



Office of Inspector General U.S. Small Business Administration

May 2012 Update

Business Loans

Virginia Business Owner Indicted: \$17.7 Million Judgment & Forfeiture Sought

On April 26, 2012, a Virginia business owner was indicted on one count of conspiracy, one count of conspiracy to commit bank fraud, one count of money laundering, nine counts of bank fraud, four counts of false statements for the purpose of influencing a financial institution and/or the SBA, and nineteen counts of structuring currency transactions. The indictment also contained forfeiture allegations, which notified the defendant that the United States intended to seek a \$17.7 million money judgment, and to forfeit— as proceeds of the alleged fraud— a number of assets including bank accounts and real property. On May 10, 2012, the man was named in a superseding indictment that added business assets, vehicles, and investment accounts to the forfeiture notice. The subject is alleged to have participated in a multi-million dollar scheme involving bogus treasury checks and tax returns. In addition, he allegedly misrepresented his citizenship status in the course of obtaining a \$149,000 SBA loan and a \$203,000 bank loan. This is a joint investigation with the Federal Bureau of Investigation (FBI).

California Group Indicted on Fraud that Resulted in nearly \$1.45 Million Loss to Banks and the SBA

On May 2, 2012, a California couple and two associates were indicted. The husband and wife were each charged with 2 counts of mail fraud, 11 counts of bank fraud, 5 counts of false statements in a loan application, 2 counts of false statements, 2 counts of false statements to obtain an SBA loan, and aiding and abetting. Their daughter was indicted on varying counts of the same charges. Another individual was charged with two counts of mail fraud, and aiding and abetting. The indictment alleges that the defendants executed a scheme to defraud a financing corporation, a bank, and the SBA by making false statements to obtain business loans for a combined gas station and car wash the couple owned in Fountain Valley, California. Specifically, it is alleged that the daughter and the other individual falsely reported that neither they nor their businesses were involved in any bankruptcies or pending lawsuits, and they did not have a controlling interest in other businesses.

At the time they signed the SBA business loan application, however, both had both been involved in bankruptcy proceedings. In addition, the daughter was involved in a pending lawsuit and had a controlling interest in another business. The indictment also alleges that all four individuals made material false statements to obtain another business loan for the business. The loss to the financial institution and the SBA is approximately \$1.45 million, of which the SBA-guaranteed portion is approximately \$931,368. The loss to another bank is approximately \$1.65 million.

Man Sentenced for Role in \$17 Million Fraud Scheme

On May 7, 2012, a businessman was sentenced in New Jersey to 24 months probation and a \$100 special assessment fee. In addition, he was ordered to pay off the balances on an SBA loan in the amount of \$33,236.97 and a bank loan in the amount of \$98,955.32. The subject had fraudulently obtained these loans for his business using the identity of another individual. On May 9, 2012, a second subject was charged by criminal information and pled guilty to one count of conspiracy to commit bank fraud. The subject had obtained a \$50,000 SBA loan from a bank, as well as two other commercial loans totaling an additional \$65,000, from other lending institutions. The man obtained these loans using his wife's name and a fictitious business name. Both of these events were as a result of the OIG's continuing investigation into an organized group in New Jersey, who obtained credit cards and loans from various lending institutions using false identities, documents, and business names. The investigation also revealed that loan officers at various banks were involved in the scheme. Analysis of financial records and SBA's loan database revealed that 216 SBA loans totaling approximately \$17.359 million had been dispersed in the loan scheme. The portion of this amount guaranteed by the SBA totaled \$10.975 million. The scheme also involved 59 loans not guaranteed by the SBA. Each business or individual obtained multiple loans usually from different financial institutions. This is a joint investigation with the Internal Revenue Service Criminal Investigation (IRS CI), the Englewood New Jersey Police Department, and the Bergen County Prosecutors' Office.

