



Office of Inspector General Small Business Administration

May 1999 Update

Business Loans

Secret Service Agent Presented Award for Outstanding Assistance to Office of Inspector General.



Charles J. Quinn, Jr., Special Agent, U.S. Secret Service, Wichita, Kansas, was awarded an SBA/OIG plaque on March 23, 1999, in appreciation for his outstanding assistance in three joint cases, two of which have already been prosecuted in the District of Kansas. Thus far, these cases have resulted in four indictments, three convictions (one defendant died prior to trial), and orders of restitution totaling about \$580,000. OIG Special Agent Stan Chappell presented Mr. Quinn with this plaque on behalf of the OIG. The presentation was held at the U.S. Secret Service office,

Kansas City, Missouri, with Mr. Quinn's fellow agents and supervisors in attendance.

Investigation of California Loan Brokerage Firm Yields Further Results. The continuing investigation of the Inglewood, California, loan brokerage firm has recently produced more results.

1 A former owner of a gas station in San Bernardino, California, was sentenced on April 26, 1999, to serve 5 months of home detention and 3 years of supervised release. She also was ordered to pay \$10,000 restitution to SBA and a \$150 special assessment. The owner previously pled guilty to three counts of **making false statements to a Federally insured lender** by submitting altered individual income tax returns for 1988-90 as part of her application for a \$300,000 SBA-guaranteed loan. The loan was disbursed in June 1991; by April 1992, she had filed for bankruptcy protection. In August 1994, SBA charged off a \$292,189 loss on her loan. *(Updated from the July, 1998 Update.)*

2 A former owner of a car wash in Hemet, California, and his brother, a former owner of a car wash in Palmdale, California, were each charged on April 29, 1999, with one count of **making false statements to a Federally insured lender**. On May 17, 1999, each pled

guilty. The brothers had submitted altered individual income tax returns for 1987-89 in support of their separate applications for \$1 million SBA-guaranteed loans (one for each car wash). In addition, each represented to the participating lender bank that he was the sole proprietor of the car wash when, in fact, the brothers' corporation owned and operated the car wash. Each subsequently defaulted on his loan, leaving unpaid balances of \$956,409 and \$956,418, respectively. SBA is in the process of liquidating their collateral.

3 A former owner of a fish market in Castaic, California, was charged on April 29, 1999, with one count of **making false statements to a Federally insured lender**. He allegedly submitted altered individual income tax returns for 1988-90 as part of his application for a \$1 million SBA-guaranteed loan. The owner subsequently defaulted on the loan. The real property and business assets were sold, leaving an unpaid balance of \$505,663, which was ultimately charged off by SBA.

4 A former owner of an automotive repair business in Glendale, California, was charged on April 2, 1999, with one count of **making false statements to a Federally insured lender**. He pled guilty on May 10, 1999. The former owner had submitted altered Federal income tax returns for 1987-89 as part of his application for a \$1 million SBA-guaranteed loan. Approximately 1 year after the loan proceeds were disbursed, an individual who had been one of the original sellers of the business assumed the SBA-guaranteed loan. That assumpor subsequently defaulted on the loan. After all liquidation efforts were completed, SBA charged off a loss of approximately \$761,000 on this loan.

Former Deputy Sheriff in Minnesota Sentenced for Wire and Bank Fraud. A former chief deputy in Minnesota was sentenced on April 30, 1999, in U.S. District Court in

Colorado. He was ordered to serve 21 months of incarceration and 5 years of supervised release and to pay \$126,207 in restitution. He had pled guilty to one count of **wire fraud** and one count of **bank fraud**. He had personally guaranteed a \$100,000 SBA loan through a participating non-bank lender for a mail box franchise in Denver to be owned by his wife. A check disbursing \$80,000 of the loan proceeds was issued for the purchase of this franchise. The OIG's investigation revealed that he forged an endorsement on the check and used the funds for his personal benefit. He also submitted a falsified Personal Financial Statement on which he failed to disclose several debts and overstated his income. During the time period when the false loan documents were submitted, he had been arrested and was awaiting trial for misappropriating Drug Abuse Resistance Education funds in Minnesota. He was ultimately convicted of these charges and is currently incarcerated in a Federal prison. (The first 15 months of incarceration in his new sentence will run concurrently with his ongoing prison term.) *(Updated from the February 1999 Update.)*

Carolina Computer Consultant Sentenced for Aiding and Abetting the Making of a Material False Statement. The president of a computer consulting firm in Charlotte, North Carolina, was sentenced on May 6, 1999, to serve 4 months of community confinement, 4 months of home detention, and 5 years of supervised release. He was also ordered to pay \$102,201 restitution to SBA and a \$50 special assessment. He previously pled guilty to one count of **aiding and abetting the making of a material false statement in a loan application to a Federally insured bank**. 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%. Based on this and other representations regarding the

computer firm's financial condition, the participating bank approved a \$93,000 SBA-guaranteed term loan and a \$75,000 SBA-guaranteed line of credit. The computer firm failed to repay any of the \$128,145 that was disbursed to it. (*Updated from the October, 1998 Update.*)

Owner of a Mississippi Trucking Accessories Business Sentenced for Bank Fraud. The owner of a trucking accessories business in Long Beach, Mississippi, was sentenced on May 20, 1999, to serve 1 month in prison, 5 months in home confinement, and 5 years on supervised release. He was also ordered to pay restitution of \$109,505 to SBA and \$79,084 to other lenders. He previously pled guilty to one count of **bank fraud** in connection with a \$100,000 SBA LowDoc loan. This investigation found that he double-billed customers' credit cards, issued checks to several banks without sufficient funds to cover them, forged signatures to cash checks, and deposited checks written on closed accounts. (*Updated from the February 1999 Update.*)

