



## Office of Inspector General Small Business Administration

October 2002 Update

### *Business Loan Programs*

Texas Gas Station and Dry Cleaning Business Owners Plead Guilty to Pre-Trial Diversions and CPA Sentenced for Making Material False Statements. Two former owners of a Houston, Texas, gas station and dry cleaning business pled guilty to pre-trial diversions on September 20, 2002, and September 27, 2002, respectively. They were previously indicted on 1 count of **conspiracy** and 25 counts of **making material false statements** to SBA. Both were indicted along with a CPA for fraudulently inducing a non-bank participating lender and SBA into funding a \$355,000 SBA-guaranteed loan for a gas station. The principals allegedly falsified nine Federal income tax returns and six Internal Revenue Service (IRS) tax return verifications, forged two fuel company leases, and falsified their \$85,000 capital injection. While awaiting trial, one of the defendants conspired with three other individuals by submitting two additional fraudulent SBA-guaranteed loan applications to two FDIC banks for a total of \$2,195,000. Upon discovering this scheme, OIG notified the participant lenders that he had other legal problems with the U.S. Attorney's Office. Based on this notification, the lenders declined the loans.

The licensed CPA who prepared two loan packages for the gas station and dry cleaning business owners, was sentenced on October 18, 2002, to 33 months in a Federal correctional facility and ordered to pay \$1,676,569 in restitution and 3 years of supervised release. She had pled guilty to two counts of **making material false statements**. The investigation also found that she prepared 39 SBA loan packages with a total loan value of more than \$14.5 million. The loan packages contained 164 fraudulent Federal tax returns,

49 fraudulent Federal tax return verifications, false oil company and commercial leases, bogus capital injections that totaled more than \$1.75 million, false inventory purchases, and bogus financial records. The CPA 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, the defendant agreed to fully cooperate in the prosecution of all additional subjects associated with her scam. However, while working under her plea agreement, she authored a bogus medical document, forged her physician's signature, and submitted the letter to the U.S. Attorney's Office as an official document from her physician, thus invalidating the plea agreement. OIG is jointly investigating this case with the Treasury Inspector General for Tax Administration.

Pennsylvania Clothing Manufacturer Pleads Guilty to Making Material False Statement. The president of a Middletown, Pennsylvania, business that made and sold Civil War era clothing, pled guilty on October 10, 2002, to one count of **making a material false statement** to SBA. She submitted false tax returns for 1997, 1998, and 1999, with her loan application for a \$243,000 SBA-guaranteed loan to purchase land. As a result, the loan was cancelled prior to funds disbursement. OIG initiated this investigation based on information received from the bank.

Arizona Man Pleads Guilty to Theft of Government Money and Making a False Statement. An Apache Junction, Arizona, businessman pled guilty on October 22, 2002, in to one count of **theft of Government money** and one count of **making a false statement**. The defendant diverted funds collected through his corporate entity for the Combined Federal Campaign (CFC) for his own use. He also submitted

false documentation in support of a \$462,000 SBA-guaranteed loan application for an assisted care living facility. The Arizona District Office, who referred the case, also alerted OIG of the Federal Bureau of Investigation (FBI) investigation on the diversion of CFC funds. It was agreed with FBI and the Assistant U.S. Attorney already assigned to the CFC diversion case that the two matters would be investigated and prosecuted jointly. Additional investigation continues regarding other individuals involved with the defendant in the SBA loan portion of the investigation. Sentencing is scheduled for January 13, 2003.

Missouri Law Firm President and Boat Propeller Manufacturing Company Owner Indicted for Making Material False Statements. The former president of an Ozark, Missouri, law firm was indicted on October 9, 2002, on one count of **making false statements** to a financial institution, in order to obtain a \$15,000 loan. The investigation discovered that he provided false personal and corporate financial statements to a Missouri bank that failed to report liabilities, including an outstanding \$340,000 SBA-guaranteed loan to a boat propeller manufacturing company he owned. He defaulted on the \$15,000 loan, which was intended to provide working capital for his law firm, and the bank suffered a loss of \$13,442.56. He was disbarred following complaints of malfeasance by some of his clients and was previously indicted by a Federal Grand Jury for **making false statements** to two other banks, which also participated in the SBA loan to the boat propeller company, as well as for **mail fraud** and **money laundering** in connection with a Ponzi type scheme he used to defraud clients and others of nearly \$1.6 million. In 2001, he was tried and convicted on State fraud charges involving a real estate transaction unrelated to any of the above. He had remained free pending appeal of his State conviction, and he had been released on personal recognizance following his previous Federal indictment. However, his State appeal was recently denied and he was ordered to begin serving 120 days "shock time," but he failed to report for confinement so the State issued a warrant for his arrest. He has now reportedly fled from his home, violating the terms of his release, so a Federal warrant was issued for his arrest on October 2, 2002. A new Federal warrant was also issued October 9, 2002, in connection with the latest indictment returned that same day. This investigation was initiated based on a referral from the SBA Springfield, Missouri

Branch Office. OIG jointly conducted this case with IRS and the Missouri Attorney General's Office.

