



Office of Inspector General

May 2014



Business Loans

California Woman Pleads Guilty to False Statements

On May 1, 2014, a California woman pled guilty to making a false statement to a federal agent in connection with her role in a conspiracy to defraud a bank. The crime related to a \$1.8 million SBA loan that her former boss had obtained from the bank. He previously pled guilty to bank bribery. The woman made false statements to the OIG and Treasury Inspector General for Tax Administration (TIGTA) agents in a nearly five-year cover-up of a conspiracy to defraud the bank. During interviews with federal agents, she denied any involvement in creating fraudulent tax forms submitted to the bank as proof that her former boss had resolved his outstanding federal tax liabilities. Agents learned that she had assisted him in the creation of the fraudulent documents and had faxed them to the bank by using her laptop computer.

When both individuals became aware of the investigation, they destroyed the laptop to conceal evidence of their fraud. In addition to making false statements, the woman instructed her ex-husband to lie regarding the disposition of her laptop. This case was initiated based on a referral from TIGTA regarding fraudulent IRS tax lien documents. This is a joint investigation with TIGTA, the Federal Bureau of Investigations (FBI), the Federal Housing and Finance Administration OIG, and the Federal Deposit Insurance Corporation OIG.

Funds Seized From Maryland Man's Brokerage Firm

On May 16, 2014, the U.S. Government seized \$96,318 in relation to the indictment of a Maryland man. The money

was seized from the man's loan brokerage company. The man was previously indicted for conspiracy to commit bank fraud, bank fraud, aiding and abetting, criminal forfeiture, and destruction of records in a federal investigation. The total forfeiture amount is \$14,708,000, which is the amount of the alleged fraudulently obtained funds. His brokerage company had specialized in securing loans for individuals interested in purchasing or refinancing small businesses in the Mid-Atlantic area. According to the indictment, he and others encouraged prospective borrowers using his company's services to apply for Section 7(a) guaranteed business loans. In the process of investigating the SBA loans, it was discovered that the man submitted applications for 17 commercial non-SBA loans to a Maryland bank. For each of the loans, Internal Revenue Service tax documents had been altered and borrowers' income had been inflated to support a more favorable debt-to-income ratio, thus increasing the likelihood of loan approval. This is a joint investigation with the U.S. Attorney's Office and the U.S. Postal Inspection Service.

Massachusetts Businessman Sentenced

On May 29, 2014, a Massachusetts businessman was sentenced to nine months confinement in a community correctional center, nine months home confinement, and 42 months of supervised release. He was also ordered to pay \$3,400,000 in restitution. The man previously had pleaded guilty to bank fraud and tax evasion. He is the former owner and president of a photography business. Beginning in 2005, the man obtained a series of loans from a bank, including two SBA-guaranteed loans. In the course of obtaining the financing, he

submitted numerous financial statements and records to the bank that did not reflect the use of approximately \$2.6 million of business funds for personal expenses. These expenses included construction expenses at his personal residence, cash for gambling, and clothing. He also altered the business's financial books and records in order to conceal these personal expenses from the Internal Revenue Service. This is a joint investigation with the IRS Criminal Investigation (IRS CI) and the U.S. Attorney's Office.

Government Contracting

Two Maryland Men Indicted on Conspiracy Charges

On May 1, 2014, two men were indicted for conspiracy to commit wire fraud and criminal forfeiture. The first man owned and operated a Maryland-based Section 8(a) firm. He passed numerous 8(a) set-aside federal contracts through the second man's Virginia-based firm. In exchange for using the first man's company as a pass-through, the second man paid the first man a 4.5 percent fee on all contracts awarded to the first man's company. On May 19, 2014, the Department of the Air Force issued a notice of suspension for both men and their firms. This is a joint investigation with the U.S. Air Force Office of Special Investigations, the Department of Interior OIG, and the U.S. Attorney's Office.

Government Official Indicted in Virginia

On May 8, 2014, a Virginia man was for conspiracy, bribery, gratuity, making a false statement to obtain a Department of Housing and Urban Development (HUD)/Federal Housing Administration

insured loan, laundering of monetary instruments, engaging in monetary transactions in property derived from specified unlawful activity, and attempting to impede the due administration of Internal Revenue laws. The investigation revealed that, from approximately May 2007 to October 2011, the former product director of a Department of the Army's *Information Infrastructure Modernization Program* secretly used his official position to enrich himself.

This indictment is one result of a multi-agency investigation of a conspiracy that included the use of a \$1.3 billion Alaska Native Corporation sole source contract to pay for bribes and the planned steering of a \$780 million government contract to a favored Section 8(a) program participant. This particular official solicited and accepted gifts, payments, and other things of value from government contractors, some of whom were SBA program participants, in return for favorable official action. Among other things, he received payments for travel, vacations, vehicles, cell-phones, cellular service, and female escorts. He also received ownership interests in two companies and assistance in obtaining home financing. At the official's direction, some of the contractors submitted fraudulent invoices for purported work that was not actually performed and then paid him a portion of the proceeds generated by these invoices. This

is a joint investigation with the FBI, Defense Criminal Investigative Service (DCIS), IRS CI, U.S. Army Criminal Investigation Command, and the U.S. Attorney's Office.