President of Financial Services Firm Sentenced on Money Laundering Charges

On May 11, 2012, the president of a Utah financial services firm was sentenced to 12 months and one day of incarceration, 36 months supervised release, and \$165,960.49 in restitution. The subject had previously pled guilty to money laundering. The investigation revealed that the subject and his business partner recruited “straw borrowers” and used the borrowers’ names and good credit to fraudulently obtain \$399,900 in business loans. The straw borrowers were promised compensation for allowing the men to use their personal information to fabricate application documents in order to induce the banks to approve the loans. Further, the men enticed the straw borrowers to submit documents indicating that they owned thriving businesses when, in fact, the businesses only existed on paper. Overall, the men fraudulently obtained a total of four SBA loans and two regular bank loans. This case was initiated based on a referral from the SBA Utah District Office and is a joint investigation with the IRS CI.

Man Sentenced on Conspiracy Charges – Ordered to Forfeit \$1.3 Million

On May 31, 2012, a Maryland man was sentenced to 33 months incarceration, 2 years supervised release, \$713,000 restitution, and ordered to forfeit \$1.3 million. The subject had previously pled guilty to one count of conspiracy to commit bank fraud. The investigation revealed that he encouraged prospective borrowers to use the services of a specific company to apply for business loans through the SBA. Under this program, the principals of small businesses seeking loans are required to invest a certain amount of their own money, called an equity injection, in order to qualify for a loan. The subject and others submitted SBA loan applications and supporting documentation to loan originators and underwriters on behalf of their clients. The investigation disclosed that the packages contained fraudulent personal financial statements and/or monthly bank statements that overstated the net worth and equity injection amounts of the borrowers to falsely enhance their creditworthiness. This is a joint investigation with the FBI.

Chiropractor Indicted on \$100,000 SBA Loan Fraud following Medicare Fraud Indictment

On May 31, 2012, a Chicago-area licensed chiropractor was indicted in the Circuit Court of Cook County, Chicago, Illinois. The indictment charged the chiropractor with four counts of financial institution fraud and four counts of loan fraud. The indictment involves a \$100,000 SBA loan made to his chiropractic business. As part of his loan application package, the doctor submitted historical financial statements demonstrating the business’ ability to service the

proposed debt. However, during the several months preceding his loan application and disbursement, he was aware of an ongoing criminal investigation and audit involving his claims submitted to Medicare. This investigation and audit, which the chiropractor allegedly did not report to the lender, had a substantial adverse effect on the financial condition and operations of the business. If the bank had known of the pending investigation and audit of his claims or the resulting reduction in business income and cash-flow, it would have declined the loan. The concurrent investigation of the business’ Medicare claims resulted in a previous indictment charging the doctor with four counts of Medicare fraud. This is a joint investigation with the Department of Health and Human Services OIG, the Illinois Attorney General, and the FBI.

Disaster Loans

Retired Judge Indicted for Fraud Related to Hurricane Ike Disaster Loan

On May 2, 2012, a Texas man was indicted on five counts of fraud in connection to a major disaster. The indictment alleges that the subject, a retired judge, provided false statements in order to obtain a Hurricane Ike SBA disaster loan. Specifically, the indictment alleges that he made false statements about the location of his primary residence, the address for his homestead exemption, and the payment of the required personal equity injection. At the time of Hurricane Ike, the subject’s primary residence was in Conroe, Texas; however, he claimed it was in Crystal Beach, Texas, in applications submitted to the SBA and the Federal Emergency Management Agency (FEMA). The subject obtained a \$125,000 SBA loan to reconstruct his Crystal Beach property. He further obtained approximately \$10,000 in FEMA disaster assistance for emergency housing needs despite having a primary residence in Conroe, Texas. This is a joint investigation with the Department of Homeland Security OIG.

