



# Office of Inspector General

October 2013



## Business Loans

### ***Alabama Man Indicted on 33 counts of fraud and 18 counts of false statements***

On October 3, 2013, an Alabama man was indicted on three counts of wire fraud, 18 counts of false statements, and 30 counts of bank fraud. One count of wire fraud and the 18 counts of false statements were directly related to his perpetration of fraud in connection with a \$1.76 million SBA Section 504 loan. As a requirement for this loan, he had to make a cash injection of \$736,920. As proof that \$564,745 of the cash injection was paid, he generated and submitted falsified copies of ten cancelled checks. In reality, none of the checks provided were ever issued or paid. The 2 additional counts of wire fraud and the 30 counts of bank fraud relate to non-SBA loans provided by other lenders. This matter was referred to the OIG by the SBA Little Rock Commercial Loan Servicing Center and is a joint investigation with the Federal Bureau of Investigation (FBI).

### ***California Man Indicted on \$1,839,360 Loss to the SBA and Various Banks***

On October 8, 2013, a California man was indicted on three counts of making false statements to a bank and one count of making false statements to the government. The investigation revealed that he had previously obtained three loans from a bank and was in default on those loans for approximately \$700,000 when he applied for and obtained two SBA 7(a) loans and one SBA Section 504 loan. His SBA loans all defaulted early and resulted in losses to the banks and the SBA totaling \$1,839,360. This is a joint investigation with the FBI.

### ***Government Seeks \$10 Million in Forfeitures From Four Indicted in Illinois***

On October 10, 2013, four individuals were indicted in Illinois. The first individual, a former SBA market president at a Chicago-area bank, was charged with one count of bank fraud. The second individual, a seller of multiple gas stations, was charged with nineteen counts of bank fraud, three counts of bribing a bank official, and one count of filing a false tax return. The third individual, a business partner of the gas station seller, was charged with four counts of bank fraud. The fourth indicted individual, a former accountant, was charged with one count of bank fraud. The indictment seeks forfeitures of over \$10 million, representing proceeds of the fraud scheme. The indictment alleges that (1) the former SBA market president and the seller of the gas stations worked together to get unqualified SBA borrowers approved to purchase gas stations that the seller would "flip" with his business partner; (2) the former SBA market president and the seller utilized the former accountant to create false tax returns needed for the loan files; and (3) the business partners provided the former SBA market president "kickbacks," with a cash value exceeding \$150,000, in return for his actions in getting the loans approved. In addition, on October 30, 2013, the brother of one of the business partners was charged by criminal information with two counts of failing to file a tax return. The brother was paid loan commissions by the bank because the former SBA market president listed him as a loan broker on multiple loans, even though he had nothing to do with them. After making \$340,000 for doing nothing associated with these

transactions, the brother then failed to claim that income on his taxes. This is a joint investigation with the FBI; Internal Revenue Service (IRS), Criminal Investigation Division (CI); and the Federal Deposit Insurance Corporation, OIG.

### ***Alabama Woman Sentenced on Money Laundering Charges***

On October 15, 2013, an Alabama woman was sentenced to 12 months' probation after having previously pled guilty to one count of money laundering. The sentence was a downward departure from the sentencing guidelines, based on the substantial assistance she provided during the investigation. The investigation determined that at the request of her boyfriend, the woman submitted false income and employment information to obtain a \$40,000 loan from a bank using her boyfriend's 2004 Mercedes Benz as collateral. She then submitted a false letter of employment and a false IRS Form W-2 that her boyfriend created for her. At the direction of her boyfriend, she wired \$20,000 of the loan proceeds to pay a debt owed by her boyfriend's company. This is a joint investigation with the Army CID, the IRS CI, and the Defense Criminal Investigative Service (DCIS).

### ***President of Missouri Construction Company Sentenced***

On October 17, 2013, the president of a Missouri construction company was sentenced to one year of probation after having previously pled guilty to one count of aiding and abetting the misapplication of bank funds. The investigation disclosed that he signed a \$300,105 promissory note for a line of credit from a bank, stating the purpose was to pro-

vide business funds for his construction firm. On that same day, he aided and abetted a former bank executive vice-president, and others, by obtaining a \$262,648 draw on the line of credit and causing a wire transfer of the same amount to a second bank to benefit parties connected to the first bank. The man is one of 18 people charged in a complex conspiracy to defraud the first bank and the SBA. To date, 12 of the 18 defendants have pled guilty. The trial for the remaining defendants is currently scheduled for February 2014. This is a joint investigation with the FBI.

#### ***California Woman Charged***

On October 25, 2013, a California woman was charged in a criminal information with one count of false statements to a federally insured financial institution. The woman, a former "New Accounts Representative" at a bank, was initially approached to provide information about her involvement in the deposit of fraudulently obtained SBA loan proceeds into a business account at the bank. During the course of the investigation, it was discovered that she had stolen approximately \$362,875 from seven Certificate of Deposit accounts at the bank. This is a joint investigation with the FBI.

