



# Office of Inspector General

June 2013



## Business Loans

### ***Alabama Man Sentenced and Ordered to Pay Restitution of \$1,380,486***

On June 7, 2013, an Alabama man was sentenced to 5 years of probation (including 6 months home confinement), and ordered to pay restitution of \$1,380,486.17 and a \$100 special assessment fee. The man was also ordered to serve 300 hours community service and participate in a mental health evaluation. This case was flagged by the OIG's Early Fraud Detection Working Group (EFDWG) for further review because the man's \$1,529,000 business loan had defaulted quickly with an outstanding balance of \$1,380,486. The loan, made by the Small Business Loan Source (SBLS), was used to fund the sale of the man's business to a woman. The investigation determined that the \$260,000 equity injection that the woman was required to pay was actually paid by the seller. Specifically, the buyer and seller 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.

### ***Nebraska Man Sentenced for False Statements***

On June 19, 2013, a Nebraska man was sentenced to 10 months in prison, 3 years of supervised release, and ordered to pay a fine of \$15,000 and restitution of \$137,696.97.

On February 21, 2013, he pled guilty to one count of making false statements to the SBA when he applied for a \$150,000 SBA-guaranteed Community Express

loan. He falsely represented to the SBA and the bank that the loan proceeds were to be used for inventory, working capital, leasehold improvements, and equipment for his company. However, in the course of 30 days, more than \$100,000 of the loan proceeds were spent on personal and non-business related expenses. The loan defaulted and was charged off in the amount of \$137,696.97. This is a joint investigation with the U.S. Secret Service and the Omaha Police Department.

### ***Georgia Man Charged with Conspiracy***

On June 20, 2013, the former president of a Georgia banking company was charged with one count of conspiracy to commit bank fraud. The indictment alleged that the man conspired with others to obtain money, funds, credits, assets, securities, and other property from the company, while carrying on a practice of replacing non-performing loans with new loans to make the bank appear financially stronger than it was. One such loan was an SBA-guaranteed loan of \$1.5 million. The monetary losses to the bank and the SBA total approximately \$2.8 million. This is a joint investigation with the Federal Deposit Insurance Corporation, Office of the Special Inspector General for Troubled Asset Relief Program (SIGTARP), the Federal Bureau of Investigation (FBI), and the Tift County Sheriff's Office (Georgia).

### ***Maryland Man Sentenced to 188 Months in Prison***

On June 20, 2013, the owner of a Maryland investment firm was sentenced to 188 months in prison, 48 months of supervised release, resti-

tution of \$36,635,697.51, and criminal forfeiture of \$91,449,700. The man's investment firm was a loan brokerage company owned and operated by the man and his brother. The firm specialized in securing loans for individuals interested in purchasing or refinancing small businesses in the Mid-Atlantic area. The owner of the investment firm and others encouraged prospective borrowers to apply for business loans through SBA's Section 7(a) program using his firm. The investigation revealed that the man submitted SBA loan applications and supporting documentation containing fraudulent personal financial information to loan originators and underwriters on behalf of his clients, thereby falsely enhancing the creditworthiness of the borrowers and their businesses. This is a joint investigation with the FBI.

### ***Kentucky Man Pleads Guilty to Theft and False Statements***

On June 26, 2013, a Kentucky man pled guilty to three counts of theft and one count of false statements on a loan application. The investigation revealed that the SBA had appointed the man and his company to liquidate a portfolio of small business concerns pursuant to the Small Business Investment Company Program. From 2008 to 2010, the man diverted the proceeds of sales from the small business concerns into a fraudulently opened bank account and converted those proceeds for his personal use. The diverted funds exceeded \$59,000.

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### ***Officers of Massachusetts Firm Sentenced***

On June 27, 2013, the vice-president and the president of a Massachusetts firm were each sentenced. The vice-president was sentenced to one year and one day in prison, two years of supervised release, restitution of \$399,000, and a \$100 special assessment fee. The vice-president had previously pled guilty to one count of conspiracy to commit wire fraud. The president of the firm was sentenced to 6 months of home confinement, 2 years of probation, 200 hours community service, restitution of \$38,000, and a \$100 special assessment fee. The president had also previously pled guilty to one count of conspiracy to commit wire fraud. The investigation revealed that the vice-president, using the president's service-disabled status, fraudulently established his firm as a Service-Disabled Veteran-Owned (SDVO) business for the sole purpose of obtaining set-aside contracts. In reality, the president's association with the business was in name only. This case resulted from a referral from the Government Accountability Office (GAO) FraudNet.

On July 19, 2012, the firm and vice-president were both suspended from Government contracting opportunities. This is a joint investigation with the Department of Veteran's Affairs (VA) OIG, the U.S. Army Criminal Investigations Division (CID), the De-

partment of Labor OIG, and General Services Administration (GSA) OIG.

## **Recovery Act**

### ***California Man Pleads Guilty***

On June 3, 2013, a California man pled guilty to a one count Information, filed on May 13, 2013, charging him with knowingly falsifying material facts in a loan application with the SBA. In March 2009, the man applied for a \$50,000 SBA-guaranteed small business loan under the American Recovery and Reinvestment Act of 2009. The investigation revealed that the man knowingly misrepresented his criminal history in his loan application. In addition, despite having earlier filed for bankruptcy, he falsely represented that he had never been involved in bankruptcy proceedings. The man defaulted on the loan approximately three months after receiving it.

