



Office of Inspector General Small Business Administration

July 2001 Update

Business Loan Programs

Virgin Islands Construction Company Owner Sentenced to Prison. The owner of a now-defunct St. Croix, Virgin Islands, construction company was sentenced on June 29, 2001, to 18 months incarceration, 3 years supervised release, and \$420,000 restitution to SBA. He previously pled guilty to one count of **conspiracy to commit money laundering** in connection with an SBA-guaranteed loan. In 1998, he and his now-deceased co-owner had been indicted on charges of **conspiracy, bank fraud, making material false statements, and money laundering**. The indictment charged that in applying for an SBA-guaranteed loan the two men had submitted a fraudulent business proposal and other documents listing \$420,000 worth of machinery to be purchased with the loan funds. The actual cost of the machinery was only \$120,000. The co-owners spent most of the loan funds on unauthorized expenses. The company failed, causing a loss of more than \$400,000 on the loan. This joint investigation with the Federal Bureau of Investigation (FBI) was referred by SBA's Puerto Rico & Virgin Islands District Office.

Arizona Men Indicted for Mail Fraud, Wire Fraud, and Making False Statements. Three Arizona men were indicted on July 10, 2001, in connection with a \$1 million SBA-guaranteed loan to buy two fast-food restaurants. The president and secretary-treasurer of the borrowing company were each charged with aiding and abetting on five counts of **mail fraud**, one count of **wire fraud**, and four counts of **making a false statement**. The third man was charged with aiding and abetting on four counts of **mail fraud**, one count of **wire fraud**, and three counts of **making a false statement**. The third man allegedly assisted in

creating a fraudulent promissory note for a bogus \$400,000 loan from him to the two borrowers to give the impression that the borrowers had greater debts that would require a larger loan. Prior to the loan closing, additional fraudulent documentation was created to show that the note had been paid down to approximately \$206,000 and that the remaining debt could be paid with \$150,000 in SBA-guaranteed loan proceeds and approximately \$56,000 in personal funds. The third man never received the \$56,000. However, at the loan closing, a \$150,000 check was issued from the SBA-guaranteed loan proceeds as his payoff of the fraudulent note. He in turn endorsed that check to one of the men and never received any benefit for his role in the fraudulent note. The men allegedly used the \$150,000 for their personal and business benefit. OIG conducted this investigation jointly with FBI, based on a referral from OIG's Auditing Division.

Texas Auto Service Center Owner Found Guilty of Conspiracy and Making False Statements. On July 17, 2001, the owner of an auto service center in Irving, Texas, was found guilty on one count of **conspiracy** and five counts of **making material false statements** to induce a non-bank participating lender and SBA to fund a \$156,000 SBA-guaranteed loan. The owner and two of her associates were previously indicted for allegedly submitting 3 years of falsified tax returns and Internal Revenue Service tax return verifications, along with fraudulent documentation of their required capital injections and equipment purchases. Proceeds of the loan were used for personal expenditures not related to the business. Sentencing is scheduled for November 5, 2001. OIG has conducted this ongoing investigation jointly with the Department of Treasury's OIG for Tax Administration.

New York Photo Studio Owner Sentenced to Prison.

The owner of a now-defunct Bronx, New York, photo studio was sentenced on July 19, 2001, to 2 years in prison, 3 years on supervised release, and \$250,000 in restitution to SBA. A trial jury previously found him guilty of one count of **making material false statements** to obtain an SBA-guaranteed loan. The businessman had falsely stated in an application for a \$260,000 SBA-guaranteed loan that he was a U.S. citizen and that he did not have any prior criminal convictions. In fact, he was a resident alien facing deportation proceedings, had been convicted of alien smuggling, and was a Federal fugitive wanted by the Marshals Service on a parole warrant issued in 1989. SBA eventually charged off the \$249,166 outstanding loan balance. This investigation was initiated based on information provided by the Marshals Service and was worked jointly with the Social Security Administration's OIG.

Ohio Pet Store President Indicted for Bank Fraud and Making False Statements.

