



Office of Inspector General Small Business Administration

July 2000 Update

Business Loans

New Jersey Businessman Indicted on Two Counts of Bankruptcy Fraud. In the June 2000 Monthly Update, OIG reported on a Fairfield, New Jersey, businessman arrested for concealing estate property from creditors and the U.S. Trustee. The defendant was since indicted on June 27, 2000, on two counts of **bankruptcy fraud**.

Former Missouri Child Care Center President Sentenced to Prison for Making Material False Statement. The former president of a child care center in Kansas City, Missouri, was sentenced on June 15, 2000, to serve 5 years probation (the first 4 months on home detention) and to pay \$12,690 restitution and a \$100 special assessment. The defendant pled guilty to one count of **making false statements to SBA** in connection with a \$387,000 guaranteed loan she received in January 1998, from a non-bank participating lender. The defendant received this loan, made under SBA's Preferred Lender Program, to purchase a building and expand her child care operation. In her plea agreement, she admitted submitting false documents to the lender at closing requesting \$12,690 to partially fund the purchase of 50 new computers. The center made no regular payments on the loan, and the lender eventually foreclosed on the real property. SBA/OIG initiated this investigation based on information received from the

Department of Treasury's OIG for Tax Administration and conducted it jointly with that office.

Texas Attorney Pleads Guilty to Bank Fraud and Making Material False Statement. A Houston, Texas, attorney entered a guilty plea to one count of bank fraud on June 28, 2000. A criminal information charged him with **knowingly making a false statement** to fraudulently influence disbursements on a \$95,000 SBA-guaranteed business loan. Specifically, the information charged the defendant with falsely certifying that a \$7,500 loan disbursement check was used to pay an individual for a law library. The investigation also disclosed that he submitted false invoices for office furniture and computer equipment that he never purchased. He then falsely negotiated the joint payee disbursement checks. Finally, the investigation disclosed that the defendant used part of the loan proceeds to purchase a bar. OIG initiated this investigation based on information received from the Houston District Office.

Texas Convenience Store Leasehold Owner Indicted for Possession and Forgery of a Counterfeit Security. A leasehold owner of a convenience store in Irving, Texas, was indicted on July 5, 2000, on one count of **possession and forgery** of a counterfeit security. The defendant cashed a \$54,211.35 SBA loan disbursement check made jointly payable to him and a financial institution. He cashed the check by

allegedly forging the endorsement of the financial institution. SBA/OIG is conducting this continuing investigation jointly with the Federal Bureau of Investigation (FBI).

Former California SBA District Director Charged in an Information. A former SBA District Director and later head of the SBA division of a bank, from Hacienda Heights, California, was charged in an information filed on July 12, 2000, with one count each of **accepting a gift for procuring a loan and fraudulently receiving money from a loan transaction.** The allegations date back to 1990 and 1992 actions at the bank that the defendant joined after leaving SBA in 1984. The first count charged that he corruptly accepted a \$24,000 automobile from a loan broker as a reward for its business with the bank. The second count charged that he, in his official capacity at the bank, received money both directly and indirectly from the proceeds of a \$1 million SBA-guaranteed loan made to the brokerage head to purchase a gas station and mini-mart business. The defendant allegedly failed to disclose either that he owned 50 percent of the business or that he was going to receive at least \$65,000 of the loan proceeds for his personal use. According to a plea agreement he signed on July 6, 2000, from 1989 through 1992 he received approximately \$2 million in incentive bonuses and commissions from the bank's secondary-market sale of SBA-guaranteed loans plus a base salary that eventually reached \$250,000. For sentencing purposes, the loss related to his alleged crimes is set in the \$800,000 to \$1.5 million range.

OIG's investigation of the defendant and his firm's connection to the failure of the bank has been conducted jointly with the FBI. During his years at the bank, at least 17 borrowers submitted fraudulent documents, including falsified "copies" of tax returns, seeking SBA-guaranteed loans. Besides the defendant, 18 individuals have been charged

to date in the case and an additional 6 in the case of another loan broker with whom he did business. Twenty-one of the 24 have pled guilty, 1 was acquitted, and trial of the other 2 is pending. OIG initiated the investigation based on allegations from an anonymous complainant.

Pennsylvania President of a Defunct Construction Company Pleads Guilty to 15 Felony Counts. The president of a defunct Philadelphia, Pennsylvania, construction company pled guilty on July 20, 2000, 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 (USDA), were 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 him 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 Army Criminal Investigation Command, the Defense Criminal Investigative Service, USDA/OIG, and the Department of Labor OIG in this investigation based on a referral from NCIS.