## **Government Contracting**

### ***Massachusetts Man Pleads Guilty to Obstruction***

On June 11, 2013, a Massachusetts man pled guilty to one count of obstruction of an official proceeding. The investigation disclosed that he received a subpoena for records relating to his business dealings with another company and relating to claims that the other compa-

ny was an SDVO business. The man was aware that he had documents on his computer that were responsive to the subpoena and relevant to the pending investigation, but he deleted them nonetheless. This case resulted from a referral from the GAO FraudNet. This is a joint investigation with the VA OIG, Army CID, and GSA OIG.

### ***Four Sentenced in \$31 Million Fraud Investigation***

In Virginia, during the month of June 2013, four individuals were each sentenced in connection with fraudulently obtaining over \$31 million in 8(a) and small business set-aside contracts.

On June 14, 2013, the former chief financial officer of a Virginia-based firm was sentenced to 15 months in prison, one year of supervised release, forfeiture of \$115,556, and a special assessment fee of \$100. He had previously pled guilty to one count of conspiracy to commit major fraud against the government.

Also on this date, the former vice president of the same firm was sentenced to 27 months in prison, 24 months of supervised release, restitution of \$120,378, and a special assessment fee of \$100. He had previously pled guilty to one count of conspiracy to commit major fraud against the government.

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### ***Four Sentenced in \$31 Million Fraud Investigation***

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On June 21, 2013, the former owner of the same firm was sentenced to 72 months in prison, 24 months of supervised release, a \$15,000 fine, forfeiture of \$6,149,730, and a \$200 special assessment fee. He previously pled guilty to one count of major fraud against the government and one count of conspiracy to commit bribery.

On June 28, 2013, the former owner of a second Virginia-based firm was sentenced to 48 months in prison, 36 months of supervised release, fined \$1 million, and ordered to forfeit \$1,232,000 and pay a special assessment fee of \$100. She had previously pled guilty to one count of major fraud against the government.

The investigation disclosed a scheme in which the two firms falsely represented to the government the second firm's eligibility for the 8(a) program. However, the second firm was operated and controlled by the first firm. This is a joint investigation with the U.S. National Aeronautics and Space Administration (NASA) OIG, the Defense Criminal Investigative Service (DCIS), and the Department of Homeland Security (DHS) OIG.

***Maryland Couple Indicted While Co-Defendant Pleads Guilty***

On June 19, 2013, a Maryland man and his wife were each indicted on one count of conspiracy to defraud the United

States, six counts of wire fraud, two counts of making and subscribing a false tax return, two counts of aiding and assisting in the preparation of a false tax return, and one count of forfeiture related to schemes to fraudulently seek federal contracts under the SBA's Section 8(a) program. The indictment alleged that the couple impermissibly controlled and operated an SBA-certified 8(a) contractor. The husband purportedly arranged for the contractor to be incorporated by a socially disadvantaged employee of a different firm that he owned. The employee submitted a letter to the SBA stating that he was responsible for the day-to-day management and long term decision making for the contractor when, in fact, he was not. The contractor obtained over \$50 million in contracts set aside for 8(a) businesses. On June 18, 2013, the employee pled guilty to one count of making a false statement to the SBA. This is a joint investigation with the DCIS, GSA OIG, and the U.S. Internal Revenue Service (IRS) - Criminal Investigation Division (CID).

***Georgia Man Sentenced to 24 months in Prison***

On June 20, 2013, a Georgia man was sentenced to 24 months in prison and 24 months of supervised release, and ordered to pay \$181,000 in restitution. The sentencing is the result of his guilty plea to one count of false state-

ments. The investigation revealed that the man operated a scheme to fraudulently use the status of a legitimate service-disabled veteran to obtain government contracts set-aside for SDVO businesses. He then created a joint venture to obtain SDVO set-aside contracts. The joint venture received two contracts totaling over \$1 million from the VA before the SDVO status of the joint venture was challenged. In February 2008, the SBA ruled that neither the joint venture nor the man's company qualified for the program. The SBA made this determination primarily because of the veteran's lack of participation in the business. Despite this ruling, the man continued to operate his company as an SDVO business and received three additional contracts totaling approximately \$1.7 million. Further, the man is alleged to have forged the veteran's signature on contracts, correspondence, and checks to give the appearance that the veteran ran this business, when, in fact, he did not. This is a joint investigation with the VA OIG, the Department of Agriculture OIG, Army CID, and DHS OIG.

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**Audit Report 13-16R: Purchase Reviews Allowed \$4.6 Million in Improper Payments on 7(a) Recovery Act Loans**

On June 14, 2013, the OIG issued Advisory Memorandum 13-16R, *Purchase Reviews Allowed \$4.6 Million in Improper Payments on 7(a) Recovery Act Loans*. This advisory memorandum presented the results of the first in a series of the OIG's On-going audit of purchased 7(a) Recovery Act loans.

The OIG found that six 7(a) Recovery Act loans were not originated and closed in accordance with SBA rules and regulations including Standard Operating Procedure 50 10 and the Code of Federal Regulations. The deficiencies included loans approved with questionable eligibility; inadequate assurance of repayment ability; equity injection issues, and insufficient collateral. As the deficiencies identified in the six loans were not detected during SBA's purchase reviews, they resulted in inappropriate or unsupported disbursements of approximately \$4.6 million. The OIG recommended that the SBA seek recovery from the six lenders associated with these loans on the guaranties paid by the SBA.

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

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

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