Indicted. On August 8, 2007, a Detroit woman was indicted in the Eastern District of Michigan on charges of conspiracy, false statements, and aiding and abetting. The charges relate to an \$825,000 SBA-guaranteed loan. Specifically, the six-count indictment charges that she conspired with others to defraud the SBA by obtaining the loan in name only for her brother-in-law, who was the owner and intended operator of the business. In addition, it is alleged that she overstated her financial status, provided false information about the source of a \$250,000 equity injection, and made misrepresentations on the management resume. The OIG is conducting this joint investigation with the U.S. Secret Service.

Ongoing Investigation Results in Sentencing. In January 2007, agents from the OIG and the U.S. Secret Service arrested 18 individuals sought in connection with a scheme in which a lender's former executive vice president and others conspired to fraudulently qualify loan applicants for SBA-guaranteed loans. The scheme involved as many as 76 fraudulent loans totaling almost \$77 million. The following case is part

of this ongoing investigation, which is being conducted jointly with the U.S. Secret Service.

- On July 25, 2007, the former president of a Michigan company was sentenced to one year and one day in federal prison, and ordered to pay restitution of \$658,809 to an SBA preferred lender. The ordered restitution will be a joint obligation with his brother, who has pled guilty in this case but has not yet been sentenced. The investigation determined that the brothers conspired to fraudulently obtain a \$990,000 SBA-guaranteed loan. According to their indictment, they conspired with others to fraudulently qualify the former company president for an SBA-guaranteed loan, which was used to purchase a gas station and convenience store from the brother. The object of their scheme was to refinance and consolidate delinquent debts owed by the brother's financially-troubled gas station, using proceeds from the loan made to the "straw buyer." The conspiracy was aided through the use of a false sales agreement, an inflated purchase price, and a bogus down payment.

Business Owners Enter Into Pretrial Diversions. On June 6, 2007, a part owner of a deli in Utah entered into a pretrial diversion for making a false statement on a loan application. He falsely claimed to be a U.S. citizen and used a false Social Security number in order to obtain a \$135,000 SBA-guaranteed loan. On June 19, 2007, the owner of a Mexican restaurant in Utah also entered into a pretrial diversion for making a false statement on a loan application. He claimed to be a U.S. citizen in order to obtain a \$30,000 SBA-guaranteed loan. The men are each required to make payments on their SBA loans and to notify their pretrial diversion supervisor prior to acquiring any additional debt. This case was initiated based on information obtained during the OIG's Foreign Nationals Project. The SBA OIG is conducting this joint investigation with the Immigration and Customs Enforcement and the Social Security Administration OIG.

NARA Employee and Contractor Indicted. On August 20, 2007, a property management specialist at the National Archives and Records Administration (NARA) and a contractor at NARA were each indicted on 9 counts of theft of government property and aiding and abetting and 1 count of conspiracy, arising from a scheme to embezzle \$958,280 from NARA. Both men

were arrested on August 22, 2007. According to the indictment, the NARA employee was responsible for property management and project oversight for NARA's Facilities and Personal Property Management Branch, located at the Archives II facility in College Park, MD. The contractor was a facility support manager at a company that had a government contract to provide facility management at the Archives II facility. His duties included supervising the Archives II loading dock. The indictment alleges that the property management specialist used his NARA government purchase card to pay three businesses purportedly operated by the contractor for goods and services that were never provided or were provided at inflated prices. The businesses were listed on contracting documents as 8(a) certified, but there was no record of their 8(a) certification with the SBA. Furthermore, the businesses did not have any offices or employees. This case was initiated based on a referral from NARA. The SBA OIG is conducting this joint investigation with the NARA OIG.

## *Disaster Loan Program*

Company Co-Owner Pleads Guilty. On August 6, 2007, the co-owner of a private charter plane company pled guilty to 1 count of wire fraud, 1 count of personal income tax evasion, and 1 count of fraudulent conversion of SBA collateral. The co-owner obtained a disaster loan for \$177,800 for economic injuries resulting from the September 11 World Trade Center terrorist attacks. After the loan defaulted for non-payment, he produced four documents indicating that SBA had released its lien against his personal and business properties and then sold two properties that were held as collateral on the SBA disaster loan. All four documents were fraudulent. As a result, he received \$92,526 that should have been paid to the SBA. In addition, he embezzled almost \$980,000 from a fraternity where he was the trustee and treasurer. He also failed to pay required federal income taxes on all monies received, earned, or otherwise obtained within any calendar year. The company co-owner is a retired Army Colonel and was previously employed as an ROTC professor at a university. The OIG is conducting this investigation jointly with the IRS and the Auburn Police Department.

California Couple Indicted. On August 21, 2007, a California couple was indicted on 1 count of

conspiracy; 1 count of false, fictitious, or fraudulent claims; 2 counts of false statements; 1 count of theft of public funds; 4 counts of wire fraud; 1 count of false loan and credit application; and 1 count of civil forfeiture. The indictment, based on a joint investigation with the Department of Homeland Security OIG and the Mississippi State Grant Authority, alleges that the couple provided false statements to the affected agencies in an attempt to receive benefits to which they were not entitled. They were approved for a \$121,900 SBA disaster loan based on their application, which stated that their primary residence was in Mississippi when, in fact, they lived in California and were not affected by the hurricane. They were also approved for a Mississippi State Grant of \$100,000 and received over \$12,000 from the Federal Emergency Management Agency.

### *Statutory/Regulatory/Policy Reviews*

In an effort to proactively identify and correct potential Agency inefficiency and management problems at the onset of policy and regulatory development, the OIG reviewed, cleared, and/or provided comments, as appropriate, on 10 Agency initiatives, including proposed legislation, SBA Standard Operating Procedures, and Agency notices containing directives to its employees.

This monthly update is produced by the SBA OIG, Eric M. Thorson, Inspector General.

The 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 concerning this update or other OIG publications. To obtain copies of these documents please contact:

Beverly Menier, SBA OIG  
409 Third Street SW., 7<sup>th</sup> Floor  
Washington, DC 20416  
E-mail: [OIG@SBA.GOV](mailto:OIG@SBA.GOV)  
Telephone number (202) 205-6586  
FAX number (202) 205-7382

Many OIG 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 at (800) 767-0385**