

Office of Inspector General

January 2013

Business Loans

Louisiana Couple Indicted on Multiple Counts

On January 15, 2013, a Louisiana couple was indicted on varying counts of conspiracy to commit mail and wire fraud, submitting a false document to a department or agency of the United States, and making a false statement to the SBA. Each of them was also charged with a forfeiture allegation. In addition, the husband was charged with two counts of wire fraud. The couple obtained an SBA-guaranteed loan for \$560,000 to purchase a furniture store. The indictment alleges that the couple misrepresented the value of the collateral for the loan; sold the collateral business personal property without the lender's knowledge; and falsified their personal financial statements. This case was predicated on a referral from the SBA National Guaranty Purchase Center.

Information from Early Fraud Detection Working Group and OIG Audit Leads to Guilty Plea

On January 22, 2013, a Virginia man was charged by criminal information with one count of misprision of a felony in U.S. District Court, Southern District of Ohio. On January 24, 2013, he pled guilty to the information. This case was predicated on information received from the OIG's Early Fraud Detection Working Group and from the Audit Division. The charge relates to a \$1,715,650 loan made to a recycling firm to finance its purchase of tire shredding equipment. The investigation disclosed that subject had knowledge of the actual commission of certain felonies, namely, making false statements on a loan application, wire fraud, and bank fraud and that he concealed those felonies from authorities while collaborating

with the owner and manager of the recycling firm. The two planned to prepare, manipulate, and submit false, fraudulent, and misleading financial documents, packing lists, commercial invoices and bills of lading to a bank and the SBA. This is a joint investigation with the Federal Bureau of Investigation (FBI).

New Jersey Woman Pleads Guilty to Misprision of a Felony

On January 22, 2013, a New Jersey woman was sentenced to 36 months of probation and ordered to pay \$40,900 and a special assessment fee of \$100. The woman had previously pled guilty to a criminal information charging her with one count of misprision of felony. The investigation revealed that an organized group of criminals obtained 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 and are in default. The woman, as a member of this group, obtained a loan from a bank for \$50,000 using the identity of another individual. This is a joint investigation with the Internal Revenue Service-Criminal Investigation, the Englewood New Jersey Police Department, and the Bergen County Prosecutor's Office.

Alabama Man Pleads Guilty after Loan Is Flagged by Early Fraud Detection Working Group

On January 28, 2013, an Alabama man pled guilty to one count of conspiracy to commit loan fraud.

The OIG's Early Fraud Detection Working Group flagged this SBA-guaranteed business loan of \$1,529,000, for further review because it had defaulted quickly

with an outstanding balance of \$1,380,486. The loan was used to fund the sale of a business. The indictment alleges that the \$260,000 equity injection that the buyer was required to pay was actually paid by the seller. Specifically, it is alleged the buyer and seller created and submitted false bank statements, checks, and certificate of deposit receipts to represent that the funds used to pay the equity injection were originally a gift from the buyer's grandmother.

Government Contracting

Man Sentenced in DC for His Role in Bribery Scheme

On January 31, 2013, the son of a former program manager at the U.S. Army Corps of Engineers was sentenced to 37 months of incarceration followed by 36 months of supervised release, and ordered to pay restitution of \$401,000 and a \$100 special assessment fee. The investigation revealed that the man conspired to launder the proceeds of a bribery and kickback scheme. Specifically, the investigation revealed that his father, a public official, received and accepted things of value personally and for other persons in return for funding and approving contracts. His father also provided preferential treatment to these contractors and subcontractors for contracts awarded and to be awarded through the Corps of Engineers. This is a joint investigation with the FBI, IRS-CI, Army Criminal Investigations Division, and the Defense Criminal Investigative Service.

