



## Office of Inspector General U.S. Small Business Administration

June 2005 Update

### *Agency Management*

Agency Completes Final Action on Two Recommendations Made in Audit of Puerto Rico & US Virgin Islands District Office Cosponsored and SBA Sponsored Activities. The Agency reported that it completed the following final actions: All cosponsorship agreements are now cleared and executed through SBA Central Offices and SBA has instituted periodic training and issued guidance on cosponsorships. SBA's participation in Business Resource Center was terminated in December 2003. Nine other recommendations contained in the report remain open.

Agency Completes Final Action on Recommendation Made in Audit of Georgia District Office Sponsorship Activities. The Agency reported that it completed the following final action: The Office of Strategic Alliances (OSA) has conducted training for District staff in all ten regions, educational resources have been posted to OSA's Intranet Web page, policy updates have been issued and a revised Standard Operating Procedure (SOP) will be issued this summer, and cosponsorship and gift reporting information is being provided to OIG. All recommendations contained in the report have been completed.

Agency Completes Final Action on Recommendation Made in Summary Audit SBA-Sponsored and Cosponsored Events. The Agency reported that it completed the following final action: SBA continues to provide periodic training to field and program offices on alliance policies, procedures and implementation and OSA's Web page includes training materials on alliance management that is accessible to all SBA employees. Six other recommendations contained in the report remain open.

### *Business Loan Programs*

Seven Individuals Indicted Money Laundering and Bank Fraud. Seven individuals from Houston, Texas, including a loan broker, an escrow officer, and two borrowers, were indicted on May 18, 2005, in the Southern District of Texas, on one count of conspiracy, one count of conspiracy to commit money laundering, one count of bank fraud, and four counts of money laundering. The indictment alleged that loan broker conspired with two business owners in a fraudulent scheme to secure a \$2.4 million SBA-guaranteed loan. The title company escrow officer who closed the loan transaction was also indicted for her role in the alleged fraudulent scheme. Three additional persons were also indicted. According to the indictment, the defendants caused false and fraudulent loan application documents to be submitted to an SBA lender to secure the loan and laundered approximately \$473,000 of the proceeds for their personal benefit. The defendants allegedly misrepresented the purchase price of a warehouse to be \$2.2 million, when the actual price of the warehouse was approximately \$1.5 million. Further, the defendants allegedly falsified part of the equity capital injection that SBA and the lender required from the borrowers to obtain the loan. This case was initiated from another SBA investigation.

Houston, Texas, Business Owner Indicted. The co-owner of a Houston, Texas service station was indicted on May 23, 2005, in Harris County District Court, Harris County, Texas, on one count of false statement to obtain credit. The charge arose when the business owner allegedly misrepresented ownership of real estate in Ferndale, Washington, on his loan application in order to secure a \$669,000 SBA-guaranteed 504 loan from the Texas Certified Development Company (TCDC). After learning of possible fraud in the loan application, SBA's Houston District Office and TCDC canceled the 504 loan debenture request. This case was initiated from another ongoing investigation and from a referral from

the District Counsel of the SBA's Houston District Office. SBA OIG is conducting this investigation jointly with the Texas Alcoholic Beverage Commission.

Dallas, Texas, Attorney Convicted. An OIG investigation resulted in the conviction of a Dallas, Texas, attorney involved in the SBA 7(a) loan program on one count of conspiracy to defraud a federally-insured financial institution by means of obtaining loans through materially false and fraudulent pretenses, one count of obtaining loans through bank fraud, and eight counts of money laundering. Sentencing was scheduled for July 25, 2005. In addition, due to information that the attorney was continuing to participate in the 7(a) Program, the Associate Administrator for Lender Oversight issued a notice suspending him under Part 145 of SBA's regulations, finding that immediate action was necessary to protect the public interest. Based on the suspension, the attorney may not participate in federal financial and non-financial assistance programs, represent participants in such programs, or participate in Federal procurement transactions. The suspension also prevents him from representing any borrower on an SBA-guaranteed loan or participants in other SBA programs. The suspension will continue in effect until the date he is sentenced or, if debarment proceedings are undertaken against him before the date of his sentencing, until the date those proceedings are resolved, whichever is later.

Puerto Rico Business Owner Pleads Guilty. A Puerto Rico business owner pled guilty on May 13, 2005, to an Information charging one count of conspiracy. The business owner and two other individuals were indicted on September 22, 2004. The business owner had been denied a SBA Micro-loan because of poor credit history, and conspired with the two other individuals who applied for and received \$25,000 SBA Micro-loans on his behalf. They falsely claimed on their loan applications that the proceeds of the loans would be used to purchase inventory for their respective businesses, when the monies were actually for the use and benefit of the business owner. This investigation was based on a referral from the micro-loan lender. SBA OIG is conducting this continuing investigation jointly with the Federal Bureau of Investigation (FBI).

Loan Broker, Attorney, and Business Owner Sentenced. A loan broker from Egg Harbor, New Jersey, an attorney from Princeton, New Jersey, and a business owner from Hartford, Connecticut, were sentenced on June 13, 2005. The loan broker was sentenced to 2 years in prison, 3 years supervised release, and a \$5,000 fine. The attorney was sentenced to 3 years probation and 6 months home confinement. The business owner was sentenced to 5 years probation and 6 months home confinement. All, including an additional individual from Egg Harbor, New Jersey, who will be sentenced at a later date, were ordered to pay restitution jointly and severally in the amount of \$106,827.78, of which \$82,643.63 is payable to the SBA. The sentences were the result of guilty pleas entered by the attorney, who pled guilty on March 7, 2005, to a one count Information charging him with misprision of a felony, the loan broker, who pled guilty on March 8, 2005, to a one count Information charging him with conspiracy to commit false statements, and the business owner, who pled guilty on January 24, 2005, to a one count Information charging him with conspiracy to commit false statements. The guilty pleas related to a \$1,750,000 SBA-guaranteed loan obtained for a New Jersey window manufacturing business. The terms of the loan required the business owner to make a \$700,000 capital injection into the business. The investigation revealed that the capital injection was never made and that the owner conspired with others, including the attorney and the loan broker, to falsely represent to the lender that the injection was made. This case was referred to the OIG by the New Jersey District Office.

