



Office of Inspector General Small Business Administration

October 1997 Update

Business Loans

Florida Auto Repair Shop President Sentenced for Using False Documents. The president of a Longwood, Florida, auto repair shop was sentenced on September 25, 1997, to 2 years probation; he previously pled guilty to one count of **using false documents**. The man had submitted tax returns that he knew to be altered in an effort to obtain a \$450,000 SBA-guaranteed loan. The loan application was denied based on the significant discrepancies between the tax returns submitted to SBA and those submitted to IRS. This investigation was based on a referral from SBA's Jacksonville District Office.

Mississippi Automotive Parts Franchisees Indicted for Fraud and Conspiracy. The owners of an

automotive parts franchise in New Hebron, Mississippi, were indicted on September 24, 1997, on seven counts of **making false statements, filing false claims, possessing documents used to defraud the Government, and conspiracy**. The company obtained a \$120,000 SBA-guaranteed loan in 1991 as well as a \$42,500 physical damage disaster loan and a \$29,800 economic injury disaster loan in 1992. An OIG investigation found that the couple who owned the franchise carried out a scheme, using fraudulent receipts and invoices, to conceal their misuse of proceeds from all three SBA loans. The indictment also challenges their claim that a tornado damaged structural improvements, equipment, and inventory of their business. The investigation was based on a referral from SBA's Jackson District Office.

Idaho Farm Implement Manufacturing Executive Charged with Bankruptcy Fraud. A former officer of a Caldwell, Idaho, farm implement manufacturer was charged with one count of **bankruptcy fraud** in an information on October 2, 1997; he pled guilty to the charge on October 14, 1997. The joint FBI/IRS/OIG investigation found that when the company filed for bankruptcy in 1993, the company officer concealed an asset (a 1987 Ferrari) from the Bankruptcy Court. The man's father--the former president of the company--had previously been indicted on 21 counts of **bankruptcy fraud, bank fraud, money laundering, and criminal forfeiture**, in connection with a \$750,000 SBA-guaranteed loan.

Texas Cellular Phone Company President Indicted on a Variety of Counts. The owner and president of a cellular phone distributor in Plano, Texas, was indicted on October 8, 1997, on one count each of **bank fraud, making false statements to SBA, and misuse of a Social Security number (SSN)**. An investigation found that the man obtained a \$230,000 SBA-guaranteed loan by submitting an SBA Form 912, Statement of Personal History, that bore a bogus SSN and failed to disclose his criminal history. The bogus SSN was used on his SBA Form 413, Personal Financial Statement, as well. The company president also allegedly failed to disclose a number of debts in the loan application and

provided SBA with altered tax returns and falsified invoices in support of the loan disbursements. The OIG opened this investigation based on a referral from SBA's Dallas District Office and continued it jointly with IRS.

Iowa Manufacturer Charged with Making False Certification. An officer of a Central City, Iowa, manufacturer, which had produced tent stakes for the Army, was charged on October 23, 1997, with one count of **making a false official certification**. The investigation found that, to gain approval of the company's application for a \$500,000 SBA-guaranteed loan to buy the assets of a debarred defense contractor, the man submitted a fraudulent certification of his financial condition to the participating lender bank. The information charged that he falsely certified that he had \$175,000 available from personal savings to invest in the company and failed to disclose outstanding debts, including a significant loan from the owner of the debarred contractor. This joint investigation with the Defense Criminal Investigative Service was opened based on information developed in the investigation that resulted in the June 1994 conviction of the debarred contractor's owner and an associate for fraud in connection with an SBA certificate of competency.

Would-Be Pennsylvania Tavern Owner Sentenced for Making False Statements. A Lansdale, Pennsylvania, businessman was sentenced on October 8, 1997, to 3

years probation and a \$50 special assessment. The man previously pled guilty to **making false statements to influence SBA** to approve a \$200,000 guaranteed loan to his company. In applying for the loan, he had submitted a 1991 tax return altered to substantially overstate his income and fictitious returns for 1992 and 1993. The loan proceeds were to be used to purchase a tavern, but the loan was canceled when the tax return discrepancies were confirmed by IRS. The case was based on a referral from SBA's Philadelphia District Office.

* * * * *

Disaster Assistance

California Disaster Loan Applicant Indicted for Making False Statements. A Culver City, California, man was indicted on October 10, 1997, on two counts of **making material false statements** to SBA and one count of **misuse of a Social Security number** (SSN). The man was approved for a \$33,000 disaster home loan following the 1993 Los Angeles winter storms, but SBA canceled the loan before any funds were disbursed once its tax verification program identified discrepancies between 1990-91 individual income tax returns submitted to SBA and IRS. The OIG's investigation confirmed that the tax return "copies" submitted to SBA had been altered to overstate his income. The investigation also found that the applicant had been

the recipient of a \$25,000 disaster home loan following the 1994 Northridge earthquake, using another name similar to his own. The application package for that loan also included altered 1991-92 individual income tax information and a fictitious SSN. The OIG opened the investigation based on a referral from SBA's Disaster Assistance Area 4 Office.

