



## Office of Inspector General Small Business Administration

November 1998 Update

### *Business Loans*

California Restaurateur Pleads Guilty to Making a False Statement to a Federally-Insured Financial Institution. The owner of a restaurant in Palm Springs, California, pled guilty on November 2, 1998, to a one-count indictment that charged him with **making a false statement to a Federally-insured financial institution.** The OIG initiated the investigation based on an allegation from a confidential source that the owner had submitted altered copies of tax returns in support of his application for an SBA-guaranteed business loan. The investigation revealed large discrepancies between the tax returns provided to the participating lender bank and those submitted to the Internal Revenue Service (IRS). Based on information in the IRS tax returns, SBA's Santa Ana District Office determined that the restaurant would not have qualified for the \$870,000 loan. The loan was funded by participating bank in SBA's Certified Lending Program.

Florida Manufacturer/Wholesaler Pleads Guilty to Making a False Statement to SBA. The President of a manufacturing/wholesale company located in Longwood, Florida, was sentenced on November 6, 1998, to serve 5

years probation and 150 hours community service and to pay (jointly with her husband) \$49,006 in restitution. She had previously pled guilty to one count of **making a false statement to SBA** in the company's application for a \$75,000 SBA-guaranteed LowDoc loan. The sentencing of her husband and the company's co-owner, on related charges was described in an earlier report. (*Updated from the August 1998 Update.*)

Two Officials of a Massachusetts Trade Association Plead Guilty to Conspiracy, Wire Fraud, and Making False Statements to a Federally-insured Financial Institution. Two persons associated with a now-defunct trade association in Canton, Massachusetts, pled guilty on November 4, 1998, the second day of trial, to crimes in connection with loan applications submitted on behalf of interstate truckers. The organizer of the trade association pled guilty to one count each of **conspiracy** and **wire fraud** and nine counts of **making false statements to a Federally-insured financial institution.** The court had previously dismissed two counts of **mail fraud.** The office manager of the association, who was originally charged with the same 13 counts, pled guilty to one count of **theft of money from a bank;** as part of her plea

agreement, the Government dismissed the 13 original counts. The organizer of the association admitted engaging in a scheme to defraud a number of truckers who received SBA-guaranteed loans to purchase their trucks and insurance. *(Updated from the May 1998 Update.)*

President of Kansas Electronic Game Maker Indicted for Making a False Statement to a Federally Insured Institution and Making a Material False Statement to SBA. The former president of a Kansas City, Kansas, manufacturer of an electronic game, known as "A Pitcher's Dream," was indicted on October 27, 1998, on one count each of **making a false statement to a Federally insured financial institution** and **making a material false statement** to SBA. The man allegedly overstated accounts receivable in his application to the participating lender and to SBA in order to qualify for a \$375,000 SBA-guaranteed loan. The company defaulted after making only two payments on the loan, and SBA purchased its 80% guaranteed share for \$299,194. After receiving the allegation, the OIG initially referred this matter to the FBI due to workload considerations. Two years later, however, the OIG joined the FBI in this investigation at the request of the U.S. Attorney's Office for the Western District of Missouri.

U.S. Virgin Island Owners of a Construction Company Indicted on Conspiracy, Bank Fraud, Making False Statements, and Money Laundering. Co-owners of a now-defunct U.S. Virgin Islands construction company, were indicted on November 5, 1998, on charges of **conspiracy, bank fraud, making false statements, and money laundering**. In July 1992, in applying for an SBA-guaranteed loan through the participating bank lender, the co-owners allegedly submitted a fraudulent business proposal and other documents listing \$420,000 as the value of machinery to be purchased with the loan funds, when the actual

cost of the machinery was only \$120,000. The machinery, manufactured by an Ohio company, was for the construction of poly-block building materials used in hurricane-resistant residential home construction. As part of the alleged fraud scheme, one of the owners opened a checking account in Las Vegas, Nevada, in the name of the proposed Ohio supplier of the machinery. Through the Las Vegas account, he was able to fraudulently receive the disbursements that were intended for the Ohio vendor. After relocating the company to Fort Lauderdale, Florida, without authorization from either the bank or SBA, the co-owners spent the majority of the loan funds on unauthorized expenses. The business failed in 1995 with a loss to SBA of more than \$400,000. The investigation originated from a referral by SBA's Puerto Rico and Virgin Islands District Office and is being conducted jointly with the FBI.

Pennsylvania Restauratuer is Sentenced for Making a Material False Statement. The President of a restaurant in Bethlehem, Pennsylvania, was sentenced on November 19, 1998, to 3 years probation, 100 hours community service, and a \$5,100 fine. He previously pled guilty to one count of **making a material false statement** to influence SBA to approve a \$170,000 guaranteed loan to his business. *(Updated from the August 1998 Update.)*

California Businessmen Sentenced for Bank Fraud. The owner of a car wash in La Crescenta, California, and a grocer in Pasadena, California, were each sentenced on September 15, 1998, to 3 years probation and a \$5,000 fine. Each businessman previously pled guilty to one count of **bank fraud** committed while applying for a SBA-guaranteed loan. *(Updated from the January 1998 Update.)*

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## ***Disaster Assistance***

California Doctor Pleads Guilty to Making Material False Statement to SBA and Mail Fraud. A M.D. in Beverly Hills, California, a recipient of SBA home and business disaster loans, was sentenced on November 9, 1998, to serve 2 years imprisonment and 2 years supervised release and to pay \$311,000 in restitution to the Department of Health and Human Services and a \$600 special assessment fee. He previously pled guilty to 2 counts of **making a material false statement** to SBA and 10 counts of **mail fraud** against the Medicare program. At the same time, he agreed to pay a \$1,500,000 civil settlement to the Government in connection with his Medicare activities. (Updated from the June 1998 Update.)

U.S. Virgin Island Businessman Pleads Guilty to Making False Statement to SBA. The owner of a feed store in St. Croix, U.S. Virgin Islands, pled guilty on November 5, 1998, to a charge of **making false statements to SBA** in connection with two disaster loan applications, totaling \$215,900, which he had submitted for his business and for his home. The man admitted providing SBA with grossly overstated revenue figures in comparison to the tax data filed with the Islands Revenue Bureau for the year 1993. Both applications were withdrawn from consideration when the discrepancies were discovered. A criminal complaint was filed and an arrest warrant was issued for him on May 24, 1996; he was placed in fugitive status after the OIG learned that he had fled to Jordan to avoid arrest. The owner was arrested on October 20, 1998, after attempting to re-enter the Virgin Islands. The Disaster Assistance Area 1 Office referred the case to the OIG.

*Editor's Notes:*

The following identifies the use of adjectives in these **Updates** to describe tax returns fraudu-

lently 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:

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

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