A Pennsylvania Attorney and Owner of a Law Firm Charged in Criminal-Information. A Pennsylvania attorney and owner of a law firm was charged in a criminal-information filed on October 15, 2002, with one count of **wire fraud**, one count of **bankruptcy fraud**, and one count of **perjury** in conjunction with a \$107,000 SBA-guaranteed loan. The defendant diverted the loan proceeds for unauthorized personal expenses and then defaulted on the loan and filed for bankruptcy in Philadelphia. Just weeks prior to the bankruptcy, he transferred the real estate purchased with the loan proceeds into his parents' name. He also hid \$65,000 of other assets from creditors during the bankruptcy. The perjury charge related to his testimony during the bankruptcy proceedings that the lender was aware of, and had agreed to, his diversion of the loan proceeds to pay his personal expenses. This case was jointly investigated with FBI.

Texas Dry Cleaning Business Co-Owner Sentenced for Bank Fraud and Making a False Statement. The co-owner of a dry cleaning business in Dallas, Texas, was sentenced on October 18, 2002, to 21 months in a Federal correctional facility and 5 years of supervised release and was ordered to pay \$76,767 in restitution. He was convicted by a jury, on one count of **bank fraud** and one count of **making a false statement** to SBA. He submitted a false personal financial statement to a bank to obtain a \$77,500 SBA-guaranteed loan. According to the indictment, he understated his liabilities by concealing credit card and other personal debt and induced disbursement of loan funds by falsely certifying there had been no substantial adverse changes in his financial condition. OIG conducted this investigation jointly with the Postal Inspection Service and FBI.

Connecticut Businessman Pleads Guilty to Bankruptcy Fraud. A Washington Depot, Connecticut, businessman pled guilty to one count of **bankruptcy fraud** on October 23, 2002. The guilty plea related to a \$450,000 SBA-guaranteed loan that was obtained by his company. He personally guaranteed the loan and 3 weeks after obtaining the loan, filed for bankruptcy. On the schedules he submitted with his bankruptcy filing, he concealed his ownership of his company, listing himself as a salesman, as well as concealing his ownership interest in two other companies. He also

failed to disclose his personal guaranty of the loan and considerable personal assets, such as \$250,000 in trusts, and income from those trusts, which he had included on his personal financial statement pursuant to his loan application. By concealing his personal guaranty of the loan on his personal bankruptcy, he caused the bank not to be notified by the bankruptcy trustee, therefore preventing the bank from reaffirming his guaranty or taking any other protective measures. His company then defaulted on the loan in August 1998 after filing business bankruptcy with a \$355,000 balance still owing. The bankruptcy was discharged in 1999, and the company's equipment was sold at auction in 2000. The OIG investigation was based on a referral from the SBA Connecticut District Office.

Ohio Bed and Breakfast Owner Pleads Guilty to Conversion of Collateral. The co-owner of a Sidney, Ohio, bed and breakfast pled guilty to one count of **conversion of collateral** pledged to SBA. The original indictment related to an SBA-guaranteed loan for \$200,000 secured by the couple to purchase a bed and breakfast. The couple signed and dated the SBA loan authorization agreement which outlined collateral provisions and specifically stated the borrower will provide as collateral the land and buildings. The agreement also provided fixtures, furniture, inventory, and general intangibles as collateral for the SBA loan. The investigation revealed that after the couple defaulted on the loan and filed for bankruptcy, they signed a contract and had the interior antique woodwork removed from the home and sold for \$10,000. The OIG investigation was initiated based on a referral from the SBA Columbus District Office.