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***Two charged in superseding indictment for committing an offense while on pre-trial release.***

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#### ***Complaint Filed Against SBA Lender in Wyoming***

On October 28, 2013, the U.S. Attorney's Office, District of Wyoming, filed a Complaint in Intervention against an SBA lender located in Cody, Wyoming. The complaint was the result of a qui tam action filed by a business. It alleged that the lender knowingly made several material false or fraudulent statements to the SBA or failed to provide material information as required for the \$2 million SBA Section 504 loan to the business.

#### ***Three Indicted in California***

On October 31, 2013, in California, a superseding indictment was unsealed charging two individuals with two counts each of wire fraud and one count each of committing an offense while on pre-trial release. Another individual was also charged in this indictment with two counts of wire fraud and one count of false statements to law enforcement. Two of the individuals were previously indicted in May 2012, for executing a scheme to defraud a lender and SBA by making false statements to obtain business loans for a gas station/car wash. The recent superseding indictment charged that while the original case was pending trial, that the three individuals mentioned above and others engaged in yet another scheme, to defraud a separate financial institution and the SBA. According to the superseding indictment, one of the individuals was paid \$100,000 to pose as the own-

er of a business and apply for an SBA-guaranteed business loan for \$4.5 million to purchase two gas stations in southern California. The superseding indictment also alleges that the financial institution was misled into believing that the fictitious owner made a \$2.1 million down payment to purchase the two gas stations. The superseding indictment further alleges that two of the individuals skimmed large portions of cash from the business for personal expenses, which included payments to criminal defense attorneys who were representing them. This investigation was conducted by the OIG, and the newer activities in the case were worked jointly with the FBI.

## **Government Contracting**

#### ***Virginia Man Pleads Guilty to Conspiracy***

On October 2, 2013, a Virginia man who claimed status as a Service-Disabled Veteran-Owned Small Business (SDVOSB), pled guilty to a criminal information charging him with one count of conspiracy. The investigation disclosed that the man conspired with other SDVOSBs to obtain federal government contracts through fraud and misrepresentation. Specifically, the man and employees of other SDVOSBs conspired to submit what appeared to be competing bids for government contracts. In reality, the bids were not true competitive bids. This practice

restricted legitimate competition by creating the false impression that the government had already received multiple competing bids. The man made at least \$80,900 as a result of his participation in the conspiracy. This is a joint investigation with the Department of Homeland Security (DHS) OIG, the Department of Veterans Affairs (VA) OIG, and the General Services Administration (GSA) OIG.

**Massachusetts Man Sentenced for Obstruction of an Official Proceeding**

On October 8, 2013, a Massachusetts man was sentenced to 12 months' probation and a \$5,000 fine as a result of his guilty plea 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 company was an SDVOB. Further, he 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 referral was received from the Government Accountability Office (GAO) FraudNet, and is a joint investigation with the VA OIG, U.S. Army/Criminal Investigation Command (Army CID), and the GSA OIG.

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## Agency Management

**Audit Report 14-02**

On October 24, 2013, the OIG issued [Audit Report 14-02](#), *The SBA's FY 2012 Reported Improper Payment Rate for Disbursements and Contracting was Inaccurate and Incomplete*. This report presented the results of the OIG's review of the SBA's FY 2012 Invoice Payments for Contracting Activities.

The OIG found that the SBA made significant progress in reducing the improper payment rate for disbursements and contracting from 89 percent in FY 2011 to 9.6 percent in FY 2012. However, the OIG determined that the information presented in the SBA's FY 2012 Agency Financial Report was inaccurate and the reported improper payment rate for FY 2012 disbursements and contracting was incomplete. Specifically, the 9.6 percent improper payment rate included only a portion of the errors identified as the SBA did not report errors that it determined to be the result of inadequate or missing documentation. Further, the OIG found that SBA personnel did not consistently apply the FY 2012 Improper Payment Test Plan for disbursements and contracting. Consequently, they classified a number of payments as having met the test plan criteria. In addition, they tested payments not related to contracting disbursements. The OIG recommended four actions directed to the Chief Financial Officer to improve financial and contract management at the SBA and significantly decrease the total number of future improper payments.

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

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To promote integrity, economy, and efficiency, we encourage you to report suspected instances of fraud, waste, abuse, or mismanagement in any SBA program to the OIG Hotline\* at

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

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

*\*In accordance with Sections 7 and 8L(b)(2)(B) of the Inspector General's Act, confidentiality of a complainant's personally identifying information is mandatory, absent express consent by the complainant authorizing the release of such information.*

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