



Office of Inspector General U.S. Small Business Administration

December 2011 Update

Business Loans

Two Texas Businesswomen Plead Guilty to Conspiracy

On December 6, 2011, a laundromat owner pled guilty, to a superseding information charging her with one count of conspiracy to commit bank fraud. On December 8, 2011, a commercial property owner also pled guilty to conspiracy to commit bank fraud. The owner of the laundromat received an SBA loan of \$1,853,000 to purchase a laundromat affiliated with the commercial property owner. She also obtained two commercial loans totaling \$1,332,500 to purchase land from companies affiliated with the commercial property owner. The investigation disclosed that both women conspired with others to defraud the SBA and two separate banks by misrepresenting the laundromat owner's assets, and source of equity injection and down payment funds. This is a joint investigation with the Federal Bureau of Investigation (FBI).

Texas Sales Manager Pleads Guilty to Bank Fraud

On December 12, 2011, a sales manager pled guilty to one count of bank fraud for knowingly executing a scheme to defraud and to obtain money from a bank by means of false and fraudulent pretenses. The investigation was based on a referral from the FBI and a bank, which alleged that the sales manager received loan applications from potential borrowers and then inflated the income information provided by the applicants before submitting the fraudulent loan applications to various banks. The investigation determined that there were 26 loans or lines of credit where the income information provided to the banks was not the same as what the applicants provided to the sales manager. Of these 26 loans or lines of credit, at least 14 were delinquent or defaulted, resulting in a cumulative outstanding balance of \$530,512. The SBA guaranteed five of the 14 delinquent or defaulted loans.

Former Missouri Bank VP Sentenced for Bank Fraud

On December 14, 2011, the former vice president (VP) of a Richland, Missouri bank was sentenced to 41 months in prison, 5 years supervised release, and \$451,763 in restitution. He was also barred from holding any position of financial trust without permission. The VP previously pled guilty to one count of bank fraud on July 22, 2011.

The investigation disclosed that he was responsible for approximately 15 fraudulent loan transactions involving both SBA and non-SBA loans while employed by the bank. He made loans to unsuspecting borrowers and diverted the proceeds to his own personal accounts. He also drew on customers' lines of credit to make payments on his accounts, loans, and personal credit cards. In addition, the VP issued cashier's checks for his personal benefit without reimbursing the bank, and originated fraudulent letters of credit that the institution had to guarantee, resulting in the loss of approximately \$451,763 to the bank. This is a joint investigation with the Federal Deposit Insurance Corporation (FDIC) OIG and the FBI.

New Jersey Broker Sentenced to 65 Months in Prison

On December 20, 2011, a loan broker was sentenced to 65 months in prison, 36 months probation, a special assessment fee of \$300, and ordered to pay restitution of \$1,134,950. The broker previously pled guilty to an information charging him with one count of conspiracy to commit bank fraud, one count of possession of unauthorized access devices, and one count of aggravated identity theft. The investigation revealed that an organized group of Korean nationals was obtaining credit cards and loans from multiple lending institutions using false identities, documents, and business names. Many of the loans were SBA-guaranteed. The broker, one of the leaders of the Korean group, brokered 33 loans totaling approximately \$1.8 million. Additional loan officers at other banks were also involved in the scheme. Current losses on the loans total approximately \$1.3 million. As part of the same case, another member of the group pled guilty on December 19, 2011, to a superseding information charging him with one count of making false statements and concealing material facts. This subject obtained a \$100,000 loan from one bank and a \$50,000 SBA-guaranteed loan from a second bank using the identity of another individual and the name of another business. This is a joint investigation with the Internal Revenue Service – Criminal Investigations Division (IRS-CID), the Englewood New Jersey Police Department, and the Bergen County Prosecutors' Office.

Disaster Loans

Mississippi Man Sentenced for Theft of Public Funds

On December 5, 2011, a Mississippi man was sentenced to 12 months probation, 6 months home confinement, a \$2,500 fine, and a \$100 special assessment fee, as a result of his guilty plea to one count of theft of public funds. The investigation revealed that during the loan approval process, the subject misrepresented the location of his primary residence, which he claimed had been damaged by Hurricane Katrina. He also made the same claims when completing similar applications for Federal Emergency Management Agency and Mississippi Development Authority grant benefits. The subject was approved for a \$144,900 SBA disaster home loan, of which \$121,300 was disbursed. As a result of this investigation, the subject repaid the remaining balance of his SBA loan. This is a joint investigation with the Housing and Urban Development (HUD) OIG, Department of Homeland Security (DHS) OIG, and the Mississippi Office of the State Auditor.

