



## Office of Inspector General Small Business Administration

October 1998 Update

### *Business Loans*

Kansas Businessman Sentenced for Making False Statements to SBA. A man misrepresenting his ownership of a building system company located in Neodesha, Kansas, was sentenced on September 1, 1998, to 21 months imprisonment, 3 years supervised release, and \$479,740 restitution. He previously pled guilty to **making a material false statement** to SBA by signing a SBA loan agreement. In 1993, the company applied for a \$630,000 SBA-guaranteed loan and began manufacturing foam-core building panels; it soon defaulted on the loan and went out of business. The man indicated that he was the sole owner and president; in fact, an associate was the sole owner and president of the company at the time the loan was made. In 1997, the man and the associate were each indicted on three false statement counts; in return for the man's guilty plea, the Government agreed to dismissal of the other two counts against him. The charges against the associate were dismissed after his March 21, 1998, death. (*Updated from the June 1998 Update*).

Kansas Manufacturers Sentenced for Making Material False Statements to SBA. The former president and the former secretary (his wife) of a fuel-pellet manufacturing plant in Erie,

Kansas, were sentenced on September 17 and 21, 1998, respectively. The former president of the company was sentenced to 4 months in a halfway house and 2 years supervised release, the first 4 months in home confinement; his wife was sentenced to 28 months probation, the first 4 months in home confinement. They were sentenced jointly to pay \$97,874 in restitution. They previously pled guilty to two counts and one count, respectively, of **making material false statements to SBA** regarding the company's application for a \$147,650 SBA-guaranteed loan. In the plea agreements, the former president admitted that he failed to disclose both a prior defaulted SBA disaster loan and fuel taxes owed to the State of Arizona, and his wife admitted that she failed to disclose her husband's prior bankruptcy. (*Updated from the July 1998 Update*).

Owner of a Pennsylvania Emergency Vehicle Manufacturer is Sentenced for Misappropriation of SBA Collateral. The owner of a Luzerne County, Pennsylvania, manufacturer of ambulances, fire trucks, and paramedic units was sentenced on October 21, 1998, to 4 months home confinement, 3 years probation, 150 hours community service, and \$5,000 restitution. He previously

pled guilty to one misdemeanor count of **misappropriation of SBA collateral**. In the plea agreement, he acknowledged that to secure a \$171,842 loan, he fraudulently pledged as collateral a \$55,842 ambulance that, he also sold to a volunteer fire company without SBA's knowledge or permission. *(Updated from the July 1998 Update)*.

Alaska Sports Bar Owner Indicted for Making False Statements to SBA. The owner of a sports bar company, in Anchorage, Alaska, was indicted on October 21, 1998, on one count of **making false statements to SBA**. The man was charged with failing to disclose his criminal history (multiple arrests and convictions) to SBA when he and his wife applied for an \$800,000 SBA-guaranteed business loan in November 1996. Repayment of the loan is current at this time. The case was referred to the OIG by SBA's Anchorage District Office.

Georgia Business Broker Sentenced for Conspiracy and Making False Statements to SBA. The owner and chief executive officer of a business brokerage in Kennesaw, Georgia, was sentenced on October 28, 1998, to 5 years incarceration, 5 years supervised release, 100 hours community service, and approximately \$141,000 restitution. He was previously found guilty of one count of **conspiracy**, three counts of **making material false statements** to SBA, and three counts of **making false statements to a Federally-insured bank**. The OIG's investigation of a \$155,000 SBA-guaranteed loan to buy a food distributor revealed that the man, who brokered the sale, conspired with the buyer's president and others to conceal the true purchase price from the participating lender bank and SBA. *(Updated from the July 1998 Update)*.

President of a Rehabilitation Clinic in Washington Arrested for Possible Fraud. The president of an injury rehabilitation clinic in

Seattle, Washington, was arrested on October 29, 1998, by agents of the OIG, the Federal Bureau of Investigation (FBI) and the Immigration and Naturalization Service (INS), based on an arrest warrant issued in 1984 by the U.S. District Court, District of Kansas. The OIG and the FBI were investigating the man for possible fraud in connection with a defaulted 1994 \$80,000 SBA-guaranteed loan to the clinic, when they discovered the outstanding arrest warrant in his INS file. The arrest warrant had never been entered into the National Crime Information Center's database; therefore, it did not appear when a criminal history check was conducted. The arrest warrant was based on a five-count 1984 indictment of the man for **false representation as a U.S. citizen; false statements to obtain a Social Security card; fraud and misuse of visas, permits, and other documents; false statements to the U.S. Department of Education; and misuse of a Social Security number**. Prior to the arrest, the Kansas U.S. Attorney's Office confirmed that they still wanted to prosecute him based on the 14-year old indictment. His fingerprints were used to prove that he was the person indicted in Kansas in 1984. The joint OIG and FBI investigation of the 1994 loan is still ongoing.