New Jersey Business Owners Sentenced. A Forked River, New Jersey, man and a Palm Coast, Florida, man, were sentenced on June 13, 2005. Both men were sentenced to 5 years probation, 6 months home confinement, and ordered to pay \$3,000 fines. Both men were also ordered to pay restitution jointly and severally in the amount of \$724,468.70 to the SBA and an SBA lender. The sentences resulted from guilty pleas entered by both individuals to charges of conspiracy to commit false statements in relation to an SBA-guaranteed loan that was obtained by a New Jersey automotive repair business owned by the Florida man, who purchased land from the New Jersey man's company. The automotive repair business obtained the loan from an SBA lender in the amount of \$560,000. The loan required that the owner make a capital injection into his business of at least \$149,575. The investigation revealed that he did not make the capital injection and conspired with the

seller to fraudulently represent to the lender that the injection had been made. They entered into an \$80,000 mortgage agreement, which they concealed from the lender, in lieu of the capital injection. The case was originally referred to the OIG by the SBA lender.

Officers of Springfield, Virginia Contracting Company Convicted. The President and Vice President of a now defunct Springfield, Virginia, asphalt company were found guilty by jury trial on June 17, 2005. They were convicted of one count of conspiracy, one count of bank fraud, and four counts of making material false statements. They were indicted on March 8, 2005. The false statements relate to misrepresentations made by the two individuals on the loan application for a \$100,000 SBA-guaranteed loan. They also misused the loan proceeds by failing to purchase paving equipment that was to serve as collateral for the loan, instead spending the loan proceeds on personal items. This case was referred by the SBA Washington D.C. District Office. SBA OIG conducted this investigation jointly with the FBI.

## ***Government Contracting and Business Development Programs***

Businesses and Officers Charged with Conspiracy. A Portsmouth, Virginia construction company, a Chesapeake, Virginia, environmental services company; and the President and Vice President of the construction company were all charged in a criminal Information filed on June 9, 2005, with one count of conspiracy to defraud SBA and the Environmental Protection Agency (EPA). The construction company was an SBA 8(a) certified firm in which the President qualified as the disadvantaged individual. He and the Vice President conspired to make misrepresentations to SBA in order for the company to maintain its 8(a) eligibility. Further, they conspired to provide false hazardous environmental training certificates on contracts, which violated EPA regulations. This case was based on a request from the Department of Justice to join an ongoing investigation against the construction company. SBA OIG conducted this joint investigation with the FBI, Defense Criminal Investigative Service, EPA/Criminal Investigation Division, Army/Criminal Investigation Division, and National Aeronautics Space Administration/Office of Inspector General.

## ***Disaster Loan Program***

Former Attorney Pleads Guilty. On June 8, 2005, a former attorney pled guilty to a superseding information charging him with one count of wire fraud and one count of money laundering. He was indicted on November 23, 2004, on charges of wire fraud. In the wake of the September 11, 2001 terrorist attacks in New York City, he applied for and received an SBA Disaster Loan in the amount of \$247,000, stating that his firm had been located at 40 Wall Street in downtown New York City on September 11, 2001, the firm was not able to utilize its downtown office for six weeks because of its proximity to the World Trade Center, and the partners at that location were forced to double up in the firm's Westchester office. He further stated that the firm was unable to service its New York City client base and lost revenue as a result. The investigation revealed that the firm was not located at 40 Wall Street on September 11, 2001, nor was it ever located at that address. This investigation was based on a referral from a staff attorney on the Grievance Committee of the 9th Judicial District of New York State. SBA OIG conducted this joint investigation with the Internal Revenue Service.

Business Owner Charged with Mail Fraud. The President and owner of a business that sells motor vehicles and parts was arrested on June 21, 2005, pursuant to a complaint accusing him of mail fraud. In the wake of the September 11, 2001, terrorist attacks in New York City, the business owner applied for and received an SBA Disaster Loan in the amount of \$646,900. From the loan proceeds, \$98,600 was to be used for working capital and the remaining \$548,300 was to be used to pay off various vendors with whom the business had outstanding accounts payable. The SBA issued two-party checks payable to the business and the vendors via the United States mail. The business owner allegedly forged the endorsement of two vendors on checks totaling \$131,600, deposited the funds in a business account, and then transferred the vast majority of the funds to a new business he had started. The man was arrested by special agents of the SBA OIG and the U.S. Postal Inspection Service. SBA OIG is conducting this joint investigation with the U.S. Postal Inspection Service.

## *Statutory/Regulatory/Policy Reviews*

In effort to proactively identify and correct potential Agency inefficiency and management problems at the onset of policy and regulatory development, the OIG reviewed, cleared, and/or provided comments, as appropriate, on 6 Agency initiatives, including proposed legislation, Agency Standard Operating Procedures, and Agency notices containing directives to its employees.

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

The 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:

Theresa McCane, SBA/OIG  
409 Third Street SW., 7<sup>th</sup> Floor  
Washington, DC 20416  
e-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**