Houston Couple Involved in SBA Disaster Loan Fraud

On December 12, 2011, an assistant medical examiner was indicted in Harris County, Texas, District Court. The woman was charged with making false statements to obtain property or credit, a first-degree felony, and was suspended from her duties as a Harris County assistant medical examiner. On December 16, 2011, her husband, a real estate broker and Houston area bank director, pled guilty in US District Court to one count each of conspiracy and fraud in connection to a major disaster. The couple received two SBA disaster loans totaling \$999,700 to repair more than 40 rental properties damaged by Hurricane Ike. During the loan approval process, SBA Processing and Disbursement Center (PDC) staff identified a rental property that the wife claimed as her primary residence. The investigation alleges that she made several material false statements in her mortgage loan application. The investigation also disclosed that the husband was involved in a fraudulent invoice scheme with employees, relatives, and contractors in which he submitted inflated and false invoices for repairs to his residence and rental properties. He also claimed that Hurricane Ike had damaged a rental property; however, the investigation determined that the property had actually been damaged by an intentional fire. This case was the result of a referral by the PDC. This is a joint investigation with the DHS OIG.

Government Contracting & Business Development

Owner of Virginia Technology Firm Sentenced

On December 2, 2011, the owner of a technology firm was sentenced to two years probation, a \$20,000 fine,

and a \$100 special assessment fee. In addition, the owner was ordered to cooperate with his removal from the United States and to comply with a denaturalization order. The subject had previously pled guilty to one count of procurement of citizenship or naturalization unlawfully and one count of false statements. His business, an 8(a) certified firm, has received over \$3 million in contracts set aside for 8(a) certified businesses. The investigation disclosed that he obtained falsified U.S. citizenship documents from a DHS employee and used the documents to obtain a Department of Defense (DoD) security clearance. These same documents also supported his claim of US citizenship on the firm's 8(a) application. This is a joint investigation with the DHS OIG; DHS - Immigration and Customs Enforcement; Department of State - Diplomatic Security Service, and the Department of Labor (DOL) OIG.

Former Chief Technology Officer Pleads Guilty to Conspiracy and Bribery of a Public Official

On December 19, 2011, the case against a chief technology officer was unsealed in U.S. District Court for the District of Columbia. On September 20, 2011, the subject pled guilty to an information charging him with conspiracy and bribery of a public official. The investigation revealed that the chief technology officer — and others — attempted to steer a major U.S. Army Corps of Engineers contract to their firm by paying or receiving bribes or kickbacks, fraudulently inflating orders to their firm and submitting false information to the SBA, the Government Services Administration (GSA), and other federal agencies. This is a joint investigation with the FBI, the Army Criminal Investigations Division (CID), the IRS, the Defense Criminal Investigative Service (DCIS), the DOL OIG, the GSA OIG, and the Veteran's Administration OIG.

Agency Management

SBA Needs to Update the Goaling Guidelines for the Small Business Preference Programs

On December 6, 2011, the OIG issued a report regarding an issue discovered during an audit of the reliability of the SBA's Small Business Goaling Report. During this audit, the OIG found that the SBA has not updated the *Goaling Guidelines for the Small Business Preference Programs*. These guidelines provide policy direction to federal agencies pertaining to the establishment of annual small business goals and the reporting of procurement activity. Specifically, the OIG found that the SBA has not clearly documented its rationale for excluding certain types of contracts from its annual small business procurement calculations. As a result, procurement actions may be inappropriately excluded from small business goaling calculations.

Audit of SBA's Fiscal Year (FY) 2011 Financial Statements – Management Letter Issued

Pursuant to the Chief Financial Officer's Act of 1990, KPMG LLP performed an audit of SBA's FY 2011 financial statements under a contract with the OIG. The independent auditor's report was issued on November 14, 2011. On December 15, 2011, KPMG issued a *Management Letter* with seven recommendations to address issues regarding internal control and other operational matters that were noted during the audit but were not considered reportable. Specifically, KPMG found that the SBA did not comply with the Debt Collection Improvement Act when it failed to refer at least 504 delinquent Disaster Assistance program loans to the U.S. Department of Treasury for cross-servicing and offset at time of charge-off. Further, the SBA failed to refer 5,000 eligible co-borrowers and guarantors to the Treasury for cross-servicing and offset on Disaster Assistance, 504/CDC, and 7(a) loans with at least \$226 million in outstanding unpaid principal balance. The SBA's management concurred with the findings and recommendations.

Peggy E. Gustafson, Inspector General

If you are aware of suspected waste, fraud, or abuse in any SBA program, please report it [online](http://www.sba.gov/office-of-inspector-general/2662) at <http://www.sba.gov/office-of-inspector-general/2662>

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

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