Officer of a Florida Manufacturer Sentenced for Making False Statements and Converting SBA Collateral. The vice president of a crafts and fashions manufacturer/wholesaler/importer located in Longwood, Florida, was sentenced on October 26, 1998, to 5 months incarceration, 5 months home detention, 150 hours community service, 5 years supervised release, and \$49,006 restitution. Further, if deported, the man will not be allowed to return to the United States without permission from the Attorney General. He previously pled guilty to four counts of **making a material false statement** to SBA, **making a false statement to influence a**

**Federally-insured financial institution, and converting SBA collateral.** The man admitted falsely stating in a September 1995 application for a \$75,000 LowDoc loan that he had never been involved in a bankruptcy; in fact, he had filed for bankruptcy in Canada in April 1995. He also admitted he submitted a forged Lessor's Agreement to the participating lender and concealed inventory and equipment that was pledged as collateral. *(Updated from the August 1998 Update)*

Carolina Computer Consultant Pleads Guilty to Aiding and Abetting the Making of a False Statement in a Loan Application. The president of a Charlotte, North Carolina, computer consulting business pled guilty on September 22, 1998, to one count of aiding and abetting the **making of a material false statement in a loan application to a Federally-insured bank.** In return for the guilty plea, the Government agreed to dismiss the remaining count, aiding and abetting the **making of a false statement to influence SBA.** The man was charged with knowingly causing the submission of false documents, including a balance sheet that understated the business' accounts payable by more than 55 percent. *(Updated from the May 1998 Update)*

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### ***Disaster Assistance***

Former Virgin Islands Resident Pleads Guilty to One Count of Making False Statement to SBA. A former resident of St. Thomas, U.S. Virgin Islands, pled guilty on September 25, 1998, to **making a false statement to SBA** in connection with her receipt of a \$34,400 disaster home loan. As part of the plea agreement, the Government agreed to the dismissal of the other count on which she had been indicted. She was then sentenced to 5 years probation, 350 hours community service, \$10,500 restitution, and a \$50 special

assessment. She had been indicted on charges of submitting documents falsely claiming that on two occasions she had used loan funds to purchase furniture and appliances. *(Updated from the October 1997 Update)*

### California Modeling Agency Owner Pleads Guilty to Making Material False Statements.

The owner of a modeling agency in Los Angeles, California pled guilty on October 19, 1998, to two counts of **making material false statements** to SBA. The remaining five counts of **making material false statements** to SBA and four counts of **bank fraud** on which the man had been indicted were dismissed as part of the plea agreement. The owner obtained a \$42,700 disaster business loan following the 1992 civil unrest in Los Angeles. He also was approved for a \$50,700 disaster home loan following the 1994 Northridge earthquake, but only \$35,000 was disbursed before SBA received a Notice of Foreclosure on the property. The OIG's investigation revealed that the business was not looted during the civil unrest as the owner had claimed on his disaster business loan application. In addition, he submitted altered tax returns to obtain approval of his disaster home loan and false invoices for inventory to replace the inventory he claimed had been stolen from the business at gunpoint. The bank fraud investigation was initiated after it was discovered that he had misused a portion of the proceeds from his disaster home loan to purchase additional real property. He also applied for a \$315,000 residential loan, falsely representing that he did not have an ownership interest in real property within the 3-year period prior to the date of the loan application. The investigation further revealed that he provided a fictitious W-2 Wage & Tax Statement Form to obtain approval of the loan. In addition, the owner obtained a \$25,000 Title I property improvement loan, administered and guaranteed by the U.S. Department of Housing and Urban Development (HUD). The

investigation showed that he failed to disclose on his application for the Title I loan his indebtedness to SBA for his disaster loans and provided altered tax returns in order to obtain approval of the loan. This portion of the investigation was conducted jointly with HUD's OIG. (*Updated from the September 1998 Update*)

Owner of a Florida Air Cargo Transport Company Pleads Guilty to Conspiracy and Making Material False Statements to SBA. The owner a Miami, Florida, air charter and air cargo transport company, pled guilty on July 30, 1998, to one count of **conspiracy** and two counts of **making material false statements** to influence SBA to disburse a \$288,500 disaster loan to the company. In return, the Government agreed to dismiss the two remaining counts in his indictment of **mail fraud**. The amount of the loan was based on representations to SBA as to what it would cost the business to replace an airplane destroyed by Hurricane Andrew. A Georgia man, who sold the company a replacement airplane, allegedly participated in a scheme to deceive SBA through the use of such falsified documents as a purchase contract and a bill of sale. It was represented to SBA that the value of the aircraft was \$290,000; however, the OIG's investigation found it was only worth \$46,000. The OIG initiated this investigation, which is continuing, based on a referral from the FBI. The Georgia man, who sold the aircraft and was indicted in April 1998, awaits trial. (*Updated from the August 1998 Update*)

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

Chairman of the Board of a Defunct California Investment Company Sentenced for Conspiracy and Willful Misapplication of Funds. The chairman of the board of the now-defunct specialized small business investment company (SSBIC) in Westminster, California,

was sentenced on October 19, 1998, to 1 day in custody, 5 years supervised release, a \$100,000 fine, and 300 hours community service. He previously pled guilty to one count of **conspiracy** and three counts of **willful misapplication of funds** belonging to the SSBIC. His sentencing is the culmination of an extensive investigation initiated in 1992, based on information provided by SBA's Investment Division shortly after \$1 million in SBA funds were advanced to the SSBIC. The investigation found that the man made false statements with respect to his initial cash injection, the true ownership of the small business concerns to which the \$1 million was loaned, and the disposition of the loan proceeds. In 1997 he repaid \$927,000 of the \$1 million he fraudulently obtained from SBA in April 1992.

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### ***OIG Management***

Semiannual Report to Congress Completed. The OIG has prepared its Semiannual Report to Congress. The report, which covers the period April 1, 1998, to September 30, 1998, reflects \$18,704,564 in dollar accomplishments for the period as follows:

\$2,843,277 in potential recoveries,  
\$12,524,605 in management  
avoidances,  
\$393,386 in disallowed costs agreed  
to by SBA management, and  
\$2,943,296 in management  
commitments to use funds more  
efficiently.

Moreover, OIG investigations produced 37 indictments and 31 convictions. The report will be transmitted to the Congress in December and will be available to the public thereafter.

*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)

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