



Office of Inspector General Small Business Administration

December 1998 Update

Business Loans

Mississippi Tractor Dealer Sentenced for Making Material False Statement to Obtain Loan. The owner of a now-defunct tractor dealer in Shubuta, Mississippi, was sentenced on November 20, 1998, to 5 years probation, a \$1,000 fine, and \$12,000 restitution. He was previously convicted on one count of knowingly **making a material false statement** to obtain a \$150,000 SBA-guaranteed loan. The man had represented on a Schedule of Collateral (SBA Form 4, Schedule A) that he already owned, and would grant the participating lender bank a first security interest in \$99,373 of inventory when in fact he had no such inventory. (*Updated from the September 1998 Update*).

Pennsylvania Businessman Sentenced for Making Material False Statements to SBA. The president of two automobile-related businesses in Philadelphia, Pennsylvania, was sentenced on December 7, 1998, to 3 years probation and \$3,300 in fines. The man previously pled guilty to three counts of **making material false statements** to SBA. He had applied for a \$252,000 SBA-guaranteed loan in 1996 to buy a new building for his automobile repair business. As part of the loan application, he submitted purported copies of his 1994 and 1995 business tax

returns, which the participating non-bank lender found to contain significant discrepancies when compared to information on file with the IRS. In each of the tax returns, the man claimed considerably more income than he had reported to the IRS. Additionally, in applying for the loan, he had failed to disclose his 1992 arrest for kidnapping and assault. The participating lender withdrew its loan commitment when the tax return discrepancies were discovered and referred the matter to the OIG for investigation. (*Updated from the September 1998 Update*).

Montana Restaurateur Indicted on One Count of Making Material False Statement to SBA. The owner of a Cut Bank, Montana, restaurant, was indicted on December 16, 1998, on one count of **making a material false statement** to SBA. The OIG's joint investigation with the FBI determined that when the man obtained a \$54,000 SBA-guaranteed loan from a participating lender bank, he failed to disclose an extensive criminal record. Records showed that the man had been arrested more than 20 times for various alleged financial crimes. At the time of his indictment, he was already in custody for prior offenses. The investigation was initiated based on a referral from SBA's Montana District Office.

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Disaster Assistance

Colorado Telemarketer Indicted on Two Counts of Making False Statements to SBA.

The owner of a telemarketing company in Denver, Colorado was indicted on December 2, 1998, on two counts of **making false statements to SBA**. The owner obtained a \$1.5 million SBA disaster loan after his company sustained damage from the Northridge, California, earthquake. He relocated his business to Denver and falsely reported (submitting invoices and other documents to SBA as "proof") that he used \$1.2 million of the loan proceeds to purchase new equipment from another company. The OIG's investigation found that most of the equipment listed on its invoices were salvaged out of the earthquake-damaged building in California or were already owned by him or his other companies. The OIG initiated this investigation based on an anonymous telephone call.

California Shopping Center Owner Pleads Guilty to Grand Theft and Insurance Fraud.

The owner of a shopping center in Los Angeles, California pled guilty in Los Angeles County Superior Court on December 8, 1998, to one count of **grand theft** and one count of **insurance fraud**. Both charges are violations of the California Penal Code. The OIG initiated its investigation based on a referral from a Los Angeles City Fire Department arson investigator and an auditor from the U.S. Bureau of Alcohol, Tobacco and Firearms (ATF). They had learned that, after the shopping center was looted during the 1992 civil unrest in Los Angeles, the owner obtained a \$281,800 disaster loan from SBA. In reviewing the owner's SBA loan file during the arson/insurance fraud investigation, the ATF auditor suspected that the man had submitted

tax returns that had been altered to significantly overstate his income. The SBA portion of the investigation confirmed that the tax returns were altered and that the loan would not have been approved had SBA known his true reported income. The case was prosecuted by the Los Angeles County District Attorney's Office pursuant to a declination from the U.S. Attorney's Office because the Federal statute of limitations had expired before the crime was discovered. The OIG conducted the investigation jointly with agents from ATF and the California State Department of Insurance.

North Dakota Men Plead Guilty to Conspiracy and Mail Fraud.

Two men who were previously indicted on charges including **conspiracy** to defraud SBA in connection with a \$122,900 disaster loan pled guilty on November 30, 1998, to one felony each; in return, the Government agreed to dismiss the other charges on which each of them had been indicted. The former corporate secretary of a private business school in Grand Forks, North Dakota, pled guilty to one count of **conspiracy** to defraud SBA, and a salesman for a computer store in Fargo, North Dakota, pled guilty to one count of **mail fraud**. In addition, the former controller of the business career school pled guilty on December 18, 1998, to one count of **conspiracy** to defraud SBA; in return, the Government agreed to dismiss the other counts on which he had also been indicted. These three and two co-defendants participated in a scheme to obtain the loan after the Red River flooded the school in April 1997. The school closed by January 1998 and made no payments on the disaster loan it received from SBA. This investigation was a joint effort by the SBA/OIG, the U.S. Department of Education's OIG, and the IRS Criminal Investigations Division. (*Updated from the September 1998 Update*)

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Agency Management and Financial Activities

Arizona District Director Sentenced for Conspiracy and Bribery. The former District Director of SBA's Arizona District Office, was sentenced on December 8, 1998, to 5 years probation (with the first year to be served in home detention) and a \$10,000 fine. A trial jury previously found him guilty on one count of **conspiracy** and two counts of **bribery**. The FBI had conducted an extensive investigation, which found that he and an associate had conspired to solicit bribes from a Section 8(a) contractor in a Phoenix suburb. The pair received two \$2,500 payments. Following his May 1997 indictment, the OIG was asked to provide assistance in his prosecution by the U.S. Attorney's Office for the District of Arizona. (*Updated from the May 1998 Update*).

Bogus tax returns: The applicant submits tax returns containing false information to both the IRS and SBA.

Most audit and inspection reports can be found on the Internet at:

WWW.SBA.GOV/IG/REPORTS.HTML

Other IG related material can be found at:

WWW.IGNET.GOV

The Activity Update is produced by the SBA/OIG, Karen S. Lee, Acting Inspector General.

Comments or questions concerning this update or request for copies of OIG audits, inspections, or other documents should be directed to David R. Gray, SBA/OIG, 409 Third Street, SW, Washington, DC, 20416-4110.

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Editor's Notes:

The following identifies the use of adjectives in these **Updates** to describe tax returns fraudulently submitted in support of loan applications:

Fictitious tax returns: The applicant submits "copies" of tax returns never filed with the IRS.

Altered tax returns: The applicant submits altered copies of tax returns actually submitted to the IRS.