Washington Import/Export Company Owner Pleads Guilty to Theft of Public Monies or Properties. The former owner of an import/export company in Tumwater, Washington, and several exporting companies in Washington, Florida, and the Netherlands, pled guilty to a one count superceding-information that charged him with **theft of public monies or property**. A Federal grand jury charged the defendant in a 50 count indictment with **bank fraud, wire fraud, and conversion of property pledged** to SBA. He is a Netherlands citizen who stood to be automatically deported if he had pled guilty or had been found guilty of a crime of fraud of \$10,000 or more. By pleading to a charge of theft of public money in an amount under \$10,000, he gets the opportunity to argue his case before the U.S. Immigration and Naturalization

Service as to why he should be allowed to stay in the U.S. He stipulated to the full loss amount of \$1,093,082.60, which will be used for sentencing purposes. The investigation found that from September 1997 until September 2000, he submitted false accounts receivable aging reports to A Seattle, Washington bank to obtain draws on various lines of credit, including a \$1.3 million line guaranteed by SBA. He also diverted payments on accounts receivable away from the Seattle bank to another bank account under his control. He then used some of the proceeds from the draws and the diverted proceeds for his personal use, including personal travel, apartment and condominium rentals, expensive meals, jewelry purchases, and bribes to customer's employees. The loss to the SBA and the Seattle bank is \$982,166. The investigation also found that from 1998 to June 2000, he engaged in a scheme to defraud the Government of the Netherlands and the European Community by submitting false invoices via wire for the purpose of paying lower customs duties and taxes assessed by the Netherlands and the European Community. The loss to the Government of the Netherlands and the European Community is \$110,916.62. OIG conducted this investigation jointly with FBI and the Fiscal Intelligence and Information Service, an agency of the Government of the Netherlands.

West Virginia President of Defunct Designer and Manufacturer of Hardwood Flooring Pleads Guilty to Bank Fraud. The president of a defunct Elkins, West Virginia, designer and manufacturer of hardwood flooring, was charged in criminal-information and pled guilty on October 30, 2002, to one count of **bank fraud**. In September 1998, he obtained three SBA-guaranteed loans (two revolving lines of credit and one demand note) totaling \$780,000. The loan proceeds were to be used to support working capital needs while the business awaited payment from domestic and foreign customers. Under the terms of the revolving lines of credit, the corporation could receive up to 80 percent of the outstanding invoices. The information charges that the bank loaned the corporation \$127,981 based on false invoices submitted by the defendant. He defaulted on all three loans. SBA refused to honor the guaranty on one of the loans because the bank did not oversee the loan properly. OIG conducted this investigation jointly with FBI.

## ***Agency Management***

Agency Takes Final Action as a Result of the Audit of SBA's FY 2000 Financial Statements Management Letter. OIG recommended that the CFO ask the Office of Financial Assistance to develop a checklist to guide both preparer and reviewer through all steps of the subsidy model preparation for budget estimates and financial statement re-estimates. A checklist has been completed that details the specific tasks to be completed. It should enable the preparer and reviewer to understand the subsidy estimate and re-estimate process.

Agency Takes Final Action as a Result of the Agreed-Upon Procedures Report on Sensitive Payments. The Agency has completed final action on three of the recommendations made in this report. The first was for the CFO to issue a Procedural Notice reminding all employees of the importance of adhering to the standard operating procedures (SOP) regarding travel. A notice to that affect was issued in October 2002. The second was for the CFO to revise its policy to require a higher level of approval of official travel combined with personal travel including travel by individuals with authority to self-approve trips. The CFO has done this. The third was for the CFO to issue a notice emphasizing the importance of accuracy and documentation for travel orders. A notice addressing this issue was released to all SBA employees.

Agency Takes Final Action as a Result of the Audit of SBA's FY 2001 Financial Statements. OIG recommended that the CFO prepare a compilation manual to assist in financial statement and footnote preparation. The manual would specifically identify the sources for all financial statement line items and would incorporate timelines, milestones, and controls to ensure that quality assurance reviews for technical and clerical accuracy are accomplished. The CFO's office updated the comprehensive annual reporting plan and data sources included as part of the plan documentation and an English version of the financial statement mapping formulas was created. OIG accepted this action as completion of the recommendation.

Agency Takes Final Action as a Result of the SBA's FY 2001 Financial Statements Management Letter. OIG recommended that the CFO develop, document, and implement policies and procedures for ensuring

the timely communication of new transaction codes and general ledger accounts, to include updating SOPs and notifying users of the establishment of new transaction codes or general ledger accounts and the appropriate use of such codes or accounts. The CFO now distributes lists of all new transaction codes throughout the office and instructs all parties with access to view the current listing of implemented transaction codes and general ledger accounts.

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

OIG Prepares its Semiannual Report to Congress. OIG is currently preparing its Semiannual Report to Congress for the reporting period of April 1 through September 30, 2002. The report will become available to the public on the [oig@sba.gov](mailto:oig@sba.gov) website in early December 2002.

The activity Update is produced by SBA/OIG, Peter L. McClintock, Acting Inspector General.

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 such documents please contact:

Vanessa Piccioni, SBA/OIG,  
409 Third Street SW., 7<sup>th</sup> Floor  
Washington, DC 20416  
mail: [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**