



Office of Inspector General Small Business Administration

June 2000 Update

Business Loans

Former California Fish Market Owner Indicted for Making False Statements to Federally Insured Financial Institutions. A former owner of a fish market in Castaic, California, was indicted on June 7, 2000, on five counts of **making false statements to federally-insured financial institutions**. OIG's joint investigation with the Federal Bureau of Investigation (FBI) disclosed that the businessman submitted altered Federal income tax returns for the years 1988 through 1990, as part of his application for a \$1 million SBA-guaranteed loan. He subsequently defaulted on the loan. After all liquidation efforts were completed, SBA charged off the balance of approximately \$505,663.

Subsequent investigation disclosed that the defendant had also submitted different altered Federal income tax returns to another bank for the years 1988 and 1989, in order to obtain a \$580,000 home loan. That loan was approved a few months before the SBA-guaranteed loan. Neither set of tax returns submitted to the banks matched those filed with the Internal Revenue Service. The defendant subsequently defaulted on the home loan. After all liquidation efforts were completed, that bank charged off approximately \$215,570.

Montana Restaurateur Sentenced to Prison for Making Material False Statement. The owner of a Cut Bank, Montana, restaurant was sentenced on May 25, 2000, to serve 21 months imprisonment and 3 years supervised release and to pay \$1,000 in

restitution. The defendant previously pled guilty to one count of **making a material false statement** to SBA. OIG's joint investigation with the FBI determined that to obtain a \$54,000 SBA-guaranteed LowDoc bank loan he had failed to disclose his extensive criminal record. The investigation showed that the defendant had been arrested more than 20 times for various financial crimes. OIG initiated the investigation based on a referral from SBA's Montana District Office.

Montana Hot Tub Manufacturers Indicted for Conspiracy and Making Material False Statement. The May 18, 2000, indictment of two East Helena, Montana hot tub company owners on one count of **conspiracy** and one count of **making a material false statement** to SBA has been unsealed. The defendants had received a \$170,000 SBA-guaranteed Women's Pre-Qualification loan. OIG's investigation revealed that the owners had arranged for a third party to generate a false invoice indicating to the participating lender bank that \$40,000 was needed to purchase manufacturing equipment (causing the bank to issue a check for that amount) when actually only \$27,000 was spent for the purchase. The defendants allegedly used most of the extra \$13,000 generated by this scheme to pay off an undisclosed \$8,000 business debt and pocketed the \$5,000 remainder. OIG initiated the investigation based on a referral from SBA's Montana District Office.

New York Bridal Shop Owner Pleads Guilty to Misuse of Social Security Number. The owner of a defunct Bronx, New York, bridal shop, pled

guilty on June 19, 2000, to a criminal information charging her with one count of **misuse of a Social Security number (SSN)**. In 1994, the defendant used a false name and the SSN of a former bridal shop employee's sister to obtain a \$100,000 Section 7(a) SBA-guaranteed loan from a certified development company in Albany, New York.

Again in September 1996, she used that false name and SSN to obtain a \$50,000 loan from another certified development company in Bronx, New York. After only a few payments, she defaulted on both loans, causing a total loss in excess of \$150,000. In her plea agreement, the defendant promised to pay \$100,000 restitution to SBA. SBA/OIG initiated its case based on a referral from the Social Security Administration's OIG and investigated it jointly with that office.

Illinois Businessman Sentenced to Prison for Making False Statements to Federally-Insured Bank. An owner of a pork processing plant in Herscher, Illinois, was sentenced on April 17, 2000, to 1 year plus 1 day incarceration, 3 years supervised release, and \$460,833 restitution to a participating lender and SBA. He previously pled guilty to one count of **making false statements to a federally-insured financial institution**, in connection with a \$490,000 SBA-guaranteed business loan. OIG's joint investigation with FBI revealed that the defendant submitted altered tax returns to the bank and SBA to obtain the loan, failed to make the promised \$150,000 capital injection, and sold a majority of the farmland pledged as collateral. The investigation was initiated based on a referral from the bank to SBA's Illinois District Office.

