



Office of Inspector General Small Business Administration

November 2001 Update

Business Loan Programs

Kentucky Construction Company President, His Brother, and Guarantor Indicted. The president of a roadside construction company in Louisville, Kentucky, his brother, and a guarantor were indicted on November 5, 2001, on one count of **conspiracy to defraud the Government with respect to claims**. The president and the guarantor were also charged with five counts of **fraudulent claims** and five counts of **conversion of Government property**. The brother was additionally charged with one count of **misappropriation of SBA collateral**. In 1997, the president and the guarantor obtained \$250,000 in SBA-guaranteed bank loans. The three allegedly conspired to defraud SBA by submitting fraudulent invoices to induce disbursement of the loans. Allegedly, the guarantor and the president submitted five fraudulent invoices claiming that they purchased office furniture, computer equipment, and a backhoe. In fact, they falsified invoices using employee names as merchants and then falsely negotiated the joint payee loan checks. In addition, the guarantor and the president allegedly allowed a company vehicle to be individually titled to the brother and proceeds from sale of the vehicle to be retained for personal use. OIG initiated this investigation based on information received from SBA's Kentucky District Office.

President of Defunct Iowa Wholesale Meat Distribution Company Convicted. The president and owner of a now-defunct wholesale meat distribution company in Cumming, Iowa, was convicted on four of five felony counts. On November 13, 2001, the jury found him guilty of **concealing a material fact from SBA, bank fraud, embezzlement, and money laundering**. In connection with a \$1.4 million

SBA-guaranteed loan he received from a bank in 1997, to purchase the company, the defendant wrote an insufficient-funds check and perpetrated a "check-kite" to make it appear he had made a required \$300,000 equity injection. In 1998, he converted vehicles pledged to the successor to the original lending bank on this same loan. In 1999, he embezzled \$483,486 from the pension plan of another meat distribution business he owned. Then he laundered the money he had embezzled. The jury acquitted him on the count alleging that in 1998, he transported monetary instruments of more than \$10,000 outside the United States without filing a Report of International Transportation of Currency. Following the verdict, the judge found that the \$486,486 that he feloniously obtained from the second meat distribution company's pension plan was subject to forfeiture to the United States. Both companies failed and he defaulted on his SBA-guaranteed loan, leaving an unpaid balance of about \$1.25 million. OIG initiated this investigation (conducted jointly with the Federal Bureau of Investigation (FBI), the Pension and Welfare Benefits Administration, and the Customs Service) based on a referral from SBA's Iowa District Office. His sentencing has been set for February 1, 2002.

Colorado Painting Company Owner Pleads Guilty to Making False Statements and Bankruptcy Fraud. The owner of a commercial painting company in Berthoud, Colorado, pled guilty on November 15, 2001, to one count of **making a false statement to a financial institution** and one count of **bankruptcy fraud**. As part of the plea agreement, the Government agreed to dismiss the other three felony counts on which she had also been indicted. OIG's joint investigation with FBI had determined that she failed

to disclose approximately \$250,000 in business debts and two pending lawsuits on her application, submitted to obtain a \$100,000 SBA-guaranteed LowDoc loan. In addition, during her bankruptcy, the defendant concealed assets including antiques and a ski boat purchased with proceeds of her SBA loan. OIG initiated this case based on a referral from SBA's Colorado District Office.

Executive Director of New Hampshire Microlender Pleads Guilty to Submitting Material False Statements. The former executive director of a microlender of SBA funds in Manchester, New Hampshire, pled guilty on October 10, 2001, to one count of **submitting material false statements**. In accordance with his plea agreement, the Government will dismiss the other counts of **submitting material false statements** and **conversion of funds** on which he had also been indicted. This is the only conviction in the 10-year history of SBA's Microloan Program, which provides short-term small (under \$25,000) loans to entrepreneurs via SBA-approved, nonprofit intermediaries known as microlenders. As the executive director, the defendant was required to report to SBA on a quarterly basis the balances of the bank accounts established to manage the microloan funds. SBA uses these reports to monitor the microlender's performance and liquidity. According to his indictment, between November 1996 and March 1997, he knowingly submitted material false statements to SBA by vastly overstating the actual balances of the microloan accounts. In reports he submitted for the quarters ending June and December 1996, he claimed combined account balances of \$325,678.11 and \$409,486.78; however, the actual balances totaled only \$15,900.18 and \$67,071.01, respectively. The indictment also charged that from December 1995 to December 1996, he converted to his personal use \$13,042.44 in microloan funds when he withdrew these funds from the microlender's accounts and deposited them into his private accounts. In June 1997, the microlender became insolvent and SBA took over administration of its loan portfolio. OIG initiated this investigation based on information provided by SBA's Office of Financial Assistance and SBA's New Hampshire District Office.