Former New Hampshire Executive Director of a Nonprofit Microlender Indicted on 10 Counts of Submitting False Material Statements and 3 Counts of Conversion of Funds. A former executive director of a nonprofit microlender in Manchester, New Hampshire, was indicted on July 20, 2000, on 10 counts of **submitting false statements** and 3 counts of **conversion of funds.** The Microloan Program provides short-term loans ranging from under \$100 to \$25,000

through SBA-approved, nonprofit intermediaries. As the executive director, the defendant was required to report to SBA on a quarterly basis the balances of the bank accounts established to manage the microloan funds. According to the indictment, between November 1996 and March 1997, he knowingly submitted false material statements to SBA by vastly overstating the actual balances of the microloan accounts. Based on reports he submitted for the quarters ending June and December 1996, he claimed account balances of \$325,678.11 and \$409,486.78; however, the actual balances totaled only \$15,900.18 and \$67,071.01, respectively. From December 1995 to December 1996, he converted to his personal use \$13,042.44 in microloan funds when he withdrew these funds from the lending institution's accounts for which he was president and deposited them into his private accounts. In June 1997, the lending institution for which he was president became insolvent and SBA took over administration of its loan portfolio. This investigation was initiated based on information provided by the New Hampshire District Office.

Final Memorandum Audit Report on the Audit of the Y2K Loan Issued. On July 20, 2000, OIG issued a report on a loan for \$727,000 made under SBA's Y2K loan program. The audit was done to comply with the requirement of the Small Business Year 2000 Readiness Act (the Act) that OIG perform periodic reviews of a representative sample of loans. The objective of the audit was to determine if the loan was properly processed and disbursed, and proceeds used, in accordance with the Act. The audit disclosed that the borrower had corrected its Y2K problems after having received only \$381,000 of the loan proceeds. OIG recommended that the Massachusetts District Office require the lender to limit disbursement to the amount needed for Y2K readiness purposes. The District Office agreed

with the recommendation and thereby saved SBA's guaranty authority for the remaining \$346,000.

Audit Report Issued on Defaulted Loan. On July 26, 2000, a final audit report was issued on a \$269,000 SBA loan that defaulted 14 months after approval. The loan was selected for review as part of OIG's ongoing program to audit early defaulted SBA-guaranteed loans. An early defaulted is a loan that is charged off to transferred to liquidation within 36 months of origination. The objective of the audit was to determine if the early loan default was caused by lender or borrower noncompliance with SBA's requirements.

OIG found that the lender inappropriately used funds designated for accrued taxes to assist in the purchase of real estate and imprudently disbursed the balance of these same funds to the borrower's principals. When the borrower failed to pay the taxes and defaulted on the loan, SBA's recovery was reduced by the amount of the unpaid taxes plus interest and penalties. OIG recommended that the District Director recover \$26,723 from the lender to repair the loan and review the lender's policies and procedures for escrowing borrower real estate taxes. The District Director agreed with the recommendations in the report. In addition to her commitment to take the necessary steps to recover the \$26,723, the District Director stated that her office had been assured that the lender has changed its policy to ensure that such funds are escrowed and had obtained documentation that the lender has a written policy in place.

Disaster Assistance

Texas Businessman Indicted for Conspiracy and Making Material False Statements. The defendant's \$115,963 disaster loan application was declined after SBA/OIG notified

the Area 3 Disaster Office that on June 20, 2000, he was indicted on one count of **conspiracy** and nine counts of **making material false statements** to the lending institution and SBA. He, along with three other individuals associated with the auto body and service shop in Irving, Texas, allegedly submitted one falsified “copy” of a 1994 tax return along with fraudulent documentation in support of the required capital injection to obtain a \$350,000 SBA-guaranteed loan. OIG conducted this investigation, which is continuing, jointly with the Department of Treasury’s OIG for Tax Administration.

Two Northridge, California Disaster Loan Recipients Indicted for Mail Fraud. Two Northridge, California, residents were indicted on July 7, 2000, on four counts each of **mail fraud**. The defendants obtained a disaster home loan after the 1994 Northridge earthquake in the amount of \$231,300. OIG’s investigation revealed that they had submitted a series of false invoices to SBA indicating that various contractors had done work when in fact they had not. They also received two loan payment deferments from SBA. Both times they claimed they had no money or assets. The investigation later revealed the defendants owned five properties in the Phoenix, Arizona, area that were not disclosed to SBA. OIG initiated the case based on a referral from SBA’s Santa Ana Loan Servicing and Liquidation Center.

Office of Inspector General

We remind you that OIG has established an e-mail address, oig@sba.gov, which we encourage the public to use to communicate with our office. We welcome your comments on our publications, requests for reports, suggestions for possible audits, or referrals of possible incidents of waste, fraud, or abuse.

The activity Update is produced by SBA/OIG,
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Comments or questions concerning this Update or request for copies of OIG audits, inspections, and/or other documents should be directed to:

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Some audit and inspection reports can be found on the Internet at www.sba.gov/IG/reports.html

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