



Office of Inspector General U.S. Small Business Administration

January 2011 Update

Business Loan Programs

Kentucky Man Indicted. On January 4, 2011, a Kentucky man was indicted on five counts including bank fraud, forged security, aggravated identity theft, wire fraud, and credit card fraud. The indictment alleges that he used the identity of a former business partner to obtain an *SBAExpress* loan as well as multiple credit cards. The indictment also alleges that he deposited a \$167,000 counterfeit check into a federally insured financial institution. This is a joint investigation with the United States Secret Service (USSS).

Business Owner Pleads Guilty to False Statements. On January 10, 2011, in U.S. District Court for the Central District of California, a former restaurant group owner pled guilty to making false statements on a loan application. The subject, who was president of three different businesses, made false statements on three loan applications submitted under the SBA 7(a) program. The subject submitted applications to a bank for SBA-guaranteed loans totaling over \$1 million dollars. On all three loan applications, the subject falsely reported that neither he, nor his business, were involved in any pending lawsuits or had any business indebtedness. In fact, he was a defendant in two civil lawsuits that resulted in judgments against him in the amounts of \$1,377,949 and \$529,844. It was also discovered that the subject failed to report numerous outstanding debts to the bank.

Texas Man Indicted for Bank Fraud and False Statements. On January 26, 2011, a businessman was indicted in the Southern District of Texas on five counts of bank fraud and five counts of false statements. The indictment included a Notice of Criminal Forfeiture for property derived as a result of these offenses including approximately \$419,000 in U.S. currency. The subject was owner of a group that

received loan applications from potential borrowers. When submitting the applications to various banks, he

inflated the income information provided by the applicants. The investigation identified 26 loans/lines of credit wherein the income information provided to the banks was not the same as the income information the applicant(s) provided to the group. Five of these loans were guaranteed by the SBA. This is a joint investigation with the Federal Bureau of Investigation (FBI).

Disaster Loans

Husband and Wife Indicted. On January 12, 2011, a husband and wife were indicted in U.S. District Court for the Eastern District of Texas on one count of conspiracy to commit fraud in connection with a major disaster or emergency benefits; one count of fraud in connection with a major disaster or emergency benefits; and one count of theft of money or property. The couple applied for and received an SBA Disaster loan in the amount of \$171,600, to rebuild their home that had been damaged as a result of Hurricane Katrina. The indictment alleges that they conspired to defraud the SBA by submitting fraudulent receipts and invoices and making fictitious statements and representations in order to increase their loan amount and justify the use of loan proceeds. This is a joint investigation with the Department of Homeland Security (DHS) OIG.

Woman Pleads Guilty to Theft of Government Funds. On January 13, 2011, a Louisiana woman pled guilty to a Criminal Information filed in the Eastern District of Louisiana, charging her with three counts of theft of government funds. The subject provided false statements on her applications for disaster assistance. She claimed that her primary residence had been affected by Hurricane Katrina; however, although she owned the property, the house was considered

unlivable prior to the storm. As a result of her claims, she received \$219,000 in disaster loan funds from the SBA, a \$150,000 grant from the Housing and Urban Development (HUD) Road Home Program, and approximately \$26,676 from the Federal Emergency Management Agency (FEMA). This is a joint investigation with HUD OIG, DHS OIG, and the FBI.

Louisiana Woman Pleads Guilty. On January 26, 2011, a Louisiana woman pled guilty to an amended charge of attempted felony theft. The court sentenced her to 6 months in the jail (suspended) and placed her on unsupervised probation until her SBA loan is paid in full. This investigation determined that the subject misrepresented her income and employment to SBA to obtain loan approval and subsequent increases totaling \$215,500. She also made false statements and submitted fraudulent documentation to claim highly inflated disaster losses and repair expenses. This was a joint investigation with the HUD OIG, DHS OIG, and the FBI.

Agency Management

Weaknesses Identified During 2010 Information Security Management Act Review. On January 28, 2011, the OIG issued a [report](#) on SBA's compliance with the Federal Information Security Management Act (FISMA) for FY 2010. The OIG's review disclosed that (1) SBA had not developed a complete inventory of system interconnections, and interconnection security agreements (ISAs) had not been established; (2) SBA had not developed comprehensive configuration management policies and procedures and had not inventoried or established baseline configurations for all systems; (3) System Certifications and Accreditations (C&As) were not conducted in compliance with the National Institute of Standards and Technology requirements; (4) SBA's Plan of Action and Milestones (POA&M) program reporting tool did not adequately track weaknesses, provide accurate estimated dates for remediation, and was not updated timely; and (5) SBA's continuity of operations plans were not documented or tested. Additionally, the OIG determined that IT security support contractors started work prior to completing preliminary background screening and that oversight of the existing IT security contract to ensure SBA's compliance with FISMA guidelines was lacking. The OIG made a number of recommendations to address the deficiencies identified during the review.

This update is produced by the SBA OIG,
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