



Office of Inspector General Small Business Administration

November 2000 Update

Business Loans

Owners of Montana Hot Tub Company Plead Guilty to Bank Larceny by Fraud. The owners of an East Helena, Montana, hot tub manufacturing company each pled guilty on October 30, 2000, to one count of **bank larceny by fraud**. As part of the plea agreement, the Government dropped the one count of **conspiracy** and one count of **making a material false statement** to SBA on which each had been indicted. The defendants' hot tub company 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 that \$40,000 was needed to purchase manufacturing equipment. This resulted in the bank issuing a check for that amount, when actually only \$27,000 was spent for the purchase. The defendants 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 this investigation based on a referral from SBA's Montana District Office.

Owner of Texas Clothing Manufacturer Sentenced for Social Security Number (SSN) Fraud and Making Material False Statements. The owner of a clothing manufacturer in

Dallas, Texas, was sentenced on November 8, 2000, to serve 54 months in prison followed by 3 years supervised release and was ordered to pay \$656,955 in restitution. The owner was previously convicted at trial on one count each of **Social Security number (SSN) fraud** and **making material false statements** to obtain a \$675,000 SBA-guaranteed loan from a non-bank lender. The owner applied for the loan to open a second business in Prattville, Alabama. In the loan application, she gave a false SSN and a false name as part of an effort to conceal the fact that her previous business had defaulted on an SBA loan and that she had previously filed for bankruptcy. She also submitted false tax returns and supporting Internal Revenue Service (IRS) documentation, falsified financial statements, and other fraudulent documents to obtain the loan. The owner then failed to purchase the equipment pledged as collateral and allegedly spent most of the loan proceeds for unauthorized purchases including two homes, cars, furniture, and other items. She immediately defaulted on this loan, with a loss to the non-bank lender and SBA of \$689,983. This investigation was based on a referral from a liquidation specialist at the lending institution and was worked jointly with the Department of Treasury's OIG for Tax Administration (TIGTA) and the Social Security Administration's OIG.

Employee of Texas Auto Service and Body Shop Found Guilty of Conspiracy and Making Material False Statements. On November 9, 2000, a Federal jury found an employee (the defendant) of an Irving, Texas, auto service and body shop guilty of 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 defendant and two associates were previously indicted for allegedly submitting a falsified copy of a tax return along with fraudulent documentation of capital injections and equipment purchases. Another employee of the business allegedly provided his coconspirators with bogus sales invoices and other fraudulent documentation. The same employee was recently dismissed from the indictment because he is in prison for aggravated sexual assault of a minor and is not eligible for release for 30 years. The defendant's sentencing is scheduled for January 25, 2001. Charges against the defendant's wife and brother, the firm's proprietor, have not yet gone to trial. SBA/OIG conducted this investigation, which is continuing jointly with TIGTA, based on an anonymous referral.

President of Maryland Real Estate Company Found Guilty of Making Material False Statements and Mail Fraud. The president of a real estate company in Glen Burnie, Maryland, was found guilty on November 3, 2000, of three counts of **making material false statements** and two counts of **mail fraud** in connection with a \$260,000 SBA-guaranteed loan. OIG's investigation established that, on his SBA loan application and related documents, the defendant listed the name, date of birth, and SSN of his son instead of his own. He also submitted altered copies of income tax returns wherein he replaced his name and SSN with his son's. He used the fraudulent documents to obtain the loan from a non-bank participating lender to buy commercial real estate. The defendant also failed to disclose

that he owed approximately \$3 million to IRS and others at the time he applied for the loan.

Disaster Assistance

Nevada Man Indicted for Making Material False Statements and Mail Fraud. A Reno, Nevada, man was indicted on October 25, 2000, on one count of **making material false statements** to SBA and one count of **mail fraud**. He obtained a \$213,600 disaster home loan following floods in Washoe County, Nevada, in December 1996 and January 1997. His original disaster loan application had been declined because SBA was unable to verify his 1995 income tax return and could not determine his repayment ability. He requested reconsideration of his loan application and submitted new information regarding additional employment income. He claimed he was employed at a Reno restaurant for 10 months in 1996 and earned \$60,000; however, the investigation disclosed that he was employed at the business for 3 months and had earned only \$2,060. As a result of his false statements, SBA sent the loan proceeds via Federal Express to a title company in Reno for his benefit. OIG initiated this case based on a referral from the Nevada Attorney General's Office.

Office of Inspector General

OIG is pleased to announce that the Fall 2000 Semiannual Report to Congress, covering the period of April 1 through September 30, 2000, has been transmitted and is now available on its website. If you are interested in a copy of this report, please visit our homepage at www.sba.gov/IG/reports.html, e-mail us at oig@sba.gov, or call Vanessa Piccioni at 202-205-6580.

OIG has established an e-mail address (oig@sba.gov) that we encourage the public to use to communicate with our office. We welcome your comments on our publications,

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

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