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Disaster Assistance

Florida Jeweler Indicted for Making False Statements and Mail Fraud. The owner of a jewelry store in Miami, Florida, was indicted on April 20, 1999, on three counts of **making false statements to SBA** and two counts of **mail fraud** to induce SBA to approve and disburse a \$70,400 SBA physical-damage disaster loan for her business. Following Hurricane Andrew, the owner applied for a loan purportedly to replace damaged machinery, equipment, and inventory, and to repair/replace damaged leasehold improvements. She received SBA's permission to open a new store in a different part of Miami from where the storm-damaged store was located. She submitted numerous receipts as documentation

of her expenditures of the loan proceeds. After the loan defaulted, an on-site inspection by an SBA liquidation loan officer indicated that the new store may never have been opened. Subsequent inquiries determined that the "receipts" she submitted to SBA were false and most were altered estimates. SBA charged off this loan in 1997 with a loss of \$69,368. This indictment was returned as a result of a joint investigation with the Federal Bureau of Investigation (FBI) and the Internal Revenue Service (IRS). On April 23, 1999, special agents from the FBI and the OIG arrested the woman at her home in Miami and, while there, observed and seized numerous apparently counterfeit credit cards and the computer used to produce them. This evidence was referred to the U.S. Secret Service. The referral from SBA's South Florida District Office was originally referred to the FBI; in 1998, the Assistant U.S. Attorney overseeing the investigation asked the OIG to join the case.

Former SBA Employees Sentenced for Making False Statements on Loan Application. A former employee in SBA's Disaster Assistance Area 4 Office pled guilty on May 17, 1999, to two counts of **making a material false statement** and was sentenced on the same day. He was ordered to serve 4 months in prison, 4 months in a halfway house, and 3 years on supervised release. He was ordered to pay \$57,400 in restitution to SBA, \$10,000 in restitution to the Federal Emergency Management Agency (FEMA), and \$10,150 in fines. In addition, he was prohibited from seeking future Federal employment. A second former employee, who was also a licensed contractor, was sentenced on May 24, 1999, after pleading guilty to one count of **making a material false statement**. He was ordered to serve 4 months in home confinement and 3 years on probation, pay \$2,100 in fines, and perform 300 hours of community service. In addition, he is prohibited from seeking Federal employment. Following the January 1995 flooding in the Sacramento, California,

area, the first employee had applied to both SBA and FEMA for disaster assistance in connection with his home. During March 1996, he submitted false contracts, invoices, and checks purportedly evidencing repairs by and payments to the employee contractor to obtain a \$57,400 SBA disaster loan. He also submitted some of these false documents to FEMA in January 1997 as proof that the employee contractor had repaired the 1995 disaster damage and that any damage observed in 1997 resulted from the 1997 disaster. *(Updated from the January 1999 Update.)*

Illinois Contractor Convicted of Making Material False Statements. The president and owner of a construction company in Silvis, Illinois, was convicted on May 13, 1999, on all four counts of **making material false statements** on which he was indicted in 1998. He made the false statements to SBA in connection with a \$151,000 physical-damage disaster loan made to a resort in Orion, Illinois, after the Midwest flood of 1993. The owner, who at the time was an officer of the resort and had a controlling interest in it, caused the omission of his name on the loan application question asking for the names of the applicant's managers and officers. He did this so as to avoid having to disclose that he had been convicted of and imprisoned for credit card fraud and was still on supervised release, which would have made the resort potentially ineligible for SBA disaster assistance. After the loan was approved but before SBA had disbursed any funds, a construction agreement was submitted outlining the terms under which the developers would replace and repair the disaster-damaged property. The OIG's investigation determined that he caused that document to be falsified to enable the developers to realize \$70,000 more in profit. He falsely represented that the loan proceeds would be used solely to rehabilitate and replace disaster damage suffered by the resort. He used the disaster loan proceeds to pay off the resort's pre-existing debt, to pay

expenses of his wife's real property management firm, to pay for a trip to Myrtle Beach, South Carolina, and to pay gambling debts. All of these were ineligible uses of the disaster loan proceeds. The OIG initiated this investigation based on a referral from SBA's Disaster Assistance Area 2 Office. *(Updated from the June, 1998 Update.)*

California Owner of an Italian Marble Business Indicted for Mail Fraud. The former owner of an Italian marble business in North Hills, California, was indicted on May 14, 1999, on three counts of **mail fraud**. He had obtained a \$417,000 physical-damage disaster loan for his business from SBA following the 1994 Northridge earthquake. The OIG initiated this investigation based on a call to the Fraud Line and additional information provided by SBA's Disaster Assistance Area 4 Office. The investigation revealed that the owner submitted a false corporate tax return and an altered personal tax return to secure the disaster loan from SBA. According to his accountant, he transferred most of the funds from the SBA disaster loan to his bank account in Italy. He is currently residing in Italy, and the loan has been placed into liquidation status.

Alabama Realtor Sentenced for Mail Fraud. The owner of a real estate company in Enterprise, Alabama, was sentenced on May 13, 1999, to serve 4 months in prison, 4 months in home confinement, and 3 years on supervised release. He was also ordered to pay \$206,316 (principal and interest) in restitution to SBA. The owner previously pled guilty to one count of **mail fraud**. The OIG investigation found that when he applied for a \$186,800 SBA disaster loan for physical-damage allegedly sustained by his business following a 1990 flood, he fraudulently claimed damage to properties he did not own. He also mailed claims and receipts fraudulently showing that these properties were repaired or replaced.

The investigation was based on a referral from SBA's Alabama District Office. (*Updated from the February, 1997 Update.*)

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

Other IG related material can be found at:

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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.

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