Florida Law Firm Pleads Guilty

On May 22, 2014, a Florida law firm pleaded guilty to aiding and abetting a major fraud against the government. The law firm represented a masonry company whose owner allegedly created a separate construction company to obtain two small business subcontracts on a Department of Navy contract. He had created the construction company after a \$14 million subcontract was awarded to his masonry company. The owner offered the use of his construction company to replace the masonry company in exchange for a two percent fee. The law firm prepared and sent a letter to the prime contractor stating that the construction company was a small business despite being aware that it was not a small business due to its affiliation with the masonry business. This is a joint investigation with the DCIS and the Naval Criminal Investigative Service (NCIS).

Owner of North Carolina Masonry Company Sentenced

On May 29, 2014, the president of a masonry company was sentenced to 12 months and one day of incarceration and four years of supervised release. He was also ordered to pay a \$50,000 fine. The chief financial officer of

the masonry company was sentenced to six months of incarceration and two years of supervised release, in addition to being ordered to pay a \$50,000 fine. They previously pleaded guilty in September 2013 to making false statements. The defendants had caused the prime contractor of a federal contract in North Carolina, to make a false statement to the Department of the Navy that the prime contractor was successfully meeting its small business subcontracting goals.

In early 2011, a Naval Facilities Engineering Command issued a "Solicitation, Offer and Award" for a series of construction projects in North Carolina. The contract was over \$67 million and was awarded to the prime contractor in August 2011. The masonry firm had submitted a \$9.4 million bid to do masonry work as a subcontractor. A prime contractor employee subsequently told the masonry company's president that his firm would receive the subcontract if it used a minority-owned company. The president agreed to use an affiliated company—that he controlled—as a front to receive the subcontract. All of the work on the subcontract was subsequently passed through the front company to the masonry company. This is a joint investigation with the DCIS and the NCIS.

***Florida Law Firm
Pleads Guilty to
Aiding and Abetting
A Major Fraud
Against the
U.S. Government***

California Man Sentenced for Violation of Anti-Kickback Act

On May 23, 2014, the owner of a small California construction company was sentenced to five years of supervised probation and a \$5000 fine in connection with violating the Anti-Kickback Act. The man and four other subcontractors were charged in connection with a scheme that involved bribery and kickbacks at a Navy and Marine base and other federal facilities. This investigation originated based on allegations that prime contractors in the 8(a) program were receiving kickbacks from subcontractors. This is a joint investigation with the FBI, NCIS, IRS CI, DCIS, and the General Services Administration OIG.

Man Enters into Corporate Compliance Agreement

On May 29, 2014, the SBA Office of Business Development (OBD) entered into a Corporate Compliance Agreement with a man, his Virginia-based business, and his Maryland-based business. On April 1, 2014, the OBD had done the same with his son and his Florida-based business. The agreements both were for a period of one year. This proposal was based on an investigation showing that the Virginia-based firm had engaged in unlawful or unethical activity while assisting applicants obtain 8(a) certification. The agreements are intended to provide assurances to the government that all parties are responsible and that the SBA will take no further actions as long as the

agreements' terms and conditions are met.

Co-Owner of New Jersey Business Pleads Guilty

On May 22, 2014, the co-owner of a New Jersey office furniture and design business pled guilty to making false claims. The OIG originally had received a referral from the Department of Veterans Affairs (VA) OIG alleging fraudulent behavior by her firm. The allegations stated that the firm, a service-disabled veteran-owned small business, was fraudulently claiming that status. Specifically, the referral stated that the woman, who is not a veteran, owns and operates the business. The case is a joint investigation with the VA OIG, the GSA OIG, and the IRS CI.

falsification. The SBA had declined her home disaster assistance loan application in March 2013. This is a joint investigation with the New Jersey Department of Community Affairs, the U.S. Department of Homeland Security OIG, the HUD OIG, and the New Jersey Office of the Attorney General.

Disaster

New Jersey Woman Charged

On May 13, 2014, the New Jersey Office of the Attorney General filed a complaint against a New Jersey woman for allegedly filing false applications to collect federal relief funds after Hurricane Sandy. Allegedly, she falsely claimed that a storm-damaged house in New Jersey was her primary residence, when in fact it was a vacant investment property that she planned to renovate. The woman received \$31,900 in Federal Emergency Management Agency (FEMA) grants, including \$2,270 in rental assistance, and \$29,630 for home repairs. She was charged with theft by deception and unsworn

New Jersey Woman Charged In

Hurricane Sandy

Fraud Investigation

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

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.*

We welcome your comments concerning this update or other OIG publications.

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SBA Office of Inspector General
409 Third Street SW, 7th Floor
Washington, DC 20416
E-mail: oig@sba.gov
Telephone: (202) 205-6586 FAX (202) 205-7382

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