



## Office of Inspector General U.S. Small Business Administration

November 2002 Update

### *Business Loan Programs*

Texas Gas Station/Convenience Store Owner Pleads Guilty to Causing a False Statement to be Made to SBA. A gas station/convenience store owner in Rogers, Texas, pled guilty in a plea agreement on October 2, 2002, in the Southern District of Texas, to a one-count information charging him with **causing a false statement to be made to SBA**. Specifically, the defendant, who did not qualify for a loan himself, caused his wife to falsely obtain a \$1.18 million SBA-guaranteed loan to purchase the store by making her claim that she was 100 percent owner of the business on the loan application and that she was a U.S. citizen on the SBA Statement of Personal History. The plea agreement states that the Government will not charge his wife because of the defendant's guilty plea and acceptance of responsibility. OIG is conducting this investigation jointly with the Federal Bureau of Investigation (FBI).

California Dress Shop Owner and Her Son Indicted for Several Unlawful Activities. The owner and operator of a dress shop in Santa Monica, California, along with her son, were indicted by a Federal grand jury on November 13, 2002. The 19 count indictment included **bank fraud, false statements, conspiracy to commit money laundering, and engaging in monetary transactions in property derived from a specified unlawful activity**. The owner and her son engaged in a scheme to defraud two banks and SBA in the amount of \$550,000. The owner received two SBA-guaranteed loans for her business, one for \$250,000 and another for \$300,000. The owner submitted false purchase orders for garment supplies, equipment, and other manufacturing costs to both banks from "shell" companies that she and her son had created prior to the SBA loan applications. The two never bought any supplies or equipment although the banks issued disbursement checks made payable to the

"shell" companies. These funds were then withdrawn using cashier checks, wire transfers, and checks made payable to cash in order to funnel the money to offshore bank accounts also controlled by the two. Accounts were opened in the Caribbean and Greece with monies derived from SBA loan proceeds. The scheme concluded when the two wired the balance of the illegal loan proceeds to Greece. Based on the evidence obtained during the investigation and interviews of family and relatives, the two fled to Greece to avoid prosecution and are still fugitives. This investigation was conducted jointly with the Internal Revenue Service Criminal Investigations Division.

New York Electronic Imaging Company Employee Sentenced to Prison. The chief financial officer of a now defunct New York electronic imaging company was sentenced on November 7, 2002, to 7 years incarceration as a result of his December 21, 2001, guilty plea in New Jersey under the charge of **second degree theft by failure to make required disposition of property received**. The charge involved a scheme by the defendant and other company principals to illegally divert funds from a \$1 million SBA-guaranteed loan to be used for unauthorized purposes. This investigation, conducted jointly with the State of New Jersey, Division of Criminal Justice, and the U.S. Environmental Protection Agency OIG, was initiated as a result of another SBA/OIG investigation.

Illinois Business Owner Pleads Guilty to Making False Statements on Loan Application. A business owner in Cary, Illinois, pled guilty on November 13, 2002, to one count of **making a false statement** to SBA as part of a Rule 11-plea agreement. A participating lender and SBA approved a \$954,000 SBA-guaranteed loan to the defendant to purchase a restaurant maintenance and repair business. During the loan application process, the defendant submitted an SBA Personal Financial Statement failing to disclose a significant number of

liabilities such as \$87,000 in debt to a bank and a \$30,000 personal loan from his brother-in-law. This investigation was conducted jointly with FBI and was initiated based on a referral from a participating lender.

Ohio Businessman Indicted for Bankruptcy Fraud and Concealment of Assets. A businessman in Lima, Ohio, was indicted by a Federal grand jury on November 6, 2002, on two counts of **bankruptcy fraud**, and one count of **concealment of assets from the bankruptcy trustee**, in connection with his voluntary petition for relief under Chapter 11 of the Bankruptcy Code. In May 2002, after being told that SBA's programs could not accommodate his request for direct SBA funding to assist in his business reorganization, he submitted a loan application to the SBA's Ohio District Office, obtained blank copies of SBA loan documents, and fraudulently completed and filed false mortgages and promissory notes with the Allen County Recorder's Office in Lima, Ohio. These documents falsely detailed a \$10.75 million SBA loan, including a mortgage on his rental properties, when in fact SBA had not participated in any such transaction. He later included these fraudulent documents with his "Plan of Arrangements," which was filed with the Bankruptcy Court. This investigation was initiated based upon a referral from the Columbus District Office and was conducted jointly with FBI.

New Jersey Plating and Finishing Company Chief Financial Officer Sentenced. The chief financial officer of an East Rutherford, New Jersey, plating and finishing company was sentenced on November 7, 2002, to 5 ½ years incarceration and ordered to pay a \$4,000 fine. The sentence was the result of his guilty plea to charges of **theft by failure to make required disposition of property received in the second degree, and causing the abandonment of toxic pollutants in the second degree**. These actions were based upon two New Jersey State grand jury indictments. One related to a \$500,000 SBA-guaranteed loan and alleged the defendants failed to purchase machinery and fixtures for which the loan was intended; provided a forged landlord waiver in applying for the loan; and passed three checks containing fraudulent endorsements to banks. Although the company was also indicted along with its principals, those charges were later dropped because the company no longer existed. The second indictment alleged that the same defendants, along with the company's successor and its president violated the Water Pollution /Control Act by discharging chemical wastes and industrial wastes into

the Bergen County Utilities Authority sewer line. The president and the successor company later plead guilty to environmental charges. This investigation was initiated upon the request by the State of New Jersey, Division of Criminal Justice.

