



Office of Inspector General Small Business Administration

April 2002 Update

Business Loan Programs

California Tax Preparer Sentenced to Prison and to Pay Fine. A Pasadena, California, tax preparer was sentenced on March 25, 2002, to serve 8 months in prison and to pay a \$2,000 fine and more than \$600,000 in back taxes to the Internal Revenue Service (IRS). He had pled guilty in 1999 to one count of **conspiracy to defraud IRS** and eight counts of **tax evasion**. In 1996, IRS and the Federal Bureau of Investigation (FBI) asked OIG to join the investigation. The investigation indicated that the defendant was responsible for the preparation of altered tax returns submitted to financial institutions and SBA on behalf of clients who had received SBA-guaranteed loans. Two of those borrowers, whose SBA-guaranteed loans totaled more than \$1 million, each pled guilty to **bank fraud** in 1998. The investigation confirmed that “copies” of their Federal tax returns were altered to substantially overstate their incomes. As a result, a search warrant was executed on the defendant’s business and charges were brought against him for which he was ultimately sentenced.

Kentucky Construction Company Employee Pleads Guilty to Converting SBA Collateral; President Sentenced to Home Confinement, Probation, and Restitution; and Guarantor Pleads Guilty to Filing False Claim and Misprision of Felony. A former employee of a roadside construction company in Louisville, Kentucky, pled guilty on March 15, 2002, to one misdemeanor

count of fraud for **converting SBA collateral** to his personal use. His brother, the corporation’s president, previously pled guilty to **conspiring to defraud the Government with respect to claims**. Together with a company guarantor, they obtained a \$250,000 SBA-guaranteed loan. The 12-count November 2001 indictment of the three men alleged that they conspired to defraud the Government by submitting fraudulent invoices to obtain disbursements on the loan and then falsely negotiated the joint payee loan checks. Also, a company vehicle was individually titled to the employee, with the proceeds from the sale of the vehicle retained for his personal use. Sentencing of the employee is scheduled for June 6, 2002. The president was sentenced on April 23, 2002, to 6 months home confinement and 2 years probation. The court will determine the amount of restitution at a later time. On April 26, 2002, the guarantor pled guilty to a superceding information that charged him with one count of **filing a false claim** and three counts of **misprision of a felony**. (As part of his plea agreement the Government dismissed the 11 counts on which he was previously indicted.) Allegedly, the guarantor and the president submitted five fraudulent invoices claiming that they purchased equipment. The guarantor will be sentenced on August 7, 2002. OIG initiated this investigation based on information received from SBA’s Kentucky District Office.

Colorado Painting Company Owner Sentenced to Incarceration, Home Detention, Supervised Release, and Community Service. The owner of a commercial painting company in Berthoud, Colorado, was sentenced on April 2, 2002, to 1 day of incarceration, 120 days of home detention, 5 years of supervised release, and 150 hours of community service. In addition, she must pay \$83,423 in restitution and seek psychological treatment. She previously pled guilty to one count of **making a false statement to a federally insured financial institution** and one count of **bankruptcy fraud**. OIG's joint investigation with FBI determined that the defendant failed to disclose approximately \$250,000 in business debt and two pending lawsuits on her \$100,000 LowDoc loan application. In addition, she used part of the loan proceeds for personal expenses, while failing to pay business debts. OIG initiated this investigation based on a referral from SBA's Colorado District Office.

Arizona Corporation President Sentenced to Probation, Home Confinement, and Restitution. A Peoria, Arizona, corporate president was sentenced on April 8, 2002, to 5 years probation, 1½ years confinement to a halfway house, and \$906,000 in restitution. He and his partner previously pled guilty to one count of **mail fraud** and two counts of **making a material false statement** in connection with a \$1 million SBA-guaranteed loan. The defendant and his partner, president and secretary-treasurer, respectively, of the corporation, had been charged with submitting fraudulent documents to obtain the loan to buy two fast-food restaurants. A third man, a long time friend of the president, allegedly assisted in the creation of a fraudulent \$400,000 promissory note. The note was created to give the impression that the defendant and his partner, individually and through the corporation, had a greater debt obligation, which would justify a larger loan from the lender. At the loan closing, the friend received a check for \$150,000 from loan proceeds, allegedly to pay off the fraudulent note balance. The friend then endorsed the check to the defendant. OIG conducted this investigation jointly

with FBI, which was based on a referral from SBA/OIG's Auditing Division.