The president of a pet store in Stow, Ohio, was indicted on July 25, 2001, on one count of **bank fraud** and one count of **making false statements to SBA** in connection with his \$100,000 LowDoc loan. During the application process, the president allegedly concealed approximately \$200,000 in debt and information regarding his criminal history. Prior to applying for the SBA loan, the pet store president had been arrested on multiple offenses and charged with various crimes. One of these charges resulted in a felony conviction for carrying a concealed weapon. OIG initiated this investigation based on a referral from SBA's Cleveland District Office.

Former Iowa Meat Distribution Business President Charged with Multiple Crimes.

A former president of a meat distribution business in Cumming, Iowa, was charged in a six-count superceding indictment returned on July 25, 2001. The two original counts, in connection with a \$1.4 million SBA-guaranteed loan he received to purchase the business, were **concealing a material fact from SBA** and **bank fraud**. These counts alleged that he: (1) wrote an insufficient-funds check and perpetrated a check kite to make it appear he had made a required \$300,000 equity injection; and (2) converted vehicles pledged to the lender on this same loan. The superceding indictment added four additional counts that:

- alleged he **transported monetary instruments of more than \$10,000** outside the U.S. without filing a Report of International Transportation of Currency;
- alleged he **embezzled** \$483,486 from the retirement plan of another meat distribution business he owned;
- alleged he **laundered the money** he embezzled from that retirement plan; and
- called for him to **forfeit** to the U.S. the money he allegedly obtained feloniously.

The businessman defaulted on his loan leaving an unpaid balance of more than \$1.25 million. OIG initiated this investigation (conducted jointly with FBI, the Pension and Welfare Benefits Administration, and the Customs Service) based on a referral from SBA's Des Moines District Office. Trial has been set for November 2001.

Disaster Assistance Program

Louisiana Seafood Company Sentenced. A Grand Isle, Louisiana, seafood company was sentenced on April 4, 2001, to 5 years probation and a \$4,500 fine. The corporation pled guilty through its president to **making false statements** to influence SBA to disburse a \$325,600 disaster loan for the business. The seafood company admitted to submitting documents that failed to disclose that the corporation and its president had been indicted for, and subsequently pled guilty to, **violations of the Lacey Act**. OIG initiated its investigation based on an anonymous Fraud Line complaint and, as a result of the investigation, SBA canceled the \$145,600 undisbursed balance of the approved loan and recovered \$161,798 from the seafood company.

New Mexico Woman Charged with Wire Fraud, Mail Fraud, and Impersonation of Federal Employee. An Albuquerque, New Mexico, woman was charged in a superseding indictment on July 11, 2001, with an additional four counts of **wire fraud**, one count of **mail fraud**, and one count of **impersonation of a Federal employee** to fraudulently influence SBA to fund a \$40,000 disaster home loan. She had been indicted in January 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 a Social Security number (SSN)**. The defendant, using the name and SSN of a deceased acquaintance, applied for disaster assistance from SBA and the Federal Emergency Management Agency (FEMA). She submitted numerous false documents in support of her damage claim; she also attempted to obtain information about her claim and investigation by posing as a representative of the U.S. Attorney's Office. The investigation determined that neither the defendant nor her deceased acquaintance ever resided at the address claimed in the disaster-assistance application. FEMA/OIG requested that SBA/OIG join its investigation.

Mississippi Liaison and Assistant Minister Sentenced for Making False Statements. The Liaison and Assistant Minister of a Gulfport, Mississippi, church was sentenced on July 17, 2001, to 5 years probation (the first 6 months under home confinement with electronic monitoring) and \$20,928 restitution to SBA. He was also ordered to formally apologize to the church's executive secretary, who had provided information that prompted the investigation, and to every member of the congregation. The defendant had pled guilty to one count of **making a material false statement** to SBA. The church had received a \$257,600 disaster loan to repair physical damage caused by Hurricane Georges. The guilty plea involved misappropriation of \$75,000 of the loan proceeds and submitting numerous false invoices to SBA in support of his request for loan disbursements.

New York Caretaker Arrested for Making False Statements. A caretaker for the mentally ill was arrested by OIG and FBI special agents at his home in North Haven, New York, on July 24, 2001, pursuant to a warrant for **making false statements** to SBA. The caretaker assisted an elderly woman during 1999 and 2000, including managing her disaster loan application submission, when a hurricane damaged her home in late 1999. He allegedly submitted altered invoices for work purportedly performed on the home, some of which were actually for work performed on properties owned by the caretaker. His alleged false statements led to \$78,300 being loaned to the elderly woman. The investigation also revealed that the caretaker personally used much of the loan proceeds to pay for repairs at his residences and to pay down debts. The U.S. Attorney's Office for the Southern

District of New York is directing the joint OIG/FBI investigation.