New Jersey Businessman Arrested for Concealing Estate Property from Creditors and U.S. Trustee. The owner of a die cutting company in Fairfield, New Jersey, voluntarily surrendered to arrest on June 26, 2000, after a criminal complaint was sworn against him by an OIG special agent. The defendant was the recipient of a now-defaulted \$940,000 SBA-guaranteed loan from a nonbank participating lender. The complaint charged that, in connection with his personal bankruptcy petition, he **concealed estate property from creditors and the U.S. Trustee**. During the investigation, OIG obtained the court file

pertaining to the defendant's bankruptcy proceedings, that contained a schedule in which he was required to list all real property he owned at the time of the bankruptcy filing. In the petition he allegedly signed on July 5, 1995, the defendant claimed to own no real property. The investigation uncovered a deed and mortgage for a condominium that he took ownership of on or about June 7, 1994, and that tax records show he still owns. The case was brought to the attention of OIG by SBA's New Jersey District Office and is being worked jointly with FBI.

Virginia Businesswoman Sentenced to Prison After Violating Probation. On April 18, 2000, a probation revocation hearing was held for the president and owner of a taxi company in Culpeper, Virginia. She previously pled guilty to one count of **making a false statement to SBA** in order to obtain a \$35,000 LowDoc loan for her business and was sentenced to serve 5 years on probation (the first 6 months on monitored home detention) and ordered to pay \$21,613 in restitution. The U.S. Probation Office requested the revocation hearing after the defendant was arrested for conspiracy to distribute marijuana, which violated the terms of her probation. At the hearing, the defendant's probation was revoked, and she was sentenced to serve 1 year in prison, minus credit for time served after her arrest. She is still required to pay the restitution and serve a post-incarceration term of supervised release.

Four Indicted in Texas for Conspiracy and Making Material False Statements. Four persons associated with an automotive repair business in Irving, Texas, were indicted on June 20, 2000, on one count of **conspiracy** and nine counts of **making material false statements** to induce a non-bank participating lender and SBA to fund a \$350,000 SBA-guaranteed loan. The firm's proprietor and his brother and sister-in-law allegedly submitted a falsified "copy" of a 1994 tax return along with fraudulent documentation of capital injections and equipment purchases. An employee of the business allegedly provided his coconspirators with bogus sales invoices and other fraudulent documentation of their required capital injections and equipment purchases. SBA/OIG initiated this investigation, which is continuing jointly with the

Department of Treasury's OIG for Tax Administration, based upon an anonymous referral.

A Wisconsin Contractor Arrested for Allegedly Threatening SBA Employee. In a telephone call after being denied an SBA-guaranteed loan, a Milwaukee lead abatement contractor allegedly **threatened physical harm** to a loan officer in SBA's Wisconsin District Office. Based on the seriousness of the threat, an OIG special agent made some inquiries, including a criminal-history check. The check found that the contractor had made a false statement in his Pre-Qualification application for a \$105,000 loan by concealing his criminal history of weapons violations. The check also found that at the time of the threat he was on probation in Milwaukee for making a telephoned bomb threat in 1999 to a financial institution that had denied his home loan request.

The OIG special agent immediately contacted his probation officer, who determined that the contractor had violated his probation by threatening the SBA employee. As a result, on June 8, 2000, the Milwaukee Police Department arrested the man. Based on revocation of his probation, the man was still incarcerated as of June 28, 2000. OIG's investigation of him is continuing.

Disaster Assistance

California Businessman Sentenced to Prison for Making Material False Statements. A California man was sentenced on June 5, 2000, to 15 months in prison, 3 years supervised release, \$72,200 restitution to SBA, and a \$200 special assessment. He was previously convicted on two counts of **making material false statements**. After the Northridge earthquake, the defendant had obtained SBA disaster loans totaling \$55,700 for his Canoga Park, California, businesses. He also received a \$12,000 SBA disaster home loan for real estate and personal property losses. The investigation revealed that the defendant failed to disclose to SBA that he had filed for bankruptcy in 1989 and 1990 under different names and SSNs. At the time he applied for the disaster loans, the man also failed to inform SBA that he was on probation for a criminal offense. SBA/OIG joined the

investigation initiated by the Bureau of Alcohol, Tobacco and Firearms as an inquiry into possible arson and later expanded to include SSA/OIG. SBA/OIG agents arrested the defendant in October 1999, after he failed to appear for his Federal trial on September 21, 1999. He is currently facing arson and insurance fraud charges in a separate case filed in the Superior Court of Los Angeles County.