Former U.S. Virgin Islands Resident Indicted for Making False Statements. A current Maryland resident was indicted on October 9, 1997, by a Federal grand jury in the U.S. Virgin Islands on two counts of **making false statements** to SBA in connection with her receipt of a \$34,400 disaster home loan. The indictment charged that the woman submitted documents falsely claiming that on two occasions she had used loan proceeds to purchase furniture and appliances for her former home in the U.S. Virgin Islands. The documents were submitted to obtain the disbursement of the balance of her loan from SBA. The case was based on a referral from SBA's Disaster Assistance Area 1 Office and produced the second indictment for fraud against SBA in the wake of Hurricane Marilyn.

St. Croix Loan Applicant Indicted for Making False Statements. A St. Croix, U.S. Virgin Islands, disaster loan applicant was indicted on October 16, 1997, on three counts of **making false statements** to SBA in connection with her application for a \$23,000 disaster home loan. The indictment charged that the woman

submitted altered tax returns and an inaccurate Profit and Loss Statement to SBA. The loan application was declined when SBA's tax verification program detected discrepancies. The case was based on a referral from SBA's Disaster Assistance Area 1 Office and produced the third indictment for fraud against SBA in the wake of Hurricane Marilyn.

St. Croix Disaster Loan Recipient Sentenced for Making False Statements. A St. Croix, U.S. Virgin Islands, disaster loan recipient was sentenced on July 10, 1997, to 21 months imprisonment and \$10,000 restitution to SBA. The man had pled guilty to one count of **making false statements to SBA**. The SBA/OIG's joint investigation with the Federal Emergency Management Agency's (FEMA) OIG developed evidence that his application for a \$10,000 disaster home loan contained false claims for lost property, a false bill of sale for an automobile, and falsified property rental agreements. He received the loan and a \$1,290 grant from FEMA to cover purported damage from Hurricane Marilyn. The investigation was based on a referral from the temporary SBA Disaster Assistance Office in St. Croix.

Missouri Consultant Sentenced for Making False Statements. A Cuba, Missouri, industrial construction consultant was sentenced on October 15, 1997, to 18 months imprisonment, 3 years supervised release, and \$100,000 restitution. He had pled guilty to **making material false statements** to

obtain SBA disaster assistance. In support of the loan application, he submitted three fictitious tax returns for a St. Louis business that he purchased subsequent to the disaster and that received two SBA disaster loans (one for economic injury and one for physical damage) totaling \$407,800. The OIG initiated the investigation based on information received from an anonymous source.

California Disaster Home Loan Recipient Sentenced for Making False Statements. A Mission Hills, California, disaster home loan recipient was sentenced on October 6, 1997, to 18 months imprisonment, 3 years probation, and a \$100 special assessment. The man previously pled guilty to one count each of **making a false statement to SBA** and **making a false statement to the Federal Emergency Management Agency (FEMA)**. The SBA/OIG's joint investigation with the FEMA/OIG, opened in response to a referral from SBA's Santa Ana Servicing Center, revealed that he submitted three disaster home loan applications--two under fictitious names. All three applications contained false claims for damages from the 1994 Northridge earthquake. A total of \$27,100 was disbursed in connection with his first two loans, and both loans defaulted without a single payment having been made. The third loan, for \$113,000, was approved but was not disbursed because SBA's Disaster Assistance Area 4 Office detected inconsistencies in supporting documentation.

OIG Management Initiatives

Semiannual Report (SAR) to Congress Prepared and Submitted to Administrator. The **OIG prepared and delivered its SAR** for the period April 1, 1997 to September 30, 1997, to SBA's Administrator on October 31st. Dollar accomplishments for the period reflected in the report were:

- \$3,429,588 in potential recoveries,
- \$15,044,652 in management avoidances,
- \$22,364 in disallowed costs agreed to by SBA management,
- \$52,671 in management commitments to use funds more efficiently.
- \$6.1 million settlement of a CPA oversight review.

OIG investigations during the reporting period produced some 30 indictments and 20 convictions. Fifteen audit reports were issued as well as one Inspection report.

The Administrator will release the report to the Congress on or about December 1, 1997. Copies will be available to the public after that date.

Editor's Notes:

Most of the articles appearing in this issue of the **Update** reflect outcomes of OIG investigative efforts. The **Update** generally reports all intermediate outcomes of criminal investigations (charges, pleas, court actions, convictions) as they occur, as well as final results (sentencings, settlements). While audits and inspections produce equally valuable results, they tend to take 6 to 9 months of research, analysis, and production prior to their publication. Consequently, they do not produce the same type of intermediate results that lend themselves to monthly reporting. Several audits and inspections are, however, currently underway and will be reported in upcoming issues of the OIG **Update**.



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.

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.SBAONLINE.SBA.GOV/IG/REPORTS.HTML

The Activity Update is produced by the SBA/OIG, James F. Hoobler, Inspector General.

Comments or questions concerning this update or requests for copies of OIG audits, inspections, or other documents should be directed to Johnny Cahn, SBA/OIG, 409 Third Street, SW, Washington, DC, 20416-4110. Telephone number: (202) 205-6580