Disaster Loans

Louisiana Man Pleads Guilty to Making a False Statement

On January 17, 2013, a Louisiana man pled guilty to a one count superseding Information charging him with making a false statement. The man had obtained a \$430,500 SBA disaster loan for the repair of his dental practice, which was destroyed by Hurricane Katrina. According to the SBA Loan Authorization and Agreement, the man's collateral included the property on which he would operate a surgical practice, as well as the fixtures and equipment that he would purchase using loan funds. The investigation revealed that the property to be used as collateral was in disrepair; the walls were unfinished with exposed studs and there was no source of permanent electrical power. There were also no furnishings, fixtures, or equipment, even though notes in SBA's Disaster Credit Management System indicated the business was fully operational. The subject submitted fraudulent invoices to the SBA in the amount of \$56,449.91 and used the SBA funds for living expenses and gambling. He also received \$150,000 from the Louisiana Road Home program based on an application he filed for damages to a home he did not live in at the time of Hurricane Katrina. This is a joint investigation with the U.S. Housing & Urban Development OIG and the FBI.

***Louisiana Man
Pleads Guilty
in \$430,500
Disaster Loan
Fraud
Investigation.***

Texas Man Sentenced for Role in Disaster Fraud Scheme

On January 18, 2013, a former real estate broker and Houston area bank director was sentenced to 108 months imprisonment, 3 years supervised release, and ordered to pay a \$30,000 fine and a \$200 special assessment fee. The man was approved for \$999,700 in SBA home and business disaster loans. The business loan was approved to repair or replace more than 40 rental properties damaged by Hurricane Ike. The investigation disclosed that he engaged in a fraudulent invoice scheme, where he submitted inflated and false invoices for repairs to his residence and rental properties to the SBA's Fort Worth Processing and Disbursement Center (PDC). The investigation further determined that in May 2012 he submitted additional property appraisals that were inflated, in order to lower his sentence. As a result, the judge revoked his pre-trial release and remanded him into custody for obstruction of justice. This is a joint investigation with the Department of Homeland Security OIG. This case was referred to the OIG by the SBA PDC, Fort Worth, Texas.

Agency Management

Maryland Woman and Former SBA Employee Sentenced

On January 14, 2013, two women were sentenced in Maryland to 36 months probation, and ordered to pay a special assessment fee of \$100. The women had previously pled guilty to wire fraud. The first woman, along with a co-conspirator, was charged with one count of conspiracy to commit wire fraud on August 8, 2012. The second woman, a former payroll assistant in the Office of Human Capital Management at the SBA, provided three altered copies of her own SBA Earnings and Leave (E & L) Statement to help the first woman finance an automobile. The altered E & L statements reflected that the first woman was an SBA employee, even though she had never worked at the SBA, and was not employed at the time. When the automobile dealership requested additional proof of employment, the former SBA employee faxed a fourth altered E & L statement from SBA headquarters in Washington, DC, to the dealership in Maryland.

**Office of Inspector General
Peggy E. Gustafson, Inspector
General**

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waste, fraud, or abuse in any
SBA program, please report it
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Audit Report 13-10

On January 25, 2013, the OIG issued [Audit Report 13-10](#), *The Small Business Administration Did Not Effectively Assess Disaster Assistance Staffing Requirements, Availability, and Readiness*. The objective of this audit was to determine if the SBA maintained a sufficient reserve workforce to respond to a catastrophic event equivalent to the 2005 Gulf Coast Hurricanes. The focus of this audit was limited to SBA's staffing and mobilization readiness.

The OIG found that it would be a challenge for the SBA to provide timely, quality assistance to the disaster victims during a catastrophe similar to the 2005 Gulf Coast Hurricanes. Based on the agency's projections, the Office of Disaster Assistance (ODA) would need to acquire an additional 2,400 employees to respond effectively to a disaster of similar magnitude. The OIG also found that the ODA did not have a process or written procedures to accurately identify the number of reserve staff available to respond to disasters.

The OIG recommended that the Agency: (1) develop a plan that ensures the biennial simulation exercise includes an assessment of human capital necessary to respond to the level of disaster selected for the simulation exercise scenario; (2) implement a corrective action plan to address deficiencies identified during the biennial simulations; (3) develop a process that accurately identifies the total number of reserve staff available for mobilization and specifies the frequency of such an analysis; and (4) develop written procedures that define ODA's process for determining the number of reserve staff available to respond to disasters

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