Office of Inspector General

July 2013

Business Loans

Maryland Woman Sentenced to 51 Months and Forfeits $11,832,000

On July 9, 2013, a Maryland woman was sentenced to 51 months in prison, 36 months supervised release, restitution of $3,593,432, and a criminal forfeiture of $11,832,000. The sentencing was subsequent to her guilty plea to one count of conspiracy to commit bank fraud and one count of money laundering. The woman was an attorney in Virginia, and the owner/operator of a title company, also located in Virginia. The woman met a man and his brother who were owners of a loan brokerage company. Over the course of her relationship with the men, the woman agreed to use her settlement company and law firm to facilitate loan closings for deals that would have otherwise failed to meet the lending parameters of the banks making the loans, including banks authorized to lend under SBA's Section 7(a) program. She further helped the men misrepresent to the banks and to the SBA the true amount of money involved in the transactions and/or the true names of the parties taking part in the transactions. The fraudulent documentation overstated the net worth and equity injection amounts of the borrowers to enhance their creditworthiness. This is a joint investigation with the Federal Bureau of Investigation (FBI) and the United States Postal Inspection Service.

Florida Woman Indicted on Fraud, Theft and Aggravated Identity Theft

On July 10, 2013, a Florida woman was indicted on five counts of wire fraud, one count of theft or bribery concerning programs receiving federal funds, and one count of aggravated identity theft. The woman's business was a participant in the SBA Microloan program, which partners with local intermediary companies that specialize in providing training and "small" loans to local small businesses. In this partnership, the SBA provides larger loans to the intermediaries who in turn make smaller loans (maximum of $50,000) to the small businesses. The woman's business was one of these local intermediary companies.

The indictment alleges that the woman provided escrow agreements with forged signatures and notary seals, as well as false bank statements, to the SBA. The SBA then made two loans to her business in the amounts of $200,000 and $550,000. Only $192,500 of the second loan was disbursed. Then the woman allegedly submitted false information indicating that her business, an intermediary company, made 21 local small loans using the SBA loan proceeds. In truth, the firm only provided a total of $25,000 to two businesses: one that she owned and one controlled by her boyfriend. Of the $392,500 that was disbursed to her company, about $362,000 was transferred to a bank account of another company that she incorporated and controlled. The woman then used these SBA loan proceeds to purchase an apartment building in Tallahassee, Florida. This is a joint investigation with the Internal Revenue Service-Criminal Investigation Division (IRS-CI).

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Two Ohio Men Sentenced and Ordered to Pay Joint Restitution of $1,715,650

In July 2013, two Ohio men were sentenced for their roles in a fraudulent scheme related to an SBA-guaranteed loan. The first man was sentenced to one-day incarceration, three years supervised release, $1,715,650 restitution, and 100 hours community service. He was also ordered to pay $400 in court costs. The second man was sentenced to three years' probation and joint restitution of $1,715,650. He was also ordered to pay a special assessment of $400. Both men were indicted on December 13, 2011, in connection with their fraudulent activities involving a $1,715,600 SBA-guaranteed loan. The indictment charged that the men provided false and fictitious loan application documents, invoices, and additional supporting documents to a bank and the SBA in order to secure the SBA-guaranteed loan. This is a joint investigation with the FBI.

Government Contracting

Former Corps of Engineer Employee Sentenced to 235 Months and Ordered to Pay $32,553,253in Restitution

On July 11, 2013, a former program manager, U.S. Army Corps of Engineers (USACE), was sentenced in U.S. District Court, District of Columbia, to 235 months in prison, 36 months of supervised release, and joint restitution of nearly $32,553,253. Additionally, he was ordered to forfeit $11,082,687 and specific property as set forth in the plea agreement. On May 17, 2012, the former program officer pled guilty to bribery of a public official and conspiracy to commit money laundering. The investigation revealed that he had received and accepted things of value, personally and for other persons, from at least three firms—and others—in return for funding and approving contracts. Additionally, he provided preferential treatment to these contractors and subcontractors for contracts awarded and pending award through the USACE. The payments received by and promised to the former program manager directly or indirectly, totaled in excess of $30 million. In addition, the investigation revealed his role in the planned steering of a government contract, with an intended value at near $1 billion, to a specific firm. This is a joint investigation with the FBI, the IRS-CI, U.S. Army Criminal Investigation Division, and the Defense Criminal Investigative Service (DCIS).

Three Individuals Sentenced in VA for $31 Million 8(a) Program Fraud Scheme

Three individuals were sentenced in the Eastern District of Virginia in connection with fraudulently obtaining over $31 million in 8(a) and small business set-aside contracts. The investigation disclosed a scheme in which two Virginia businesses falsely represented to the government that the second firm was eligible for the 8(a) program when, in fact, it was operated and controlled by the first business.