Maryland Restaurant President and Secretary Indicted for Wire, Bank, and Bankruptcy Fraud, and False Statements. The president and secretary of a now-closed restaurant in Baltimore, Maryland, were indicted on November 21, 2002, on one count of **wire fraud** and one count of **bankruptcy fraud**. The president was indicted individually on one count of **false statement** to the Federal Government and one count of **bank fraud**. The indictment alleges that he applied for a \$440,000 SBA-guaranteed loan and at that time completed an SBA form in which he falsely stated he had never been involved in bankruptcy proceedings. The indictment further alleged that he fraudulently procured a mortgage loan in a family members name and fabricated pay stubs and W-2 forms to falsely show the family member worked at their restaurant. It is further charged that the two concealed various assets and properties in the course of a bankruptcy filed in 1999. The investigation is being conducted jointly with FBI.

Ohio Book Binding and Graphics Company Owner Sentenced for False Statements. A Columbus, Ohio, businessman was sentenced on November 20, 2002, to 5 months imprisonment, plus 5 months home detention, 5 years of supervised release, and \$76,978 in restitution. He previously pleaded guilty to one count of making **false statements** to an FDIC insured financial institution, in connection with a \$337,500 SBA-guaranteed. The loan proceeds were to be used to purchase machinery and equipment for the business, however, the investigation found he intentionally prepared and submitted false invoices to the bank and SBA to obtain the loan, and used loan proceeds to pay for unauthorized purposes. This investigation was initiated based upon a referral from the bank and the SBA Columbus District Office.

California Businessman Charged with Making False Statements. A Long Beach, California, businessman was charged on November 26, 2002, in a superceding indictment with one count of **false statement**. He submitted false and fraudulent documents for a \$90,000 SBA-guaranteed loan, and then submitted a fictitious invoice for tenant improvements at his Cypress, California, business location from a non-existent construction company as partial proof of his required cash injection. With the submission of the fictitious invoice, he did not comply with the terms and conditions

of the SBA loan because he failed to provide a complete cash injection. Some tenant improvements were actually done; however, they were done by his cousin, who was not a licensed contractor in the State of California. In addition to the fictitious invoice, a facsimile cover sheet was sent to the lender's loan packagers by the defendant listing the fictitious invoice as paid.

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

New York Pension Fund Manager Pleads Guilty to Embezzlement. The former pension plan manager for a New York utilities company pled guilty on November 22, 2002, to an information charging him with **embezzlement** of employee benefit pension plan funds. According to the complaint he had misused a corporate credit card; double and sometimes triple billed for expenses such as investment publications, computers, and travel; and sought reimbursement for the same expenses from two or more sources, including the utility company and the pension plan brokers, thus defrauding the company pension plan. He admitted using the money for unauthorized personal expenses. He was also responsible for recommending investments of the company pension funds made through various venture capital firms, including a New York City small business investment company presently in receivership. The U.S. Attorney's Office, Eastern District of New York, requested the SBA/OIG join the Department of Labor OIG in its ongoing investigation.

## ***Government Contracting and Business Development Programs***

North Carolina General Contractor Sentenced for Mail Fraud. The president of a Raleigh, North Carolina, general contractor was sentenced on November 4, 2002, to 24 months imprisonment; 3 years supervised release; and restitution of \$1.5 million for a **mail fraud** violation. He submitted false payment certification requests under various Army, Navy, Postal Service, and Veterans Administration Section 8(a) contracts stating that all subcontractors and vendors were paid in order to induce disbursements of contract funds. He acknowledged responsibility for the false statements resulting in total losses of more than \$1.2 million on 10 separate Government. The Government lost an additional \$700,000 having to fund the completion of several contracts left

incomplete by the contractor. In addition, he agreed to a permanent injunction (debarment) barring him and/or any entity in which he might have a financial interest, from doing business as a general contractor, subcontractor, vendor, or supplier with the U.S. Government. SBA/OIG initiated this investigation based on a referral from Army Criminal Investigations Division, Raleigh, North Carolina.

## ***Office of Inspector General***

Semiannual Report to Congress. The Office of Inspector General transmitted its Semiannual Report to Congress for the period of April 1 through September 30, 2002, to the Administrator of SBA. The final report is expected to be sent to Congress and available to the general public the first week of December 2002.

The activity Update is produced by SBA/OIG, Peter L. McClintock, Acting Inspector General.

OIG has established an e-mail address ([oig@sba.gov](mailto:oig@sba.gov)) that we encourage the public to use to communicate with our office. We welcome your comments concerning this Update or other OIG publications. To obtain copies of such documents please contact:

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