

# Office of Inspector General

December 2012

## ***Business Loans***

### **Kentucky Man Business Owner Indicted on Theft Charges**

On December 4, 2012, a Kentucky man was indicted on three counts of theft and one count of false statements on loan applications. In January of 2007, the SBA was tasked with liquidating a portfolio of small business concerns pursuant to the Small Business Investment Company Program (SBIC). The SBA appointed a firm to liquidate the portfolio. From 2008 to 2010, the owner of the firm diverted the proceeds of sales, more than \$59,000, from the small business concerns into a fraudulently opened bank account that he used to convert those proceeds for his personal use.

### **Arizona Man Pleads Guilty**

On December 6, 2012, an Arizona man pled to a one-count Information charging conspiracy to commit bank fraud. The investigation revealed that the man falsely obtained two mortgage loans and an SBA loan by using his father's identity. In order to get the loans approved, he falsely represented that his father owned various properties and businesses, had large amounts of cash on hand, and earned an annual salary of \$110,000. Lastly, he submitted altered bank statements and false rental agreements in conjunction with the loan applications. The total loss relating to the SBA loan is over \$2,402,099. This is a joint investigation with the Federal Bureau of Investigation (FBI).

### **Three Sentenced on Conspiracy Charges in Maryland**

In December, 2012, three individuals were each sentenced to one count of conspiracy to commit bank fraud. The first person was sentenced to 36 months in prison and 3 years supervised release. He also agreed to a criminal forfeiture amount of \$13,432,000. A woman was sentenced to one year and one month in prison, 5 years supervised release, and restitution of \$216,472.92. She agreed to a criminal forfeiture amount of \$15,725,000. The third person was sentenced to 36 months in prison, 5 years supervised release, and restitution of \$1,888,279.60. He agreed to a criminal forfeiture amount of \$18,764,900.

The scheme involved recruiting prospective borrowers to apply for business loans through SBA's 7(a) program. Under this program, the principals of the small businesses seeking the loans are required to invest a certain amount of their own money, called an equity injection, before they qualify for a loan. The investigation revealed that the three individuals altered bank statements, cashiers' checks, and IRS documents to make it appear that the prospective borrowers had more money for their equity injections than they actually did. Losses resulting from the scheme are estimated to be over \$52 million. This is a joint investigation with the FBI and the U.S. Postal Inspection Service.

### **Two Missouri Men Charged**

On December 7, 2012, a Missouri businessman, and former mayor, was charged via criminal Information, and pled guilty to one count of making false statements for the purpose of influencing the SBA and aiding and abetting. Pursuant to a plea agreement, he pled guilty to the Information on the same date. The man obtained a \$150,000 SBA loan from a bank. The investigation disclosed that he signed documents stating he was the president of his business and that the loan proceeds would be used for "working capital," when, in fact, he did not own, operate, or manage the business. The loan proceeds were instead used to benefit other individuals and business entities. The man is one of 18 individuals charged in a complex conspiracy to defraud the bank and the SBA.

On December 12, 2012, a Missouri business owner was also charged via a superseding Information, and pled guilty to one count of aiding and abetting the misapplication of bank funds. The investigation revealed that he conspired with a former bank official and others by allowing his own bank account to be used to launder money, in return for \$2,000. This is a joint investigation with the FBI.

### **California Woman Charged**

On December 13, 2012, the president of a California business was indicted on one count of bank fraud. The woman allegedly submitted a loan application that failed to disclose personal and corporate debts in order to obtain an SBA-guaranteed Recovery Act loan in the amount of \$1,750,000. corporation pled guilty to one count of conspiracy to commit wire fraud.

### **Government Contracting**

#### **Kentucky Firms and Owners Agree to Pay \$6,250,000**

On December 5, 2012, two Kentucky firms and their owners agreed to pay \$6,250,000 to resolve allegations that they submitted false statements to the SBA and false claims to the U.S. Army (Army). The settlement resolves allegations that the companies and their owners made, or caused to be made, false statements to the SBA to obtain certification as a HUBZone company. The firms and their owners then used this certification to wrongfully obtain Army contracts to build a courthouse in Fort Knox, Kentucky, and to complete maintenance and other repairs to Army facilities in Fort Knox. One firm submitted an application to the SBA representing itself as a small business

with its principal place of business in a designated HUBZone. However, the investigation revealed that business office identified on the application was nothing more than vacant office space with no employees. In fact, the business operated out of the second business's headquarters, which was not located in a HUBZone area. Neither owner disclosed to the SBA that the first business did not operate as an independent company, but instead shared facilities, equipment, personnel, insurance, and bonding with the second firm. This is a joint investigation with the Defense Criminal Investigative Service (DCIS).

