



## Office of Inspector General Small Business Administration

April 1999 Update

### ***Business Loans***

President of Washington Construction Company Pleads Guilty to Making False Statements on Loan Application. The former president of a construction/management company in Des Moines, Washington, pled guilty on April 2, 1999, to the one count of **making false statements on a loan application** with which he was previously charged. The OIG's investigation found he provided false financial statements at the time he applied for a \$200,000 SBA-guaranteed loan and various other loans from the participating lender bank. Additionally, he made false statements regarding his prior criminal history and lawsuits that were pending against him and his company at the time of his loan application. The investigation also found that he had provided the same false information to SBA to obtain an SBA-guaranteed surety bond and certification as a Section 8(a) contractor. The surety bond was declined and the company is no longer in the Section 8(a) program. During the investigation, special agents of the OIG executed search warrants on the business premises, a storage unit, and the owner's personal residence. The searches confirmed the investigative findings and revealed additional evidence that he made (or caused to be made) false statements to the Internal Revenue Service (IRS) and state taxing authorities via

mail and facsimile. The total loss to SBA was \$134,906, the loss to the lender was \$309,195, and the loss to state and Federal taxing authorities was \$73,555. This case was referred to OIG by SBA's Seattle District Office. (*Updated from the March 1999 Update.*)

Iowa Restaurateur Charged with Making Material False Statements. The former president of a restaurant and dairy freeze in Lineville, Iowa, was charged on April 1, 1999, with one count of **making material false statements** to SBA regarding his use of funds from a \$50,000 direct SBA loan he received in 1994. The restaurant owner qualified for this loan as a Vietnam-era veteran. The OIG's investigation found that he made numerous false statements to SBA regarding his use of the loan proceeds, which were intended to pay for equipment, remodeling expenses, and the remainder of the purchase price of his restaurant. After making only a few payments, he defaulted on this loan, closed the restaurant, and left Iowa. SBA recovered only \$2,280 in the resulting liquidation. This investigation was initiated based on a referral from SBA's Des Moines District Office.

Owner of Pennsylvania Beauty Supply Company Pleads Guilty to Making False Statements on Loan Application. The owner of a

beauty supply company in Philadelphia, Pennsylvania, pled guilty on April 14, 1999, to a two-count information charging him with **making material false statements** in an unsuccessful 1994 attempt to obtain a \$60,000 SBA-guaranteed bank loan. According to the information, which was filed on March 23, 1999, he had failed to disclose a 1978 Delaware State criminal conviction in applying for the loan. He also admitted submitting copies of Federal tax returns for 1991 and 1993 that he knew had been altered to show higher gross receipts and net profits than those actually filed with the IRS. The loan commitment was canceled when the tax return discrepancies were discovered, and further investigation revealed his criminal history. The OIG's investigation was based upon a referral from SBA's Philadelphia District Office.

\* \* \* \* \*

### ***Disaster Assistance***

California Resident Sentenced for Making Material False Statements and Making False Statements to Federally Insured Financial Institution. A resident of Los Angeles, California, was sentenced on April 12, 1999, to 5 years probation. She previously pled guilty to three counts of **making material false statements** to Federal agencies and one count of **making false statements to a Federally insured financial institution.** The OIG's joint investigation with the IRS revealed that the resident submitted fictitious Federal tax returns and altered and forged IRS tax transcripts in support of applications for loans, including a \$153,000 disaster home loan approved by SBA following the Northridge earthquake. The OIG initiated the investigation based on a referral from SBA's Disaster Assistance Area 4 Office, which detected discrepancies associated with the tax verification documents submitted by her after the first \$25,000 was disbursed. Subsequent investi-

gation determined that she had submitted similar fictitious tax returns to obtain a loan guaranteed by the Department of Housing and Urban Development and in an attempt to obtain a home mortgage from a Federally insured lender. (*Updated from the June, 1998 Update.*)

Missouri Marina Operator Sentenced for Making Material False Statements. A marina operator in West Alton, Missouri, was sentenced on April 8, 1999, to perform 60 hours of community service and to 3 years of probation. He previously pled guilty to one count of **making material false statements** to SBA to fraudulently obtain disaster assistance for his company. The business was damaged by the Great Midwest Flood of 1993. The marina operator presented bogus invoices to falsely document that he had spent \$12,862 of disaster loan proceeds for repair of a lift well when he had actually paid only \$4,500. The OIG's investigation also determined that, in applying for the \$93,700 SBA disaster loan, he falsely indicated that certain equipment would be used as collateral for the loan; he actually sold the equipment, however, before he received any disaster assistance. The investigation was initiated based on a referral from SBA's St. Louis District Office. (*Updated from the January, 1998 Update.*)