Government Contracting and Business Development Programs

Pennsylvania Construction Company and Vice President Sentenced for Fraud Scheme. A defunct Philadelphia, Pennsylvania, Section 8(a) construction company and its vice president were sentenced on July 10, 2001. The vice president was sentenced to 33 months incarceration, 2 years supervised release, and a \$1,300 court fee. The company was sentenced to 5 years probation and a \$5,600 court fee. Both defendants were also sentenced to pay almost \$2 million restitution to the victims (subcontractors), for which they are liable jointly and severally with the company's president. The vice president previously was convicted of one count of **conspiracy to defraud the Government**, nine counts of **false claims**, two counts of **making material false statements**, and one count of **major fraud against the United States**. The company previously pled guilty to 1 count of conspiracy to defraud the Government, 12 counts of false claims, and 1 count of major fraud against the United States. The two false statement counts relate to the vice president denying in the Section 8(a) application that he had a criminal history; in fact he had been arrested seven times and convicted three times. The vice president was also convicted of falsely reporting payments to subcontractors and falsely submitted progress payment certifications. SBA/OIG joined the Naval Criminal Investigative Service (NCIS), the Defense Criminal Investigative Service, the Department of Agriculture's OIG, and the Department of Labor's OIG in the investigation based on a referral from NCIS.

Small Business Investment Company Program

New York Small Business Investment Company (SBIC) President Pleads Guilty to Embezzlement of Assets and Misapplication of Funds. The president of a now-defunct New York, New York, SBIC pled guilty on July 10, 2001, to one count of **embezzlement of SBIC assets**. As part of the plea agreement, the Government agreed to dismiss the other three counts of **embezzlement of SBIC assets**

and one count of **misapplication of SBIC funds**. The count to which he pled guilty involved the 1992 transfer of a New York property valued at \$361,296 from the SBIC without consideration to another company wholly owned by him. This and other actions of the SBIC president caused a loss to SBA of over \$1 million. This investigation originated from a referral from SBA's Office of General Counsel.

New York SBIC President Sentenced for Embezzlement. The president of a now-defunct SBIC in New York, New York, was sentenced on July 31, 2001, to 5 years supervised release (the first 8 months to be served as home confinement) and \$3,000 restitution to SBA. He previously pled guilty to one count of **embezzling funds** belonging to the SBIC. From October 1987 through November 1994, he had caused the SBIC to overpay, to the advantage of two private companies affiliated with him, approximately \$71,176 more than its rightful rent obligations at the site they jointly occupied. These actions significantly contributed to SBA's loss, which exceeded \$2.2 million. This investigation, conducted jointly with FBI, originated from a referral from SBA's Office of General Counsel.

Surety Bond Guarantees Program

Alabama Construction Company President Indicted for Making False Statements. The president of a Birmingham, Alabama, construction company was indicted on July 31, 2001, on one count of **making a material false statement** and two counts of **making false statements** to fraudulently influence SBA to guarantee five surety bonds totaling more than \$1.17 million. He allegedly denied having a criminal history on the SBA application. The investigation documented that he had been charged with, arrested for, and/or convicted of at least 29 criminal offenses. The construction company president also allegedly submitted a financial statement indicating ownership of two pieces of real estate with a total value of \$450,000. Not only did he not own these properties; their combined actual value was less than \$50,000. His company failed to complete any of the bonded contracts, and an SBA preferred surety insurance company paid \$324,170 on these bonds. This investigation was based on the findings of a surety bond audit by OIG's Auditing Division.

Office of Inspector General

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The activity Update is produced by SBA/OIG,
Phyllis K. Fong, Inspector General.

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Vanessa Piccioni, SBA/OIG,
409 Third Street SW., 5th Floor
Washington, DC 20416
Email: OIG@SBA.GOV
Telephone number (202) 205-6580
FAX number (202) 205-7382

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