Government Contracting & Business Development

Missouri Men Sentenced for Role in Government Contracting Fraud and Bribery Case

On May 8, 2012, the co-owner of a Missouri contracting firm was sentenced to 24 months in prison, 1 year supervised release, and a \$50,000 fine. The judge postponed imposition of restitution for a 45-day period. On May 15, 2012, the owner of a construction firm who served as a silent partner to the contracting firm was sentenced to 36 months probation, a \$60,000 fine, and restitution of \$1,550,000. He was also ordered to forfeit \$1,550,439.78 in cash and a 2011 Jaguar luxury vehicle. Both men had previously pled guilty to criminal

conspiracy involving government contracting fraud and illegal payment of gratuities to a federal official. Both admitted to placing a service-disabled veteran as the purported president and operator of their contracting firm. In fact, the veteran was merely a figurehead in the “rent a vet” scenario. From 2007 until 2010, the contracting firm obtained approximately \$3.4 million in contracts from the Department of Veterans Affairs (VA) by misrepresenting itself as a qualified Service-Disabled, Veteran-Owned Small Business (SDVOSB). The VA contracts were funneled to their affiliated construction firm and contractors, who performed the work. In addition, a former engineer for the VA directed set-aside and sole source contracts to the contracting firm. The engineer received gratuities from the owners of the construction and contracting firms. This is a joint investigation with the General Services Administration (GSA) OIG and the VA OIG.

Former Federal Program Manager Pleads Guilty to Bribery of a Public Official and Conspiracy

On May 17, 2012, a former program manager with the U.S. Army Corps of Engineers (USACE) pled guilty to bribery of a public official and conspiracy to commit money laundering. Additionally, the subject agreed to the forfeiture of a money judgment in favor of the United States for \$11,082,687 and specific property as set forth in the plea agreement. On the same date, the subject’s son pled guilty to a one count information charging conspiracy to commit money laundering. He, too, agreed to the forfeiture of specific personal and real property as set forth in the plea agreement. The investigation revealed that the father received and accepted things of value, personally and for other persons, from various firms and others in return for funding and approving contracts. Additionally, he provided preferential treatment to these contractors and subcontractors for contracts awarded—and to be awarded—through the USACE. The payments received by and promised to him, directly or indirectly, totaled in excess of \$30 million. The son conspired with his father and others to launder the proceeds of the scheme. In addition, the investigation revealed his individual role in the planned steering of a government contract, with an intended value at near \$1 billion. This is a joint investigation with the FBI, IRS CI, Army Criminal Investigations Division, and the Defense Criminal Investigative Service (DCIS).

Florida Men to Forfeit \$10,917, 092 in Fraud Proceeds

On May 31, 2012, two Florida men were each sentenced to 36 months incarceration, 36 months supervised release, 500 hours of community service, and a \$600 special assessment fee related to their conviction on one count of conspiracy and five counts of wire fraud. The two were also ordered to forfeit \$10,917,092 of proceeds

from the fraud. The investigation revealed that the men devised a scheme whereby they created a company for the purpose of obtaining a \$100 million small business set-aside language instruction contract with the Department of Defense (DOD). They used a nominee owner to create the appearance that the business was not affiliated with another business, under their control, that had been the incumbent contractor on the previous DOD language instruction contract. The men submitted false and misleading information concerning the relationship between the two companies after the affiliation was challenged in the course of a size protest submitted to the SBA Office of Government Contracting. This is a joint investigation with DCIS.

Agency Management

Former SBA Administrative Officer Indicted for Theft of Public Money and Wire Fraud

On May 31, 2012, a former administrative officer for the SBA Alabama District Office (ADO) was indicted on one count of theft of public money, property, or records and eight counts of wire fraud. The investigation alleges that she made approximately \$30,553 of personal, unauthorized purchases using the government purchase card assigned to the SBA ADO. Additionally, it is alleged that she filed approximately 59 falsified travel vouchers, resulting in her receiving approximately \$21,905 from the SBA that she should not have received, and made approximately \$3,346 of unauthorized purchases on her government travel card. This case was initiated based on a referral from the ADO.

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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