\* \* \* \* \*

### ***Small Business Investment Companies***

Florida Consultant Pleads Guilty to Bank Fraud. A West Palm Beach, Florida, man who was a consultant to the officers of a now-failed small business investment company (SBIC) in New York, New York, pled guilty on April 15, 1999, to the one count of **bank fraud** on

which he was previously indicted. Between February 1991 and May 1992 the consultant, without SBA's approval, acquired control over the day-to-day operations of the financial institution licensed by SBA, and executed a scheme to defraud the SBIC. The scheme involved misappropriating and embezzling funds and other assets intended for or belonging to the SBIC and guaranteed by SBA. In furtherance of the scheme, the consultant opened accounts at three banks in a name deceptively similar to the SBIC's name. The consultant controlled the new company he set up and its various accounts and deposited checks made payable to the SBIC into the bogus accounts and converted the proceeds. Over \$1 million was misappropriated in this fashion. In May 1992, the SBIC failed and was placed in receivership. SBA, honoring its guaranty, was obligated to pay \$4.7 million to the bank that issued the Federally guaranteed debentures to the SBIC. The OIG's joint investigation with the Federal Bureau of Investigation (FBI) was based on a referral from SBA's Office of General Counsel. (Updated from the July, 1998 Update.)

\* \* \* \* \*

### ***Agency Management and Financial Activities***

SBA Employee Pleads Guilty to Felony Theft. A former office automation assistant in SBA's Cleveland District Office, pled guilty on April 14, 1999, to the one count of **felony theft 5**, a violation of the Ohio Revised Code, on which she was previously indicted. The charge was based on her theft of cash from the district office's imprest fund in October 1998. When an unannounced verification by district office managers found a shortage of almost \$1,100, they called on the OIG. The joint OIG and Cleveland Police Department investigation obtained her confession; in it, she explained

that she had removed the cash due to personal financial difficulties. (SBA's net loss from her actions turned out to be \$845.) She resigned on December 11, 1998, from her employment with SBA.

SBA Employee Pleads Guilty to Theft of Government Property. A former office automation assistant in the Office of Field Operations (OFO) in SBA's Headquarters pled guilty to one misdemeanor count of **theft of Government property** on April 19, 1999. In January 1999, when her supervisor discovered that a number of unauthorized purchases had been made on their supply credit card, and the OFO asked the OIG to investigate. The investigation also determined that the employee had transmitted fraudulent time and attendance records on herself to the National Finance Center. SBA sustained a loss of more than \$6,300 as a result of her conduct. The unauthorized credit card purchases, totaling \$2,168, included computer hardware and software, a stereo, a cordless telephone, gasoline, and car rentals. The documentation for some of these purchases contained the forged signature of her supervisor. The investigation also showed that, from March 1998 through January 1999, she fraudulently reported 132 hours of overtime she never worked; she failed to report 130 hours of annual leave that she had taken. These fraudulent time and attendance submissions resulted in her receiving \$4,149 of unearned income at SBA's expense. Based on the investigative findings, she was terminated from her employment with SBA on March 14, 1999.

\* \* \* \* \*

### ***8(a) Business Development***

President of New York Construction Company Arrested for Making Material False Statements

to SBA. The president of a Long Island City, New York, construction company was arrested on April 16, 1999, by special agents of the OIG and the FBI pursuant to an arrest warrant charging him with one count of willfully **making material false statements** to SBA. The underlying complaint charges that, as part of his application to obtain certification into the Section 8(a) program in 1995, he falsely stated on an SBA Form 912, Statement of Personal History, that he had never been arrested or charged with a crime. A criminal history check, conducted as part of the ongoing investigation, disclosed that he had been arrested by local authorities in Maryland on theft charges in 1986. In 1997, the company was awarded a Section 8(a) contract to do work at the Federal Correctional Institution in Otisville, New York. The investigation produced evidence that a required payment bond purportedly obtained by the company was forged. The OIG's joint investigation with the FBI was initiated based on a referral from the Federal Bureau of Prisons.

\* \* \* \* \*

### ***Organization, Resources, and Management Initiatives***

Phyllis K. Fong Becomes New Inspector General for SBA. On April 6, 1999, Phyllis K. Fong was sworn in and became the fifth Inspector General for the Small Business Administration. In her 15 years with the Office of Inspector General, she has held a number of legal and management positions, most recently serving as Assistant Inspector General for Management and Legal Counsel prior to her confirmation. Ms. Fong is a native of Hawaii and a graduate of Pomona College and Vanderbilt University School of Law.

Peter L. McClintock Becomes New Deputy Inspector General for SBA. On April 18, 1999, Peter L. McClintock was appointed the Deputy Inspector General of the Small Business Administration. In his 11 years with the SBA/OIG, he has held a number of auditing and management positions, most recently serving as the Assistant Inspector General for Auditing. He previously worked in various auditing positions at the Departments of Housing and Urban Development and Commerce. He received a BS degree from Wagner College and an MBA from George Mason University. He is also a Certified Government Financial Manager.

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.

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](http://WWW.SBAONLINE.SBA.GOV/IG/REPORTS.HTML)**

**Other IG related material can be found at:**

**[WWW.IGNET.GOV](http://WWW.IGNET.GOV)**

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

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

Telephone number (202) 205-6580

FAX number (202) 205-7382

If you are aware of suspected waste, fraud, or abuse in any SBA program, please call the OIG Fraud Line.

**OIG FRAUD LINE (202) 205-7151**  
in Washington, DC metropolitan area

**TOLL-FREE FRAUD LINE**  
**(800) 767-0385**