#### **Washington, DC Business Owner Sentenced**

On December 6, 2012, a Washington, D.C. business owner was sentenced to 24 months of incarceration; 36 months of supervised release; \$611,904 in restitution, to be paid jointly and severally with two other defendants. He was also ordered to pay a \$100 special assessment fee. The investigation disclosed that he conducted financial transactions in an effort to conceal bribe payments from law enforcement and tax authorities. The bribe payments were made to U.S. Army Corps of Engineers officials in return for preferential treatment on 8(a) contracts. The investigation revealed that the

businessman conspired to unlawfully transmit or cause to be transmitted approximately \$611,904. Of that amount, his company retained \$83,404 and paid approximately \$528,500 to his brother, an official with the Army Corps of Engineers. This is a joint investigation with the FBI; the Internal Revenue Service, Criminal Investigations (IRS-CI); the U.S. Army Criminal Investigation Division (Army CID); and the DCIS.

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***DC Man sentenced and ordered to pay \$611,904 as a result of bribery scheme.***

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

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SBA OIG  
 409 Third Street SW,  
 7th Floor  
 Washington, DC 20416  
 E-mail: [oig@sba.gov](mailto:oig@sba.gov)  
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## Audit Report 13-08

On December 3, 2012, the OIG issued Audit Report 13-08, The SBA Mismanaged Certain 8(a) Information Technology Contracts. This is the final in a series of three OIG audit reports related to information technology (IT) hardware and software contracts awarded by the Small Business Administration (SBA) to Isika Technologies, Inc. (iTechnologies). The objective of this audit was to determine whether the SBA effectively managed IT contracts awarded to iTechnologies. Specifically, the OIG determined whether the prime contractor and its subcontractor performed contract requirements in accordance with 8(a) program policies, guidance, and statutory requirements. The OIG also determined whether the SBA's contracting personnel administered IT contracts in accordance with federal and SBA policies, guidance, and statutory requirements. The OIG found that the SBA did not adequately manage IT hardware and software contracts awarded to iTechnologies. Specifically, the OIG determined that:

- Contractor misrepresentations and contracting personnel's lack of due diligence caused the SBA to inappropriately award and administer 8(a) contracts to iTechnologies.
- Contracting personnel at the SBA did not properly administer the contracts, as they did not conduct price reasonableness analyses for contracts it awarded to iTechnologies.
- Deficiencies within the SBA's invoicing procedures established an environment ripe for improper payments.

As a result, the SBA overpaid for IT hardware and software by approximately \$343,854. Further, the SBA improperly paid 100 percent of iTechnologies' invoices. To address these findings the audit team made 15 specific recommendations.

## Audit Report 13-09

On December 12, 2012, the OIG issued the Independent Public Accountant or IPA's Management Letter in Audit Report 13-09, *Management Letter-SBA's FY 2012 Financial Statement Audit*. The IPA's management letter includes information related to non-reportable findings identified during the IPA's audit of SBA's FY 2012 financial statements.

### Highlights

In this letter, the IPA noted 12 matters involving internal controls and other operational matters that included: (1) inadequate review of SBA's return on assets re-estimate cash flow models; (2) improvement needed in the documentation of the obligations review process; (3) inadequate controls over the 7(a) 1502 error process; (4) inadequate documentation of policies and procedures for the microloan program; (5) loan file documentation not retained in loan files; (6) untimely processing of Microloan transactions and improper intermediary lending pilot program disbursements; (7) untimely site visits for loan defaults; (8) untimely processing of charge-off loans; (9) untimely post-purchase and charge-off reviews; (10) inadequate and untimely follow-up on corrective actions; (11) improvement needed in time and attendance authorization, review, and certification processes, improvement needed in the employee separation process. The IPA made 25 recommendations to which agency officials or designees agreed to implement or have already taken action to address the underlying conditions.