



Office of Inspector General U.S. Small Business Administration

August 2008 Update

Business Loan Programs

Ongoing Investigation Results in Indictments. The following cases are part of an ongoing investigation, being conducted jointly with the U.S. Secret Service (USSS), relating to a scheme in which a lender's former executive vice president and others conspired to fraudulently qualify loan applicants for SBA-guaranteed loans.

- On August 21, 2008, a Michigan woman was sentenced to three months incarceration and a \$5,000 fine. The investigation disclosed that from April 2002 to November 2006, she conspired with others to defraud SBA by (1) falsely claiming to be the 100% owner of a business, (2) overstating her financial status, (3) alleging that the source of a \$250,000 equity injection was a gift from an uncle, (4) making misrepresentations on the management resume, and (5) obtaining a loan in her name only for a brother-in-law who was, in fact, the owner and intended operator of the business. The \$825,000 SBA-guaranteed loan was made in August 2002.

Office Manager Pleads Guilty. On August 4, 2008, the office manager for a plastic surgeon pled guilty to one count of felony theft. The investigation revealed that she used personal information and the signature stamp of the plastic surgeon, without his authorization, to fraudulently obtain two SBAExpress loans totaling \$150,000. In addition, she applied for multiple non-SBA loans using the same scheme, and was successful in obtaining one of these loans for \$180,948. She used the majority of the loan funds she received for her personal benefit.

Turkish National Indicted. On August 7, 2008, a Turkish national was indicted on 42 counts of bank fraud. The indictment charges that, as a member of an organized group of Turkish nationals, he fraudulently

obtained six SBAExpress loans totaling \$290,000, as well as credit cards and other loans totaling approximately \$1 million. The investigation revealed that this group allegedly obtained credit cards and loans from various financial institutions using false identities, documents, and businesses. Thirty SBAExpress loans, totaling approximately \$1.2 million, have been identified with the group, and a large number of these loans are in default. The OIG is conducting this investigation in conjunction with the U.S. Postal Inspection Service (USPIS).

Identity Theft Ring Leader Pleads Guilty. On August 11, 2008, the leader of an identity theft ring pled guilty in the U.S. District Court, Central District of California, to one count of mail fraud and one count of aggravated identity theft. The investigation revealed that he was behind a sophisticated identity theft ring operated for the purpose of obtaining fraudulent SBAExpress lines of credit, conventional and/or residential loans, and credit cards. He created three false identities using fictitious businesses and Social Security numbers belonging to others. He then obtained credit cards for each false identity. He also applied for business lines of credits at various lenders using these false identities and was waiting for responses from the lenders when the OIG and other participating agencies arrested him on separate California state felony charges relating to a fraudulent \$35,000 SBAExpress loan and a \$1,445,000 residential mortgage loan. He pled guilty to the state charges and has been sentenced. The OIG is conducting this investigation jointly with the Los Angeles Police Department, the California Department of Insurance, U.S. Immigration and Customs Enforcement (ICE), the USPIS, and the Social Security Administration (SSA) OIG.

California Business Owner Pleads Guilty. On August 15, 2008, the owner of a now-defunct airplane parts business in Davis, California pled guilty to one

count of wire fraud. The guilty plea related to his making false statements to a small business lending corporation and the SBA in order to obtain a \$999,000 SBA-guaranteed business loan. The investigation disclosed that the airplane parts business obtained the SBA-guaranteed loan to purchase another business. The business owner failed to disclose that he had borrowed the required \$125,000 cash injection. The loan defaulted and SBA purchased its guaranty, paying \$708,120.79. This matter was referred to the OIG by the U.S. Attorney's Office in Boise, Idaho. The OIG is conducting this investigation jointly with the Federal Bureau of Investigation (FBI).

California Man Indicted. On August 19, 2008, a California man was indicted on one count of bank fraud, one count of mail fraud, one count of aggravated identity theft, and one count of forgery and false use of passport. In addition, one count of criminal forfeiture was filed, which makes any property derived from his criminal scheme subject to forfeiture upon his conviction. The charges relate to his alleged involvement in a sophisticated Korean identity-theft ring, in which he served as the Korean/English interpreter. He is alleged to have used a forged U.S. passport to fraudulently obtain an SBAExpress loan and a Home Equity Line of Credit, resulting in losses of approximately \$1.5 million. The OIG is conducting this investigation jointly with the FBI, ICE, USPIS, and the SSA OIG.

Disaster Loan Program

Louisiana CPA Sentenced. On July 24, 2008, a certified public accountant (CPA) employed by a Louisiana businessman was sentenced to 10 years in prison, 5 years supervised release, and restitution of \$505,008.25. The sentencing resulted from her guilty plea to three counts of making false statements relating to loan and credit applications. The CPA knowingly made false statements to several lenders in Baton Rouge, Louisiana in order to influence the financial institutions to approve four loans totaling approximately \$2.9 million. She impersonated an SBA employee and falsely represented that SBA-guaranteed disaster loans had been approved and committed for local businesses. Due to investigative efforts, only \$5,000 of the \$2.9 million was disbursed. This case was referred by the Department of Homeland Security (DHS). The OIG is conducting this investigation jointly with the USSS.