Texas Brake Parts Company President Pleads Guilty to Concealment of Assets. The president of a Tyler, Texas, brake parts company pled guilty on

September 17, 2001, to two counts of **concealment of assets from bankruptcy**. As part of the plea agreement, the Court will dismiss the other 21 felony charges on which he had also been indicted. The indictment charged that he created fraudulent invoices showing inventory of the business as being sold when, in fact, the merchandise was still in his possession. He then went on to file for both personal and corporate bankruptcy while allegedly using the company's inventory to start a second automotive marketing company. He allegedly executed the scheme by "check-kiting" assets through numerous accounts. He obtained SBA loans totaling \$500,000. A sentencing date has not been scheduled. OIG initiated this investigation based on a referral from SBA's Dallas/Ft. Worth District Office and worked it jointly with FBI.

Ohio Pet Store President Convicted of Bank Fraud and Making False Statements. The president of a pet store in Stow, Ohio, was convicted on October 24, 2001, on one count of **bank fraud** and one count of **making false statements to SBA** in connection with his \$100,000 LowDoc loan. The jury found that he concealed both an outstanding promissory note and information regarding his criminal history. During the application process, he did not disclose an outstanding promissory note he had previously secured with the former owner of the pet store. The outstanding balance of the promissory note at the time the defendant applied for the SBA-guaranteed loan was approximately \$200,000. Also, he failed to report his substantial criminal history, as required. Prior to applying for the SBA loan, he had been arrested on multiple offenses and charged with various crimes. One of these charges resulted in a felony conviction for carrying a concealed weapon. OIG initiated this investigation based on a referral from SBA's Cleveland District Office.

Government Contracting and Business Development

Missouri Section 8(a) Company and Its President Suspended from Future Contracting. Based on the previously reported indictment of the president of a Section 8(a) company in Poplar Bluff, Missouri, the Army suspended both the president and the company from future contracting with any executive branch Federal agency effective November 14, 2001. The

Army also suspended both the president and the company from nonprocurement Government assistance, effective the same date. The suspensions are to remain in place pending completion of the investigation and any legal proceedings. The indictment, unsealed on September 14, 2001, charged the president and his corporation with 12 and 4 felony fraud counts, respectively. As a result of the suspensions, the Air Force cancelled a Section 8(a) construction project that had already been approved for the company by SBA and was valued at over \$2.9 million. SBA's St. Louis District Office has taken action to deny the company the latest Section 8(a) contract, also from the Air Force, valued at \$1 million to \$2 million. SBA also suspended the company from the Section 8(a) program on November 30, 2001, pending its proposed termination. SBA/OIG's joint investigation with the Department of Labor's OIG and FBI is continuing. Trial has been set for January 22, 2002.

Surety Bond Guarantees

Alabama Construction Company President Convicted of Making Material False Statement. The president of a Birmingham, Alabama, construction company was convicted on November 6, 2001, on one count of **making a material false statement** to fraudulently influence SBA to guarantee five surety bonds totaling more than \$1.17 million from an insurance company in Cincinnati, Ohio. (Before his conviction, the judge dismissed the two counts of **making false statements to SBA** on which he was also indicted.) On the SBA application, the defendant denied having a criminal history. The investigation documented that he had been charged with, arrested for, and/or convicted of at least 29 criminal offenses. The dismissed counts alleged that he submitted a financial statement fraudulently indicating ownership of two pieces of real estate with a total value of \$450,000. His company failed to complete any of the bonded contracts, and the insurance company paid \$324,170 on these bonds. The insurance company is in SBA's preferred surety program, and the bonds issued for the defendant were guaranteed at 70 percent. This investigation was based on findings of a surety bond audit by OIG's Auditing Division.

Office of Inspector General

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Phyllis K. Fong, Inspector General.

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Vanessa Piccioni, SBA/OIG,
409 Third Street SW., 5th Floor
Washington, DC 20416
Email: OIG@SBA.GOV
Telephone number (202) 205-6580
FAX number (202) 205-7382

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