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Farmer's Fall Shakes Carrot Capital

The biggest bribery scandal in IRS history could cause economic hardship in a small California farming town

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HOLTVILLE, CALIF.

WHILE hotel-queen Leona Helmsley's tax-evasion melodrama played to national audiences over the past three years, a wealthy California farmer quietly pleaded guilty to what prosecutors call the largest bribery scandal in Internal Revenue Service (IRS) history.

After paying a record \$23 million in penalties and back taxes, Mario Saikhon began serving a 6-1/2-year prison term last week.

Justice was done, but unlike the public gloating over the conviction of Mrs. Helmsley, who was known for her conspicuous arrogance, Mr. Saikhon's punishment produces bittersweet emotions in this dusty farm town, known as the carrot capital of the world.

Many here deeply regret Mr. Saikhon's fall from grace. And since Saikhon left for prison without any public statements as to what will become of his business, local officials are concerned that closing his farming and packing operation may cause a local tax increase.

In a community of conservative farmers whose personal wealth is usually indeterminable behind the battered disguises of pickup trucks and droopy Levis, locals would sometimes snipe at the uncommonly dashing figure cut by Saikhon. He drove a Ferrari, wore European-cut clothing, and owned a condominium in New York's Trump Parc.

But most people here considered Saikhon a local boy who made good. The son of an Indian Sikh immigrant and a Mexican mother, he turned two small plots of land acquired in the 1950s into a \$100-million farming empire. He went wrong little by little, according to lawyers on both sides of the case. He cut corners on his tax returns, got away with it, and eventually hid \$30 million of earnings from the IRS. He did it by paying more than \$600,000 in bribes to an IRS agent who was setting up and running sham businesses for Saikhon while auditing the farmer's tax returns.

If Saikhon's farm closes, the potential impact on Holtville is stark.

City Hall, a bungalow in a downtown park, collects a substantial share of its tax revenue from Saikhon's packing and shipping headquarters, usually the site of a line of diesel trucks and train cars waiting for his packed produce.

Saikhon employs 1,000 to 2,000 workers during peak seasons in a town of about 5,000 residents. Without sales to these workers, local store managers are uncertain what they will do. They will also miss Saikhon himself, who, unlike many cash-strapped farmers, always paid his bills.

But at the same time, through the 1980s, Saikhon fell deeper and deeper into fraud and graft.

Even Phillip L. B. Halpern, the hard-driving assistant United States attorney who untangled the complicated scheme, talks about the case as a sort of "Greek tragedy" in its moral proportions.

Mr. Halpern says there's a "quantum difference" in the complexity, amount of money,

and breach of public trust in the Saikhon case, compared with the Helmsley case. Helmsley wrote off personal expenses as corporate deductions, repayed just \$9 million in back taxes, fines, and penalties, and was not accused of any bribery. Despite Saikhon's extensive wrongdoing, however, Halpern aims his harshest criticism at Robert A. Morales Sr., the IRS agent now serving 12 years in prison for his part in the scheme (see story on Page 13).

Reached by phone at his sprawling Holtville headquarters before he went to prison, Saikhon politely declined to be interviewed about his case or about what his business plans are, citing pending "litigation" with Cesar Chavez's United Farm Workers (UFW).

The union fought long battles with Saikhon that erupted into violence during a 1979 lettuce strike when a farm worker was shot dead on Saikhon property. Now it is trying to collect more than \$3 million in back pay to union workers that was ordered by state courts.

"We don't think he'll close. He's hiding the money," says Gilbert Rodriquez, the union's local representative.

BECAUSE the corporation, not Saikhon personally, is liable for the back pay, Mr. Rodriquez speculates that all of Saikhon's corporate assets are being shifted out of his corporation to Saikhon's personal accounts. He says he believes Saikhon is maneuvering to break the union hold on his farming operations by using his jail term as a legitimate excuse to close his business and shift his wealth to a new business or partnership not subject to union contracts.

Rodriquez and union members who have worked for Saikhon see a cruel irony in the fact that Saikhon could pay outright \$23 million in fines and taxes but will pay to litigate indefinitely to avoid spending a fraction of that amount for back pay to farm workers who make as little as \$4.25 an hour.

While local farmers have noticed that Saikhon's land is being plowed and readied for the winter lettuce, broccoli, and cauliflower season, his corporate attorney, Scott

Wilson, says the company's plan "this season has not been determined" except that it has scaled back to just 50 full-time employees.

Still, Holtville city officials are having to calculate how they would pay their bond obligations if Saikhon doesn't operate his packing plant even for a season.

"It's going to hurt," says City Manager Richard Ferguson, figuring that local tax rates could go up 5 percent right away if the city can't collect the revenues for Saikhon's business and property taxes for even just this year.

Mr. Ferguson notes that a local whitefly infestation, virtually eliminating one growing season for melons, has already reduced tax revenues and increased unemployment to record levels.

The roots of the Saikhon drama go back to the early 1980s when the farmer first met IRS agent Morales, who had been routinely assigned to audit his 1977 and 1978 tax returns.

It is unclear - indeed, it is still disputed by both men - how their meeting snowballed over time into a historic crime. But once Mr. Morales became Saikhon's auditor, he was able to flag the farmer's personal and corporate tax returns, year after year, keeping them from the scrutiny of other auditors.

Their scheme to hide more than \$30 million of Saikhon's money from the government during the 1980s was so involved that it takes a five-foot poster, still hanging on prosecutor Halpern's wall, to chart its chronology and scope.

"Our first thought was money laundering - drugs is what typically leaps to one's mind," says Halpern of the first clue in the crime, which came from a private tax-preparing company that employed Morales's son, Robert Morales Jr. The son, now serving a 41-month prison sentence for his part in the crime, was reported to the IRS by his colleagues after boastfully showing them a suitcase full of cash, Halpern says.

Over many months, investigators were able to trace the money young Morales was bragging about to sham farming corporations set up by his father. The corporations received Saikhon farming profits and were just one way Morales received bribes from Saikhon. These corporations also served as a place for the farmer to hide money by deducting payments to the companies as "farming expenses."

EVEN after all of this was laid out in court and local newspapers, those who condemn Saikhon's crime and snipe at his wealth don't really condemn the man they know.

"I asked Mario what happened, and he said he made a mistake, and they're getting back at him," says Lowell Kamper, who until recently owned a country store near Saikhon's fields.

"He may have done something wrong," Mr. Kamper says. But what the community loses by Morales going to jail makes the punishment not worth it to society, he says. Kamper's long list of Saikhon's good deeds includes a story of how the farmer set up an anonymous running tab at Kamper's store to buy food for indigent, migrant farm workers who were passing through.

The UFW brought two Saikhon employees to an interview to complain about his failure to give them back pay and the possibility that they wouldn't have jobs if Saikhon decides not to plant winter vegetables this month.

Andres Reyes, a Mexican citizen and father of 23, has picked lettuce for Saikhon for more than 20 years and remembers - as do many of his laborer friends - getting a \$2,000 interest-free loan from the farmer back in 1973.

"I'm not on either side," Mr. Reyes says about Saikhon's government problems. He says he just doesn't understand how this incredible wealth could be exposed, and yet the back pay the courts say Reyes is owed has not been paid.



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