



Office of Inspector General U.S. Small Business Administration

October 2011 Update

Business Loans

Georgia Woman Sentenced on Conspiracy Charge

On October 5, 2011, the owner of a learning academy was sentenced to 30 months confinement, 36 months probation, a special assessment fee of \$100, and restitution of \$1,675,213. She had previously pled guilty, in the Northern District of Georgia, to one count of conspiracy to defraud the United States. She was accused of orchestrating the straw sale of her business using a 504 loan package worth \$3,175,000, with the help of an unindicted co-conspirator. The owner caused the unindicted co-conspirator to falsely state that the sale would be supported by an equity injection of \$296,200 from the borrower when, in fact, no equity at all would be provided by the borrower. This is a joint investigation with the Federal Bureau of Investigation (FBI).

Chicago Loan Officer Pleads Guilty

On October 11, 2011, a Chicago-area entrepreneur and former commercial loan officer pled guilty to one count of financial institution fraud, and was sentenced to 23 months probation and 300 hours of community service in the Circuit Court of Cook County. In addition, he was required to submit to a stipulation and consent order with the Federal Deposit Insurance Corporation (FDIC), prohibiting his employment in the banking industry and his participation in the affairs of financial institutions for a minimum period of 10 years. The loan officer was previously indicted in connection with multiple attempts to defraud the SBA, an SBA Certified Development Company (CDC), and four participating banks when he tried to sell his business, an Illinois gas station. The investigation revealed that the loan officer directed his colleague and friend, a Chicago-area commercial loan broker, to prepare false corporate financial statements portraying the business as profitable in order to profit from the sale of his failing business. The subject provided the falsified financial statements to the CDC and four SBA lenders to receive SBA-guaranteed loan packages totaling \$6.18 million. Any of these fraudulent loans could have exposed the lender and the SBA to increased loss potential. This is a joint investigation with the FDIC OIG.

Disaster Loans

Louisiana Man Pleads to Theft of Government Funds

On October 14, 2011, a Louisiana man pled guilty in U.S. District Court, Eastern District of Louisiana, to one count of theft of government funds. The plea resulted from an investigation that found he made false statements to the SBA and the Department of Housing and Urban Development (HUD) in an attempt to receive benefits to which he was not entitled. The subject had been approved for an SBA disaster home loan of \$141,800, as a result of damage to his home by Hurricane Katrina. The investigation revealed that he submitted false receipts for repairs to his home and received loan disbursements totaling \$141,800 from the SBA. This is a joint investigation with the HUD OIG.

Louisiana Man Pleads in Katrina Related Crime

On October 20, 2011, a Louisiana man pled guilty in U.S. District Court, Eastern District of Louisiana, to one count of theft of government funds. The investigation revealed that the subject fraudulently represented the location of his primary residence when applying for Hurricane Katrina disaster assistance from the SBA, HUD, the Federal Emergency Management Agency, and Louisiana and Mississippi State Grant programs. The subject had been approved for an SBA loan of \$88,800; however, only \$10,000 was disbursed. This is a joint investigation with the HUD OIG, the Department of Homeland Security OIG, and the Mississippi State Grant Authority.

Government Contracting & Business Development

Executive Vice President Pleads to Conspiracy Charge

On October 13, 2011, the executive vice president of a technology firm entered a plea of guilty to conspiracy to commit wire fraud in U.S. District Court for the District of Columbia. The investigation revealed the subject conspired with others to defraud the United States and obtain money and property by means of false and fraudulent pretenses and representations. Specifically, he submitted false information to federal agencies to procure and attempt to procure federal contracts and to

set and attempt to set prices on federal contracts. This is a joint investigation with the FBI, the Department of Veterans Affairs (VA) OIG, the General Services Administration (GSA) OIG, and the Department of Labor (DOL) OIG.

