



## Office of Inspector General Small Business Administration

May 1997 Update

### *Business Loans*

Two Massachusetts Trade Association Employees Indicted on a Host of Charges. Two residents of Stoughton, Massachusetts, were indicted on May 1, 1997, on 13 counts of **conspiracy, mail fraud, wire fraud, and making false statements to a Federally-insured financial institution**. The organizer of a Massachusetts-headquartered trade association and its office manager were charged with a scheme to defraud a number of interstate truckers. The trade association put together 46 SBA loan applications to cover the purchase of trucks, submitted them to a participating lender bank in Wisconsin, and handled all insurance arrangements. The pair allegedly submitted loan application documents that, unbeknownst to the truckers, fraudulently overstated the cost of the insurance and pocketed the difference when the loans were disbursed. During 1993-1994, the difference amounted to \$215,546. The trade association's assistance to its Massachusetts members also allegedly included a scheme to defraud the Commonwealth of Massachusetts of its 5% sales tax on the purchase of each truck. The two trade association employees informally contracted with a New Jersey resident to file truck registration documents with the New

Jersey Department of Motor Vehicles and accept the truck titles mailed in response. The loans were guaranteed by SBA as part of a pilot program started at the request of the trade association's organizer. Based on a referral from SBA's Boston District Office, the investigation is being conducted jointly by the SBA/OIG and the FBI.

Ohio Automobile Repair-shop Owner Pleads Guilty to Conversion of Government Property. The owner of an automobile repair facility in South Euclid, Ohio, pled guilty on April 4, 1997, to one felony count of **conversion of Government property** in connection with a \$50,000 SBA-guaranteed LowDoc business loan. He was sentenced to 3 years probation, 300 hours community service, \$8,170 restitution, and \$200 court fees. The SBA/OIG's investigation found that the man sold assets of the business, knowing that just months earlier he had pledged them as collateral for the loan, and converted \$8,170 of the proceeds to his own use. The OIG initiated the investigation in response to a referral from SBA's Cleveland District Office.

Illinois Farm Equipment Manufacturer Pleads Guilty to Making a False Statement and an Unlawful Disposal Charge. A manufacturer of grain wagons and other farm equipment in Arthur,

Illinois, was sentenced on March 21, 1997, to 5 years probation, a \$100,400 fine, and \$97,112 restitution to the State of Illinois' Hazardous Waste Fund. The corporation had pled guilty to one count of **making a false statement** to obtain a \$1 million SBA-guaranteed loan and one count of **unlawful disposal of hazardous solvents and paint wastes**. In a loan application document, the corporation stated that it had not discharged any hazardous waste onto its property when, in fact, it knew that hazardous waste had been unlawfully buried there. The plea agreement was a result of the SBA/OIG's joint investigation with the Environmental Protection Agency's Office of Criminal Enforcement.

Georgia Caterer Sentenced for Conspiracy and Bank Fraud. A co-owner of a now-defunct catering firm in Atlanta, Georgia, was sentenced on March 26, 1997, to 10 years imprisonment and ordered to pay \$745,115 in restitution. The man had been convicted on 27 counts, including **conspiracy, bank fraud, and submitting false loan documents to SBA**. The SBA/OIG investigation disclosed that the caterer defrauded SBA and Federally-insured lenders of more than \$1 million, including a \$650,000 SBA-guaranteed loan from a non-bank participating lender. This investigation originated from a referral from SBA's Atlanta District Office.

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### *Disaster Assistance*

Arizona Machinery Company Owner Pleads Guilty to Forgery. The owner of a now-defunct machinery company in

Buckeye, Arizona, pled guilty in Superior Court, Maricopa County, Arizona, on May 5, 1997, to one count of **forgery**. The joint SBA/OIG and U.S. Secret Service investigation revealed that the man had forged his estranged wife's signature on numerous disaster loan documents to obtain from SBA a \$56,100 business physical disaster loan and a \$327,600 economic injury disaster loan. Charges were brought by the Arizona State Attorney General's Office after Federal prosecution was declined. The investigation was initiated based on a referral by SBA's Phoenix District Office.

Texas Computer Company Owner Indicted for Forgery. The owner of a computer service company in Clute, Texas, was indicted on May 20, 1997, on three counts of **forging endorsements on U.S. Treasury checks** that represented a portion of the proceeds of a \$183,400 economic injury disaster loan his business obtained from SBA. The man was charged with fraudulently negotiating three Treasury checks, totaling approximately \$27,000, each jointly-payable to his company and to another business whose endorsement was falsely made. The indictment resulted from an SBA/OIG investigation based on a referral from SBA's Houston District Office.

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### *Small Business Investment Companies*

Leaders of Incorporated New York State Village Indicted for Conspiracy, Embezzlement, Fraud, and Money Laundering. A 21-count indictment of six

men living in an incorporated village in Rockland County, New York, was unsealed on May 28, 1997. The indictment charged them with participating in a number of fraudulent schemes to obtain tens of millions of dollars through the Specialized Small Business Investment Company (SSBIC) program and other Federal and state grant, loan, and subsidy programs. The charges in the indictment, all related to the incorporated village, include **conspiracy, embezzlement of Federal program funds, making false statements, mail fraud, wire fraud, mortgage fraud, and money laundering**. One man was a member of the board of directors of the SSBIC--a wholly-owned subsidiary of a local development corporation (LDC); a second man was a member of the board of directors of the LDC; and four other alleged co-conspirators were affiliated with other entities related to the village. The indictment charges that, during the 1980s and into the early 1990s, the first man misappropriated SBA funds through the SSBIC, in which SBA had invested \$1 million. He is alleged to have participated in extending loans to small businesses with which the SSBIC's officers and directors were affiliated, in violation of Federal regulations, and concealing these improper loans by submitting fraudulent documents to SBA. He is also accused of loaning SBA funds to enterprises that were not independently controlled by private business-owners but were affiliated with a religious school in the village, a not-for-profit entity that was ineligible to receive SBA funds. The SSBIC also allegedly loaned money to small businesses that, in turn, improperly paid over a portion of the loan proceeds to the religious school or to related

entities. The other defendants allegedly conspired to facilitate these illegal transactions. The U.S. Attorney's Office in Manhattan asked the SBA/OIG to join its ongoing investigation with the IRS and the OIGs of the Departments of Education and Housing and Urban Development.

*Editor's Notes:*

All of the articles appearing in this issue of the **Update** reflect outcomes of OIG investigative efforts. The **Update** generally reports all intermediate outcomes of criminal investigations (charges, pleas, court actions, convictions) as they occur, as well as final results (sentencings, settlements). While audits and inspections produce equally valuable results, they tend to take 6 to 9 months of research, analysis, and production prior to their publication. Consequently, they do not produce intermediate results that lend themselves to monthly reporting. Several audits and inspections are, however, currently underway and will be reported in upcoming issues of the **OIG Update**.



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

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