



Office of Inspector General Small Business Administration

October 2000 Update

Business Loans

Owner of California Telemarketing Agency Sentenced for Making False Statements to Federally-Insured Bank. The owner of a telemarketing agency in North Hollywood, California, was sentenced on October 2, 2000, to 9 months community confinement (reduced by 45 days for time already served). A Federal district court previously found that he had violated the terms of his supervised release from prison by **making false statements to a federally-insured bank** in applying for a \$135,000 SBA-guaranteed loan. In the Statement of Personal History (SBA Form 912) included with his 1999 application, he indicated that he had no criminal history. In fact, he had been convicted of transporting more than five kilograms of cocaine into the United States and was sentenced to more than 10 years in prison. When the owner applied for the SBA-guaranteed loan (his application was subsequently declined), he was on supervised release for the drug crime. Further investigation revealed he had also made false statements, including concealing his criminal history, in applying for an earlier \$430,000 SBA-guaranteed loan for another company. Scheduled repayments on that loan are current. The U.S. Probation Office asked OIG to join its investigation.

Texas Attorney Sentenced for Bank Fraud. A Houston, Texas, attorney was sentenced on October 6, 2000, to serve 3 years probation and pay \$13,413 in restitution to SBA. He previously pled guilty to one count of **bank fraud**. A criminal information charged him with knowingly making a false statement to fraudulently influence disbursements on a \$95,000 SBA-guaranteed business loan. Specifically, the information charged him with falsely certifying that a \$7,500 loan disbursement check was used to pay an individual for a law library. The investigation also disclosed that the attorney submitted false invoices for office furniture and computer equipment that he never purchased. The attorney then falsely negotiated the joint payee disbursement checks. Finally, the investigation disclosed that the attorney used part of the loan proceeds improperly. OIG initiated this investigation based on information received from SBA's Houston District Office.

Accountant and President of Missouri Real Estate Company Sentenced for Money Laundering and Bank Fraud. The president of a St. Louis, Missouri, real estate company was sentenced on May 4, 2000, to serve 1 year and 1 day incarceration, 5 years supervised release, and pay \$36,748 in restitution to SBA and the participating lender. He previously pled guilty to one count each of **money**

laundering and **bank fraud**. He made false statements to both SBA and the bank to obtain a \$70,000 LowDoc business loan, submitting documents, including his SBA loan application and fictitious tax returns, that contained a false Social Security number (SSN). Additionally, a former St. Louis-area accountant was sentenced on June 29, 2000, to serve 1 day incarceration, 5 years probation, and pay \$36,748 in restitution to SBA and the participating lender. He previously pled guilty to one count of **bank fraud** in connection with the LowDoc loan made to the real estate company and former employer. The accountant generated and submitted false documents to obtain the \$70,000 loan using an SSN that belonged to an individual who died in 1976. SBA/OIG was invited by the Department of Housing and Urban Development OIG to participate in the investigation in which the Internal Revenue Service (IRS), the Social Security Administration (SSA) OIG, and the Federal Bureau of Investigation (FBI) were also involved.

Owner of Dry Cleaning Business Indicted for Making False Statements to Federally-Insured Banks and Using False SSN. Federal agents arrested the president of a defunct Kansas City, Missouri, dry cleaning business in Oklahoma on October 16, 2000. He had been indicted (under seal) in May 2000 on 10 counts of **making false statements to federally-insured banks** and **using false SSNs**. The dry cleaning business received a \$98,235 SBA-guaranteed loan in June 1998 and immediately defaulted. A Suspicious Activity Report filed by the participating lender bank resulted in a joint investigation by SBA/OIG, the Secret Service, SSA's OIG, and the Postal Inspection Service (PIS). The investigation determined that the businessman made numerous false statements, including providing a false tax return for the business in the loan application package. The investigation further determined that the businessman used false SSNs and provided false tax returns to obtain five personal loans.

The businessman defaulted on all six of these loans, resulting in total lender losses of about \$197,000.

