



Office of Inspector General Small Business Administration

January 2001 Update

Business Loan Programs

Fugitive New York Businessman Arrested for Loan Fraud. The president of a defunct corporation that had received a \$200,000 SBA-guaranteed loan purportedly to start a Central Islip, New York, restaurant was arrested on January 23, 2001, pursuant to a 1995 warrant obtained by SBA/OIG. Special agents of SBA/OIG, the Social Security Administration's OIG, and the Secret Service made the arrest. The warrant was based on a complaint charging the man with **making a false statement to a federally-insured lender** on an SBA Personal History Statement in support of a loan application. Allegedly, the defendant had failed to disclose his extensive criminal history that included convictions for three robberies, weapons possession, and possession of stolen property, as well as arrests for assault with intent to injure, possession of dangerous drugs, and possession of a forged instrument. The case, which originated from SBA/OIG's "Operation Cleansweep," received national attention in 1997 when it was featured on an NBC televised news segment, "The Fleecing of America," by Tom Brokaw. After being advised that he would be criminally charged, the defendant became a fugitive, living under a false name and using a false date of birth and Social Security number (SSN). He was recently traced to a real estate

office in Coram, New York, when OIG learned that he had applied for a New York State Realtor's license under his alias. The defendant defaulted on the loan less than 9 months after receiving it.

Four Ohioans Indicted for Conspiracy and Lying. Four residents of the Cleveland, Ohio, area were indicted on January 24, 2001. The indictment charged each with one count of **making false statements to SBA** and the first, second, and third defendants with one count of **conspiracy to defraud the Government**. OIG special agents arrested the first defendant on January 25, 2001, pursuant to a Federal warrant issued in the wake of the indictment. These charges relate to an alleged scheme, devised by the second defendant (a licensed real estate agent and business broker) to facilitate a \$325,000 SBA-guaranteed loan to the first defendant for his purchase of a forklift sales and repair business in Parma, Ohio, from the third and fourth defendants. The scheme to fraudulently provide the first defendant with the funds for his required capital injection prior to the loan closing enabled all parties to benefit from the completion of the transaction. It essentially provided the first defendant with 100 percent financing and resulted in inflation of the contract sales price, thereby exposing SBA and the participating non-bank lender to additional loss and reduced recovery potential.

This scheme to defraud SBA and the participating lender was also facilitated by each of the subjects' concealment of the transfer of funds from the third and fourth defendants to the first defendant, and their supporting false statements to the participating lender and SBA.

In addition, the first defendant was charged with one count of **making material false statements to the Government** for allegedly certifying in the loan application he submitted to SBA and the participating lender that he had no criminal history when in fact the investigation revealed that he had a substantial criminal history. He had been arrested and charged with various crimes; these charges resulted in four convictions prior to his loan application, including one felony conviction for first-degree burglary. OIG initiated this investigation based upon a referral from SBA's Cleveland District Office.

Disaster Loan Program

New Mexico Woman Indicted for Fraud, False Claims, Impersonating Federal Employee, and Using False Social Security Number. An Albuquerque, New Mexico, woman was indicted on January 9, 2001, on three counts of **mail fraud**, one count of **wire fraud**, one count of **filing false claims**, one count of **impersonation of a Federal employee**, one count of **making material false statements**, and one count of **false representation of an SSN**. The charges relate to her alleged actions to fraudulently obtain post-disaster assistance, including a \$40,000 SBA disaster home loan. The defendant, using the name and SSN of a deceased acquaintance, applied for disaster assistance from SBA and the Federal Emergency Management Agency (FEMA) under the Cerro Grande Fire Assistance Act. The defendant submitted numerous false documents in support of her damage claim; she also attempted to obtain information about her claim and the investigation by posing as a

representative of the U.S. Attorney's Office. The investigation determined that neither the defendant nor the person whose name she falsely used ever resided at the address claimed in the disaster-assistance application. FEMA/OIG requested that SBA/OIG join its investigation.