Ohio Businessman Charged With Making False Statements. A Columbus, Ohio, man was charged in an information filed on April 8, 2002, with one count of **making false statements to a federally insured financial institution**, in connection with a \$337,500 SBA-guaranteed loan to a graphic arts and book binding business he owned. SBA loan proceeds were to be used to purchase machinery and equipment for the business. However, OIG's investigation revealed that he intentionally prepared and submitted false invoices to the participating lender bank and SBA to obtain the loan, and used loan proceeds to pay for unauthorized business and personal debts. He is scheduled to be arraigned on May 8, 2002, and has agreed to plead guilty. OIG initiated this investigation based on a referral from the bank and SBA's Columbus District Office.

Arizona Couple Sentenced to Pay Millions in Restitution for Money Laundering and Making Material False Statements. On April 12, 2002, a Phoenix, Arizona, couple doing business as a business brokerage firm was sentenced; the husband was sentenced to 70 months in prison and 3 years on probation, and the wife was sentenced to 3 years on probation. In addition, on April 24, 2002, they were ordered jointly to pay \$4.8 million in restitution (almost 57 percent to SBA). They previously pled guilty to one count of **money laundering** and **making material false statements**, respectively. The couple submitted fraudulent documents to private lenders in order to obtain financing for clients seeking SBA-guaranteed business acquisition loans. The couple 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 the loan. The scheme inflated the purchase price that covered the actual selling price plus the down payment or cash injection. In order for the scheme to work, the couple also secretly arranged for third party injectors to loan the required down payment to the

borrowers to falsely prove to SBA that they had the cash injection. After the loan closed, the couple 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 found approximately \$2.9 million in loans to small-business owners in Arizona that were brokered by the couple. OIG's joint investigation with FBI was based on a referral from SBA's Arizona District Office.

Disaster Loan Program

Arizona Couple Sentenced to Prison, Home Detention, and Restitution. A couple in Paradise Valley, Arizona, was sentenced on March 29, 2002; the husband to 18 months in prison and the wife to 5 months in prison followed by 5 months of home detention. They were ordered to pay SBA \$40,000 within 120 days and \$1,000 per month thereafter until the loan balance of \$203,500 is repaid. The husband was previously convicted on one count of **mail fraud**; his wife had pled guilty to four counts of **mail fraud**. The couple had obtained a \$231,300 disaster home loan after the 1994 Northridge, California, earthquake. OIG's investigation revealed that they had submitted a series of false invoices indicating that various contractors had done work when in fact they had not. The couple also received two loan payment deferments from SBA claiming they had no money or assets. The investigation later revealed that they 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.

Agency Management

Audit Report on SBA's FY 2001 Financial Statement – Management Letter Issued. On April 12, 2002, OIG issued an audit report on SBA's FY 2001 Financial Statement –

Management Letter. As part of SBA's annual financial audit, OIG issued the independent auditor's management letter. It identified issues related to: **(1) personal property and equipment; (2) foreclosed property records and valuation; (3) loan accounting records and servicing; (4) analysis of account balances and transactions; (5) credit card use; (6) sensitive loan sale information; (7) new transaction codes; (8) Master Reserve Fund reporting; and (9) disaster loan cash flows.** The conditions were identified during the audit of SBA's FY 2001 financial statements, but were not required to be included in the auditor's report on internal control. SBA management generally agreed with the auditor's findings and recommendations.

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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