- On July 18, 2013, a regional director of the Federal Protective Service, U.S. Department of Homeland Security (DHS), was sentenced to 15 months in prison, 12 months supervised release, forfeiture of $12,500, and a special assessment fee of $100. He previously pled guilty to one count of conspiracy to commit bribery. The former director had entered into an agreement whereby he would be paid $50,000 annually to assist the second firm in obtaining DHS contracts; however, he was only paid $12,500 before the scheme was discovered.
- On June 19, 2013, the former president of one of the firms was sentenced to 24 months in prison, 24 months supervised release, forfeiture of nearly $234,351, and a $100 special assessment fee. He previously pled guilty to one count of major fraud against the government.
- On July 26, 2013, the former director of one of the firms was sentenced to 24 months of probation and a special assessment fee of $100. He previously pled guilty to one count of false statements to the SBA for his role in submitting a false 8(a) application to the SBA.

This is a joint investigation with the U.S. National Aeronautics and Space Administration OIG, DCIS, and the Department of Homeland Security OIG.

Former President of Wisconsin Bank Indicted on 18 Counts of Fraud

On June 18, 2013, the former president of a Wisconsin bank was indicted on 18 counts of bank fraud. The investigation disclosed that in late 2010, the man became aware that one of the bank's commercial customers and its principles had reached their maximum borrowing limits. The chairman of the bank ordered the former president not to approve any further loans for this customer. In order to provide additional funds to this commercial customer, however, the man allegedly withdrew funds from accounts held by unrelated commercial customers without their knowledge or consent and deposited them into accounts for the benefit of the aforementioned commercial customer. The funds withdrawn totaled approximately $250,000, including $72,000 in SBA loan funds. The indictment also alleges that former president made notations falsely indicating the customers whose accounts were the subject of the withdrawals had authorized the transactions. One of the accounts with unauthorized withdrawals contained SBA loan funds. This is a joint investigation with the FBI and the Federal Deposit Insurance Corporation OIG.

Restaurant Owner Pleads Guilty to Misapplication of Bank Funds

On July 22, 2013, a man pled guilty in Missouri to a superseding information, filed the same day, charging him with one count of aiding and abetting the misapplication of bank funds. The man was the owner and operator of a fast food restaurant in Missouri. In 2005, he moved to North Carolina where he managed another fast food restaurant. He did not play any role in the daily affairs of the Missouri business. In March 2006, he obtained a $1.6 million SBA loan through a Missouri bank to use as working capital and to pay outstanding debts of the Missouri restaurant. Once the funds were disbursed, he aided and abetted a former executive of the bank, and others, to misapply $91,100 of the SBA loan proceeds to benefit third parties not related to his Missouri business. The man is one of 18 individuals charged in a complex conspiracy to defraud the bank and the SBA. To date, 12 of the 18 defendants have pled guilty. This is a joint investigation with the FBI.

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Many OIG reports can be found on the OIG's website http://www.sba.gov/office-of-inspector-general

Agency Management

On July 2, 2013, the OIG issued Evaluation Report 13-17, *The OIG's Portfolio Risk Management Program Can be Strengthened*. This evaluation report presents the results of the OIG's analysis of the SBA's 7(a) loan portfolio data. The evaluation was designed to identify high-risk audit areas and identify loan program, portfolio, and data reliability issues warranting attention by the Agency. The OIG determined that the SBA had not implemented a program or process to effectively monitor risk in its loan portfolio. The OIG's limited analysis identified three high-volume franchises with historical default rates of at least 46-percent, default values over 38-percent, and loss rates over 18-percent. Further, the OIG determined that over the 2002-2009 period reviewed, the Agency disbursed nearly 1,000 loans to these three franchises, totaling $199 million. Of these loans, 501, representing $84 million in Agency guaranties, defaulted. The OIG also identified five high-volume retail industries with historical default rates of at least 40-percent, default values over 30-percent, and loss rates over 16-percent. The OIG determined that over a seven-year period from 2002 to 2009, loans to these five industries resulted in 4,415 defaults and approximately $150 million in SBA charge-offs.

According to SBA officials, the Agency had not implemented a program or process to monitor risk in its portfolio because the SBA had traditionally focused on loan approval volume and loss rates to evaluate program performance with risk being assessed at the lender level. The OIG recommended three actions that will help strengthen the SBA's portfolio risk management program. The Agency has recently taken steps towards establishing a program that will monitor portfolio risk, and where necessary, address the types of portfolio risks identified in the evaluation.

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Office of Inspector General

Peggy E. Gustafson

Inspector General

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

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