



Office of Inspector General

May 2013



Business Loans

New Jersey Loan Officer Sentenced

On May 7, 2013, a former New Jersey loan officer was sentenced to 36 months of probation, and ordered to pay \$127,822 in restitution, and a \$100 special assessment fee. He previously pled guilty to a Criminal Information charging him with one count each of making false statements and concealing material facts. The investigation revealed that an organized group of foreign nationals were obtaining credit cards and loans from various lending institutions using false identities, documents, and business names. Loan officers at various banks were also involved in the scheme. Many of the loans were SBA-guaranteed under the Express Loan program. The former loan officer assisted in securing loans for the group by falsifying site visit forms for their businesses. Sixteen loans totaling approximately \$2 million were identified as having been originated by him. The majority of these loans have been charged-off resulting in losses of approximately \$1.6 million. This is a joint investigation with the Internal Revenue Service (IRS) – Criminal Investigation (CI), the Englewood New Jersey Police Department, and the Bergen County Prosecutors' Office.

Texas Men Indicted

On May 8, 2013, two Texas men were each indicted on one count of wire fraud and one count of conspiracy. The indictment also included a notice of criminal forfeiture for property, money, and/or substitute assets estimated to be at least \$1,041,096. This amount represents the post-liquidation loss amount attributable to two SBA-guaranteed loans obtained

by the first man in connection with a Texas hotel. The indictment alleged that he provided fraudulent bank statements to a bank when securing a \$990,000 SBA-guaranteed loan in 2008 to purchase the hotel. Some statements were altered to show a significantly higher account balance and others showed him as the accountholder when the account actually belonged to the second man, the seller of the hotel. Further, the seller allegedly funded the buyer's full cash injection, attempting to disguise money loaned to the buyer as consulting fees and sales commissions. In July 2009, the buyer received a second SBA-guaranteed loan for \$510,000 to make improvements and additions to the hotel. Again, the seller allegedly supplied the funds for the buyer's cash injection. Records in the loan file also identified the seller as the general contractor handling the construction project, in spite of his claim that he was planning to leave the United States.

Recovery Act

California Man Charged

On May 13, 2013, a California man was charged by a Criminal Information with one count of making false statements. In March 2009, the man applied for a \$50,000 SBA-guaranteed small business loan under the American Recovery and Reinvestment Act (ARRA). He certified that the information contained in his application and on SBA forms was true and complete, which caused the bank to approve his loan. In his loan application, however, the applicant allegedly misrepresented his criminal history.

California Woman Charged

On May 15, 2013, a California woman was charged via Criminal Information with one count of false statements to a federally insured bank. She pled guilty to the charge on May 22, 2013. The investigation centered on the woman's application for a \$1,750,000 bank loan for her company, which managed parking facilities and provided shuttle services. The loan was to be used for working capital and to consolidate business debt and was guaranteed by the SBA using ARRA funds. The investigation found the woman failed to disclose liabilities owed to friends and family and past-due tax debt, some of which were paid with the loan proceeds.

Disaster Loans

Retired Texas Judge Sentenced

On May 29, 2013, a retired Texas judge was sentenced to one-year of probation and a \$2,000 fine. Prior to sentencing, he paid back the remaining \$106,000 SBA disaster loan balance. The sentencing relates to his false claims to the SBA and the Federal Emergency Management Agency (FEMA) to obtain Hurricane Ike disaster assistance. The investigation determined that the man obtained approximately \$132,000 in SBA and FEMA funds by falsely claiming his primary residence was in Crystal Beach, Texas. In addition, he provided false statements concerning his required personal equity injection for the SBA disaster loan. This is a joint investigation with the Department of Homeland Security Office of Inspector General (OIG).

Government Contracting

Idaho Woman Indicted

On May 17, 2013, a superseding indictment was filed against an Idaho woman who was the president and majority stockholder of construction company. The woman was charged with four counts of making and subscribing a false tax return, two counts of conspiracy, five counts of wire fraud, one count of making a false statement, five counts of mail fraud, four counts of interstate transportation of property taken by fraud, one count of conspiracy to commit money laundering, one count of conspiracy to obstruct justice, and one count of obstructing justice. The superseding indictment also seeks forfeiture of over \$9 million as the proceeds of the alleged crimes. In addition, it charges the woman's business partner and a minority shareholder with obstructing and conspiring to obstruct a federal criminal proceeding. The charges against the woman and her partner relate to fraud within the SBA's Section 8(a) Program through which participants are allowed access to a variety of federal set-aside contracts. In addition, participants within the program are grandfathered into the U.S. Department of Transportation's (DOT) Disadvantaged Business Enterprise (DBE) program, which offers similar set-aside contracts within each state. The 8(a) and DBE programs are both designed to help economically and