Surety Bond Guarantees

Audit of Texas Surety Company Issued.

An OIG audit of a Texas surety company found that the surety correctly calculated and timely remitted fees to SBA. However, the audit also found that the surety did not always comply with SBA regulations for underwriting bonds and processing claims. More specifically, the surety did not (1) timely notify SBA of adverse financial information for two bonds, (2) timely remit or credit SBA for overpayments or its share of recoveries for one bond, and (3) maintain complete underwriting documentation for two bonds. As a result, the auditors identified \$180,762 of questioned costs. Consequently, OIG recommended that the surety implement policies and procedures to correct these problems and questioned costs totaling \$180,762. SBA officials agreed with OIG recommendations.

Audit of Oklahoma Surety Company Issued.

An audit of an Oklahoma surety company found that the company did not comply with SBA requirements for correctly calculating and timely remitting fees to SBA. The audit also found that the surety did not always comply with SBA regulations for underwriting bonds and processing claims. More specifically, it did not (1) timely notify SBA of the principal's default for one bond, (2) maintain complete underwriting documentation for one bond, and (3) maintain written policies and procedures for underwriting and servicing all SBA guaranteed bonds. As a result, OIG recommended that the surety implement policies and procedures to correct these

problems. SBA officials agreed with OIG's recommendations.

Audit of Missouri Surety Company Issued.

An audit of a Missouri surety found that the surety correctly calculated and timely remitted fees to SBA. However, the audit found that the surety did not always comply with SBA's policies and procedures for bond origination, claims, and salvage. More specifically, the surety (1) issued one bond after work under the contract had begun without obtaining SBA approval, (2) failed to obtain the required certifications for five bonds, (3) input bond information for one bond into the Preferred Surety Bond system prior to the bond effective date, (4) submitted inadequately supported legal expenses for one bond, and (5) remitted salvage to SBA in an untimely manner for one bond. In addition, the audit found that the surety's written internal guidelines do not incorporate SBA's policies and procedures. Consequently, OIG recommended that the surety implement policies and procedures to correct these problems and questioned costs totaling \$250,771. SBA officials agreed with OIG's recommendations.

Government Contracting and Business Development

President of Defunct Pennsylvania Construction Company Charged With Mail Fraud and Lying. The president of a defunct construction company in Huntingdon Valley, Pennsylvania, was charged in an information filed on January 5, 2001, with one count of **mail fraud** and one count of **making a material false statement**. The false statement count related to the president's representing that he was the 100 percent owner of the company on his SBA Form 1010B, Section 8(a) Program Application. In a deposition, however, he testified that he only owned 40 percent of the company. The other count related to falsely reported payments to subcontractors and false progress payment certifications on a \$1.6 million

contract for renovations at a library. SBA/OIG is continuing this joint investigation with the Naval Criminal Investigative Service and the Department of Veterans Affairs OIG.

Entrepreneurial Development

Mississippi Business Information Center Coordinator Sentenced for Filing False Claim.

The former coordinator of a Mississippi SBA Business Information Center was sentenced on January 19, 2001, to serve 4 years on probation and to pay SBA \$8,779 in restitution. She previously pled guilty to one count of **filing a false claim** relative to her relocation from Texas (where her previous SBA job was) to Mississippi. She had claimed reimbursement expenses for her two sons and her husband when they actually did not relocate with her. She began her new position in Mississippi on December 6, 1998. OIG's investigation determined that both sons were in reformatories at the time she relocated and her husband never moved to Mississippi. The total amount of false relocation expenses she claimed was \$8,779; her last paycheck and accumulated annual leave totaling \$2,358 were credited against her restitution. On August 9, 2000, she was removed from SBA employment based on the results of this investigation, which OIG initiated based on a referral from SBA's Mississippi District Office.

Office of Inspector General

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The activity Update is produced by SBA/OIG,
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