Executive Vice President Indicted on Four Counts

On October 14, 2011, a four-count indictment against the executive vice president of an information technology firm was unsealed in U.S. District Court for the District of Columbia. The indictment charges the subject with conspiracy, false statements, mail fraud, and wire fraud. The indictment alleges the subject conspired with others to defraud the United States and obtain money and property by means of false and fraudulent pretenses and representations. Specifically, he allegedly submitted false information to the SBA regarding his firm's eligibility as both Service Disabled Veteran Owned (SDVO) and Historically Underutilized Business Zone (HUBZone) small business concerns. In addition, he is charged with attempting to set and setting prices on federal contracts through GSA. He is also charged with providing false information to other federal agencies to attempt to procure and procure federal contracts. This is a joint investigation with the FBI, VA OIG, GSA OIG, and DOL OIG.

U.S. Army Corps of Engineers Employees and Two Others Indicted in \$780 Million Scheme

On October 4, 2011, a four-count indictment, previously filed on September 16, 2011, was unsealed in the District of Columbia. The indictment charges a program manager and a program director from the U.S. Army Corps of Engineers (USACE) with conspiracy, bribery, and conspiracy to launder monetary instruments. Two others were also indicted. The program manager's son was charged with conspiracy and conspiracy to launder monetary instruments while the director of contracts for a technology firm was also charged with conspiracy, unlawful kickbacks, and conspiracy to launder monetary instruments. The indictment alleges that the four conspired against the United States to steer a \$780 million government contract to a favored government contractor. The group was also engaged in other offenses relating to the promised payment, solicitation, and laundering of bribe and kickback payments in excess of \$20 million. This is a joint investigation with the FBI, the Defense Criminal Investigative Service, the Internal Revenue Service - Criminal Investigations, and the U.S. Army Criminal Investigation Division.

Inspector General Provides Testimony

On October 27, 2011, SBA Inspector General Peggy E. Gustafson testified before the House Subcommittee on Investigations, Oversight, and Regulations, Committee

on Small Business, regarding Preferential Contracting Programs and related audits and investigations. Her appearance before the subcommittee was in response to an invitation by Chairman Coffman to testify about the problem of companies making false statement in order to obtain preferential contract awards under the five small business contracting programs. Ms. Gustafson provided insight into recent criminal investigations conducted by OIG criminal investigators, as well as findings from recent audits. Several legislative proposals were offered by the Inspector General in her testimony, and other recommendations to curb fraud in the programs were discussed at the hearing.

Agency Management

Former SBA Employee Sentenced

On October 27, 2011, a former SBA program manager was sentenced in U.S. District Court for the District of Columbia to 30 months' probation, restitution of \$11,736, and a special assessment fee of \$25.00. On July 20, 2011, she pled guilty to one count of theft of government property and one criminal forfeiture count. The investigation disclosed that the subject forged her supervisor's signature on travel authorizations and vouchers and used her government travel card to rent automobiles for personal use. As a result of her false claims, the government paid fraudulent travel costs totaling nearly \$7,920. On October 20, 2010, the subject was removed from her position at the SBA.

Former SBA Employee Sentenced on Wire Fraud Charge

On October 12, 2011, a former SBA lender relations officer was sentenced in the Northern District of Illinois to 33 months in prison, 3 years supervised release, and restitution of \$400,000. The sentencing resulted from his guilty plea to one count of wire fraud based on entries he made into SBA databases, which traveled electronically across state lines, affecting interstate commerce. The subject was responsible, in part, for resolving issues related to the charge-off of SBA business and disaster loans that were secured by real estate. His duties included determining the current market value of the properties, securing the loans, and determining if the assets could be recovered from SBA loan debtors. He was also responsible for selling various delinquent loans to private equity investors. The investigation disclosed that he recommended selling 25 delinquent loans for below their value to his stepbrother and son-in-law without disclosing the familial relationships involved or the true value of each loan, to the SBA. The civil division at the U.S. Attorney's Office plans to pursue civil action to recover these funds. This is a joint investigation with the FBI.

Peggy E. Gustafson, Inspector General

If you are aware of suspected waste, fraud, or abuse in any SBA program, please report it [online](#) 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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