



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

September 2007 Update

### *Business Loan Programs*

Company Owner Sentenced. On August 24, 2007, a company owner was sentenced to one year of probation as a result of his guilty plea to one count of conspiracy to commit bank fraud. He was previously indicted, along with seven other co-conspirators, in connection with a fraudulent scheme to secure a \$2.4 million SBA-guaranteed loan. He admitted that he and his business associate conspired with a loan broker and others to submit a false loan application to a bank to finance the purchase of a warehouse. The application misrepresented the warehouse purchase price as \$2.2 million, when the actual price of the warehouse was approximately \$1.5 million. The defendants also falsified part of the required equity capital injection. Upon indictment, both the business associate and the loan broker fled the United States and remain at large.

Former Business Owner Sentenced. On August 28, 2007, a former business owner was sentenced to one year and one day imprisonment, three years supervised release, and a \$3,000 fine. He was also ordered to either forfeit the business property or raise \$100,000 in lieu of forfeiture. The sentencing resulted from his guilty plea to one count of making a false statement to a bank on a loan application. He also pled guilty to three other counts for immigration related offenses. The false statement charge relates to the former business owner falsely representing that he was a citizen of the United States on his loan application for a \$50,000 SBAExpress loan. This investigation was initiated based on a referral from the U.S. Attorney's Office, Cincinnati, Ohio.

South Dakota Guarantor Pleads Guilty. A guarantor on an SBA 504 loan pled guilty on August 20, 2007, to one count of filing a false income tax return. In exchange for the guilty plea, the South Dakota U.S. Attorney's Office agreed to dismiss 15 other tax-

related counts listed on the prior indictment and a separate indictment relating to the SBA 504 loan. The joint OIG and Internal Revenue Service (IRS) investigation determined that the guarantor submitted false Personal Financial Statements and false tax returns in support of a 504 loan application. He falsely represented that he had filed tax returns for 2001, 2002, and 2003, and that he had no tax liability. The 504 loan was approved by the SBA in the amount of \$239,000, but was not funded because of the guarantor's legal problems.

Texas Businessman Pleads Guilty. On September 13, 2007, a Texas businessman pled guilty to one count of conspiracy to commit wire fraud. He had been charged in connection with the transmission of false documents in interstate commerce through wire communications, which involved wire transfers of money from two federally-insured banks to two title companies. To obtain \$500,000 and \$1,100,000 SBA-guaranteed loans, he conspired with two family members by submitting fraudulent business loan applications and supporting documents that falsified their required capital injection. The OIG conducted this joint investigation with the Federal Bureau of Investigation.

### *Disaster Loan Program*

Mississippi Man Sentenced. On September 19, 2007, a Mississippi man was sentenced to five months incarceration, five months home confinement, two years supervised release, a \$3,000 fine, and restitution of \$20,011, of which \$8,016 will be used to pay off the remainder of his SBA loan. He previously pled guilty to one count of false, fraudulent claims, and two counts of false statements. The indictment resulted from a joint investigation by the SBA OIG, the DHS OIG, the U.S. Department of Agriculture (USDA), and

the Mississippi State Auditor's Office. The investigation determined that he fraudulently represented an address on disaster assistance applications filed with all four involved agencies as being his primary residence in order to receive funds to which he was not entitled. Based on these false statements, the man was approved for a \$78,900 loan from SBA, of which an initial \$10,000 was disbursed. He also received \$9,558 from FEMA, and \$301 from USDA. This case was referred by the DHS OIG.

Louisiana CPA Pleads Guilty. On September 18, 2007, a Certified Public Accountant (CPA) employed by a Louisiana businessman pled guilty to three counts of making false statements relating to loan and credit applications. She 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. She also falsely represented that the appraisal report submitted to one of the lenders, which valued the collateral at over \$3.4 million, was prepared by an Agency employee for the purpose of an SBA loan. Due to investigative efforts, only \$5,000 of the \$2.9 million was disbursed.

Maryland Resident Pleads Guilty. On September 4, 2007, a Maryland resident pled guilty to one count of theft of government funds and one count of civil forfeiture. He claimed that his primary residence was in Biloxi, Mississippi, at the time of the 2005 hurricanes. However, based on a joint investigation by the SBA OIG, the Department of Homeland Security (DHS) OIG, and the Mississippi State Auditor's Office, it was proven that he actually resided in Maryland and fraudulently represented the Mississippi address on disaster assistance applications filed with all three involved agencies as being his primary residence. Based on these false statements, he received \$10,000 from SBA and \$14,634 from the Federal Emergency Management Agency (FEMA). The Maryland resident had been approved for a \$208,300 loan from SBA, but due to this investigation his loan was put on hold and eventually reduced to the amount already disbursed.

Texas Couple Indicted. On September 6, 2007, the president of a Texas company was indicted by a grand jury on three counts of making false statements and

one count of theft of public money, property, or records. Her common-law husband was indicted on one count of making false statements. The couple is suspected of providing false statements to SBA in order to obtain a \$25,800 Economic Injury Disaster Loan (EIDL). They purported to own several vacant lots in Sour Lake, Texas, that they knew did not belong to them, and offered these lots to SBA as collateral in order to obtain the EIDL. On September 7, 2007, the U.S. District Court for the Eastern District of Texas issued federal arrest warrants for the company president and her common-law husband. On September 12, 2007, OIG special agents, with assistance from the Hardin County Sheriff's Office and Sour Lake Police Department, arrested the couple at their residence without incident. The pair was transported to the U.S. Marshal's office in Beaumont, Texas. The OIG is continuing this joint investigation with the U.S. Attorney's Office, Eastern District of Texas.

## *Entrepreneurial Development*

Former Director Sentenced. On September 24, 2007, a former Assistant State Director (ASD) for the California Technology, Trade and Commerce Agency (CTTCA), the organization which administered the SBA Small Business Development Center (SBDC) program for California, was sentenced to sixty months probation, six months house arrest, 1,500 hours of community service, and \$98,376 in restitution. The sentencing was a result of her guilty plea to one count of false statements and one count of deprivation of right to honest services. The SBA OIG, Department of Housing and Urban Development OIG, and the FBI conducted the criminal investigation into her activities involving conspiracy, procurement fraud, and misuse of public funds as she administered the SBDC Program for CTTCA. She was responsible for disbursing federal funds distributed to the State of California to the network of SBDCs in Southern California. Between 1999 and 2003, she received kickbacks from SBDC contractors, who in return were awarded contracts by her without competitive bids. She diverted a large portion of SBDC monies, which were intended to facilitate SBDC projects, to her own benefit. On December 6, 2005, SBA submitted a claim letter to the State of California demanding a reimbursement in the amount of \$1,201,000 in connection with the fraud committed by the former director.

## *Statutory/Regulatory/Policy Reviews*

In an 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 15 Agency initiatives, including proposed legislation, SBA Standard Operating Procedures, and Agency notices containing directives to its employees.

This monthly update is produced by the SBA OIG,  
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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 these documents please contact:

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