Government Contracting and Minority Enterprise Development

Audit Issued on Small Disadvantaged Business (SDB). On June 30, 2000, OIG issued an audit of Small Disadvantaged Business (SDB) obligations and expenditures. In the audit of funds received from other agencies in FYs 1998 and 1999 to certify SDBs, the auditors identified about \$3 million in expenditures and obligations that were for non-SDB certification purposes. These activities included costs related to construction, furnishings, equipment, personnel, consultants, training, and marketing. An additional \$3.2 million (\$2.8 million in overhead and \$.4 million for an Section 8(a)/SDB application system) in SDB expenditures lacked sufficient supporting documentation for OIG to conclude whether the costs were correctly allocated. In addition to these results, SBA cancelled its plans to obligate approximately \$410,000 for a construction project after the auditors questioned the appropriateness of using SDB funds for the project.

The audit also noted that there was no legal authority that ensured continual funding for this program, and the SDB Certification program and supporting offices were overstuffed with SDB-funded employees. In addition, SDB furniture and equipment was not tracked in SBA's electronic inventory management system, and the SDB Certification and Eligibility office ordered excess equipment that remained in storage for over 1 year.

After OIG fieldwork ended, SBA completed a cost study for FY 1999, that justifies charging \$2.8 million in overhead for FYs 1998 and 1999. At the time the report was issued, SBA was in the process of determining a reasonable allocation of the \$.4 million spent on the Section 8(a)/SDB application

system. The Agency agreed with 10 of the 11 recommendations contained in the report. The Agency did not believe they needed additional authority to require reimbursement from other agencies as we recommended.

Former Kentucky Section 8(a) Contractor and Five Associates Indicted on 12 Counts. On May 30, 2000, a Federal grand jury in the Eastern District of Kentucky returned a 12-count indictment of a former Section 8(a) contractor and five associates on charges of **racketeering, racketeering conspiracy, money laundering, bank fraud, mail fraud, and obstruction of a Federal audit.** A prosecution under the Racketeer Influenced and Corrupt Organizations Act involves allegations that a group of persons formed an “enterprise” that then engaged in a series of corrupt or illegal activities. In this case, the defendant initially entered SBA’s Section 8(a) program in Ohio in 1980 as primary owner of an environmental research and testing company. The indictment alleges that in 1988, the year the company was “graduated” from the Section 8(a) program, he obtained (in the name of his son and codefendant, to conceal the defendant’s role) Section 8(a) status in Kentucky (and later in California) for another company he controlled.

The indictment further alleges that another waste cleanup company purportedly headed by a second son (and codefendant) also fraudulently obtained Section 8(a) status in Kentucky. During the period these companies participated in the Section 8(a) program, they were awarded Federal contracts totaling more than \$150 million. The OIGs of the Environmental Protection Agency and the Department of Defense investigated this matter, with the assistance of SBA/OIG’s Washington Field Office. The trial is expected to begin in January 2001.

Office of Inspector General

We remind you that OIG has established an e-mail address, oig@sba.gov, which we encourage the public to use to communicate with our office. We welcome your comments on our publications, requests for reports, suggestions for possible audits, or referrals of possible incidents of waste, fraud, or abuse.

The activity Update is produced by SBA/OIG,
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Comments or questions concerning this Update or request for copies of OIG audits, inspections, and/or other documents should be directed to:

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Most audit and inspection reports can be found on the Internet at www.sba.gov/IG/reports.html

If you are aware of suspected waste, fraud, or abuse in any SBA program, please call the:

OIG FRAUD LINE at (202) 205-7151

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