Four Individuals and Two Corporations Indicted in New Jersey Following SBA Fraud Investigation. A New Jersey State grand jury issued two indictments on October 17, 2000, charging a total of four individuals and two corporations with fraud against SBA and violations of environmental laws. In the first indictment, an East Rutherford, New Jersey, plating and finishing company and three of its principal officers were charged in connection with a \$500,000 SBA-guaranteed loan obtained through a non-bank lender. The plating and finishing company was charged with **theft by failure to make required disposition** and four counts of **uttering a forged instrument**. The three principals were each charged with **theft by failure to make required disposition** and **misconduct by a corporate official**. Two of the three principals were also indicted on four counts of **uttering a forged instrument**, while the third was indicted on three counts of **uttering a forged instrument**. The indictment alleges that the defendants failed to purchase machinery and fixtures as required in the loan agreement; provided a forged landlord waiver in applying for the loan; and passed three checks to banks knowing that endorsements had not been authorized by the endorsing party. The investigation also resulted in a second indictment that focused on environmental crimes, naming the same four defendants plus a second plating and finishing company and its owner. The second indictment alleges that the defendants violated the Water Pollution Control Act by **discharging chemical wastes and industrial wastes** associated with the process of metal plating into the Bergen County Utilities Authority sewer line. The defendants are also charged with **unlawfully storing and abandoning toxic pollutants and hazardous wastes**. The first plating and finishing company ceased operating under its name in 1996; by then the fourth man was its

owner, and he established the second plating and finishing company at that site. The investigation was conducted jointly with the State of New Jersey's Division of Criminal Justice, which had requested SBA/OIG's assistance, and the U.S. Environmental Protection Agency OIG.

New Jersey Loan Packager Agrees to Cease and Desist From Soliciting Money or Property Through U.S. Mail. As confirmed by an order issued on October 6, 2000, by a Postal Service judicial officer, a Ramsey, New Jersey, a loan packager agreed to cease and desist from soliciting money or property through the U.S. mail in connection with his loan packaging business and to repay consumers \$62,850. The repayments go to 14 customers in 11 States. The Postal Service's administrative complaint alleged that the loan packager, attracted attention to his scheme via an Internet web site where consumers could complete a loan application and read a description his funding company's supposed loan programs, including SBA-guaranteed loans. The packager would follow up with a written agreement **requiring loan applicants to pay a fee of 5 percent of the loan amount**, as well as a refundable 1 percent good faith deposit due immediately upon signing the agreement. The administrative complaint alleged that the loan packager **falsely represented his company to be a legitimate loan broker with authority to approve consumer loans** in New Jersey, when in fact he simply passed on the loan applications to lenders. It also alleged that he **falsely represented that the advance fees were to cover loan processing and were refundable** if the borrower did not obtain the loan. Most of the packager's customers were never approved for loans, nor were their deposits ever refunded. OIG joined PIS in this investigation.

President of New Jersey Franchiser Pleads Guilty to Making Material False Statement. The president of a Millstone Township,

New Jersey, franchise company pled guilty on October 13, 2000, to one count of **making a material false statement** to influence a bank to make a \$150,000 SBA-guaranteed loan to finance the sale of a pet store in Tampa, Florida. As part of the plea agreement, the one count of **conspiracy** on which he had also been indicted was dismissed. The store's seller had allegedly signed and submitted a bill of sale that indicated a total price of \$225,000 and verified that he had received a \$75,000 cash injection from the buyers. The franchiser's president admitted submitting a letter to the bank corroborating that the \$75,000 cash injection from the buyers had been paid. In fact, the sale price was \$200,000 and the buyers had made a cash injection of only \$25,000. An undisclosed \$25,000 note between the seller and the buyers made up the difference. OIG is investigating this case jointly with FBI.

Leasehold Owner of Texas Convenience Store Pleads Guilty to Possession and Forgery of Counterfeit Security. A leasehold owner of a convenience store in Irving, Texas, pled guilty on October 23, 2000, to one count of **possession and forgery of a counterfeit security**. The leasehold owner cashed a \$54,211 SBA loan disbursement check made jointly payable to him and a corporation. He cashed the check by forging the endorsement of the corporation. As part of his plea agreement, the leasehold owner agreed to cooperate in the prosecution of two additional subjects associated with the \$400,000 SBA-guaranteed loan. OIG is conducting this continuing investigation jointly with FBI.

An IRS Employee and Three Principals of Texas Gas Station Indicted for Conspiracy and Making Material False Statements. An IRS employee and three principals of an Irving, Texas, gas station were indicted on October 25, 2000, on 1 count of **conspiracy** and 14 counts of **making material false statements**. Each one was indicted for taking part in a scheme to induce a non-bank lender

and SBA to fund a \$200,000 SBA-guaranteed loan. To obtain the loan, one of the principals and his wife posed as borrowers intending to purchase the gas station from another principal who posed as sole proprietor. The three principals submitted six falsified copies of tax returns, three fraudulent IRS tax return verifications, and numerous other fraudulent documents (including their required \$60,000 capital injection into the business) in support of the loan. The IRS employee improperly used his position with IRS by producing bogus tax return verifications for three of the six bogus tax returns by manipulating the use of IRS' Integrated Data Retrieval System. OIG conducted this investigation, which is continuing, jointly with the Department of Treasury's OIG for Tax Administration.