Texas Woman Pleads Guilty. On August 8, 2008, a Texas woman pled guilty to two counts of theft of government funds, one count of false statements, one count of fraud in connection with a government loan, and a forfeiture statute. On February 20, 2008, the woman was indicted, along with her husband, for fraudulently obtaining \$80,600 in Hurricane Katrina disaster assistance from the SBA and \$11,000 from the Federal Emergency Management Agency. The couple indicated that their primary residence was in Bay St. Louis, Mississippi, when in fact they were living in Houston, Texas. The OIG is conducting this investigation as a member of the Department of Justice Hurricane Katrina Fraud Task Force, which also includes the United States Attorney's Office for the Southern District of Mississippi, the DHS OIG, the Department of Housing and Urban Development OIG, the Department of Agriculture OIG, and the Mississippi State Auditor's Office.

Louisiana Man Pleads Guilty. On August 13, 2008, a Louisiana man pled guilty to four counts of wire fraud in connection with fraudulently obtaining \$69,100 in Hurricane Katrina Disaster Loan assistance from SBA. The investigation disclosed that he transmitted facsimiles of altered building permits in order to induce SBA to release funds on both a \$19,500 disaster home loan and a \$49,600 disaster business loan. The investigation revealed that the building permits were for work performed prior to Hurricane Katrina on both his home and business. In addition, he kept insurance proceeds assigned to the SBA of \$24,615.31 for his home and \$38,076.12 for his business. This case was initiated based on an anonymous complaint through the OIG Hotline.

Government Contracting and Business Development

OIG Issues Report on Two Alaska Native Corporation (ANC) Owned 8(a) Firms. On August 7, 2008, the OIG issued an audit report, *Non-Native Managers Secured Millions of Dollars from 8(a) Firms Owned by Alaska Native Corporations through Unapproved Agreements that Jeopardized the Firms' Program Eligibility.* The audit identified two Alaska Native Corporation (ANC)-owned 8(a) participants that repeatedly violated the terms and conditions of their Participation Agreements with SBA by failing to obtain SBA's approval for management and other agreements that eventually enriched their non-native

managers. The non-Alaska native managers were able to secure over \$23 million in 8(a) contract revenues through these agreements over a 3-year period. One ANC also misrepresented its ownership structure and knowingly provided false information to SBA. The other repeatedly failed to comply with SBA's requests for full disclosure of its business structure.

Violating any one clause of the Participation Agreement, such as failing to obtain pre-approval of business agreements or submitting false information, is cause for termination from the 8(a) program. Because the two ANC-owned firms repeatedly violated their Participation Agreements, we recommended their immediate suspension from the 8(a) program, and SBA's initiation of termination proceedings. We also recommended that SBA establish additional procedures requiring disclosure of business agreements in annual updates and closer review of participant financial statements to identify relationships that could affect participant size and eligibility. Finally, we recommended that SBA review other 8(a) firms owned by the two ANC's for compliance and affiliation issues. As a result of the audit report, the Agency has initiated action to suspend and terminate the two ANC-owned firms from the 8(a) program.

Non-Disadvantaged Co-Conspirators Plead Guilty.

On August 13, 2008, a non-disadvantaged individual, who was involved with three SBA 8(a) certified companies, pled guilty to one count of conspiracy to defraud the SBA. On August 19, 2008, a second non-disadvantaged co-conspirator in this scheme pled guilty to one count of conspiracy to defraud the SBA and one count of money laundering conspiracy. Both individuals conspired with others to violate SBA requirements relating to control and ownership of firms participating in the SBA 8(a) program. The co-conspirators provided critical bonding, insurance, financial support, and control to these 8(a) firms; however, in order for the firms to maintain their 8(a) eligibility, this information was not disclosed to the SBA. All three of these 8(a) firms are Maryland corporations involved in the demolition and asbestos abatement business. Between 2002 and 2004, without SBA's knowledge, the co-conspirators received approximately \$900,000 more in bonuses and salaries than the president of one of the 8(a) firms. The second individual's money laundering conspiracy charge relates to his diversion of funds from one of the 8(a) firms, without its knowledge, to another company that

he partially owned. The OIG is conducting this investigation jointly with the Environment Protection Agency Criminal Investigative Division, the Naval Criminal Investigative Service, the Internal Revenue Service Criminal Investigative Division, and the FBI.

This monthly update is produced by the SBA OIG, Peter L. McClintock, Acting Inspector General.

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