socially disadvantaged businesses compete in the marketplace. The superseding indictment charges that the woman's construction company received more than \$2.5 million in government contracts based on the company's fraudulently obtained SBA 8(a) status and more than \$6 million based on the company's false DBE status. The charges allege that the woman took steps to lower her personal net worth, such as acquiring, holding, and transferring assets into the names of nominees, thus enabling her to successfully apply for and be admitted into the 8(a) Program. The Superseding Indictment alleges that her actions allowed her business to maintain, fraudulently, its certification with the DBE Program in the states of Idaho and Utah. This is a joint investigation with the IRS CI, DOT OIG, and the FBI.

Indictments Issued in Iowa

On May 22, 2013, two Iowa individuals and two construction firms were charged in a 32-count indictment containing charges of conspiracy to commit offense(s) or to defraud the United States, major fraud, attempt and conspiracy, and money laundering. In addition, one of the individuals and one company were also charged with wire fraud. The indictment alleged that the individuals and companies took part in a scheme to obtain approximately \$23.4 million in contracts through the SBA's Service-Disabled Veteran-Owned

Small Business (SDVOSB) set-aside program by claiming one of the companies to be a certified SDVOSB when it was not. Further, the indictment alleged that the individuals engaged in a series of acts to cover up the true ownership and control of the alleged SDVO qualified company by misrepresenting the true ownership to the federal government and its agencies. It is also alleged that the company was acting as a front for the second company and related companies to secure SDVOSB contracts from the U.S Department of Veterans Affairs and the U.S. Department of Defense.

On May 23, 2013, four seizure warrants were issued to secure illicit proceeds from accounts held at financial institutions under the control of the individuals. The funds to be seized total in excess of \$3.6 million. This is a joint investigation with the Defense Criminal Investigative Service (DCIS), General Services Administration OIG, U.S. Department of Veteran Affairs OIG, and the Federal Deposit Insurance Corporation OIG.

Florida Man Pleads Guilty

On May 23, 2013, a Florida man pled guilty in U.S. District Court, Eastern District of Virginia, to one count of major fraud against the government. The man admitted that in 2005, he learned that an executive at a protection services firm illegally controlled another security service consulting company based in Arlington, Virginia.

32-Count Indictment

Issued in Iowa

For Scheme to

Fraudulently Obtain

\$23.4 Million in

Contracts through SBA's

Service-Disabled

Veteran-Owned Small

Business (SDVOSB)

Set-aside Program.

The consulting company was a participant in the SBA Section 8 (a) Program, which enables certain small businesses to receive sole-source and competitive-bid contracts set aside for minority-owned and disadvantaged small businesses. Although the executive controlled the second firm, the company had obtained its 8(a) status based on the disadvantaged status of the firm's nominal owner. The Florida man admitted that he agreed to pay the executive of the second firm and the firm a fee in exchange for allowing the man to use its 8(a) status to obtain National Aeronautics and Space Administration (NASA) and other U.S. government contracts. Although the second firm was required to perform at least 50% of the work on the contracts and had represented it would do so, no employees from the firm actually performed any work. Instead, the Florida man and others did all of the work as independent contractors but concealed that fact from the government agencies. In addition, he submitted fraudulent proposals and invoices to hide their scheme, used a third-party company's Federal Employer Identification Number to prevent reporting of his contractor income to the IRS, and did not pay any taxes on the income he received from the firm. This is a joint investigation with NASA OIG, DCIS, and DHS OIG.

Office of Inspector General

Peggy E. Gustafson

Inspector General

To promote integrity, economy, and efficiency, we encourage you to report suspected instances of fraud, waste, abuse, or mismanagement in any SBA program to the OIG Hotline* at

<http://www.sba.gov/office-of-inspector-general/2662>

Or call the OIG Hotline toll-free, at (800) 767-0385

**In accordance with Sections 7 and 8L(b)(2)(B) of the Inspector General's Act, confidentiality of a complainant's personally identifying information is mandatory, absent express consent by the complainant authorizing the release of such information.*

We welcome your comments concerning this update or other OIG publications.
To obtain copies of these documents please contact us at:

SBA OIG

409 Third Street SW,

7th Floor

Washington, DC 20416

E-mail: oig@sba.gov

Telephone: (202) 205-6586

FAX (202) 205-7382

Many OIG reports can be found on the OIG's website at

<http://www.sba.gov/office-of-inspector-general>

To view recent press releases, click [here](#), or visit our website at

<http://www.sba.gov/office-of-inspector-general/17611>