New Jersey Die Cutting Company Owner Pleads Guilty to Bankruptcy Fraud. The owner of a die cutting company in Fairfield, New Jersey, pled guilty on October 19, 2000, to one count of **bankruptcy fraud**. The owner was the recipient of a now-defaulted \$940,000 SBA-guaranteed loan from a non-bank lender. In connection with his personal bankruptcy petition, he concealed from creditors and the U.S. trustee a condominium he owned. During the investigation, OIG obtained the court file pertaining to the owner's bankruptcy proceedings in which he claimed to own no real property. The investigation uncovered a deed and mortgage which revealed that he took ownership of the condominium on or about June 7, 1994, and tax records showing his ownership continuing to the present. The case was referred to OIG by SBA's New Jersey District Office and is being worked jointly with FBI.

Government Contracting and Business Development

New York General Contractor Sentenced for Conspiracy, Making Material False Statements, and Bank Fraud. The president of a

Long Island City, New York, general construction contractor was sentenced on October 20, 2000, to 5 years supervised release and \$259,369 restitution. He previously pled guilty to one count each of **conspiracy, making material false statements** to SBA, and **bank fraud**. He admitted that, as part of the company's application to obtain certification into SBA's Section 8(a) program, he falsely stated on an SBA Form 912 (Statement of Personal History) that he had never been arrested or charged with a crime. The investigation disclosed that the president was arrested on theft charges. He also admitted submitting documents containing inflated income information to induce a federally-insured financial institution to extend a \$50,000 line of credit to the company. The company was awarded a \$378,000 Section 8(a) contract to do work at a Federal correctional institution in Otisville, New York. The president also admitted that he and one or more unnamed others conspired to defraud the Government by submitting fraudulent payment and performance bonds and falsified payroll reports in connection with the Section 8(a) contract. OIG's joint investigation with FBI was initiated based on a referral from the Federal Bureau of Prisons.

Agency Conduct Activities

Former SBA Timekeeper Pleads Guilty to \$5,000 Overtime Scheme. A former SBA time-and-attendance keeper pled guilty on October 2, 2000, to one count of **Theft II**, a misdemeanor violation of the District of Columbia criminal code. She was sentenced to pay \$5,430 in restitution to SBA, to serve 1 year of probation, and to undergo weekly drug testing. She had admitted to submitting falsified time sheets to be paid \$5,441 in overtime that she did not work. She retired from the Government during the investigation. OIG initiated the investigation based on a referral from SBA's Office of General Counsel.

Former SBA Employee Pled Guilty to Filing False Claim. The former coordinator of SBA's Business Information Center in Itta Bena, Mississippi, pled guilty on October 30, 2000, to one count of **filing a false claim** relative to her relocation from Texas to Mississippi and will be sentenced on January 19, 2001. As part of the plea agreement, the Government agreed to dismiss the other three false claims counts on which she had also been indicted. She had claimed reimbursement expenses for her two sons and husband when they actually did not relocate with her. OIG's investigation determined that both sons were in reform facilities at the time of her relocation and her husband never moved to Mississippi. The total amount of false relocation expenses she claimed was \$8,779. On August 9, 2000, she was removed from SBA employment based on the results of this investigation. OIG initiated this investigation based on a referral from SBA's Mississippi District Office.

Office of Inspector General

OIG submitted its Semiannual Report to the Administrator of SBA this month. The report covers the activities of OIG from April 1 to September 30, 2000. Included in the report are summaries of OIG's audits, inspections, and investigations for the semiannual period. We are pleased to report that OIG achieved \$22,701,316 in potential dollar results (\$1,455,968 in potential recoveries, including judicially awarded fines and restitution, \$11,308,671 in management avoidances, \$880,677 in disallowed costs agreed to by SBA management and \$9,056,000 in management commitments to use funds more efficiently), 43 indictments and 16 convictions during this reporting period. By law, the Report must be sent to Congress on November 30, 2000, and will be made available to the public shortly thereafter.

OIG has established an e-mail address (oig@sba.gov) that we encourage the public to

use to communicate with our office. We welcome your comments on our publications, requests for reports, suggestions for possible audits, or referrals of possible incidents of waste, fraud, or abuse.

The activity Update is produced by SBA/OIG,
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Comments or questions concerning this Update or request for copies of OIG audits, inspections, and/or other documents should be directed to:

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Many audit and inspection reports can be found on the Internet at www.sba.gov/IG/reports.html

If you are aware of suspected waste, fraud, or abuse in any SBA program, please call the:

OIG FRAUD LINE at (202) 205-7151
or
TOLL-FREE FRAUD LINE (800) 767-0385