



Office of Inspector General

April 2013



Business Loans

Maryland Woman Pleads Guilty

On April 5, 2013, a Maryland woman plead guilty to one count of conspiracy to commit bank fraud and one count of money laundering. The woman is an attorney with offices in Virginia, and the owner/operator of a title company, also located in Virginia. The woman conspired with a man and his brother, who owned and operated a loan brokerage company. She used her settlement company and law firm to facilitate loan closings for deals that would otherwise fail to meet the lending parameters of the banks making the loans, including banks authorized to lend under SBA's Section 7 (a) program. She helped the brothers misrepresent the true amount of money involved in the transactions and/or the true names of the parties taking part in the transactions. The fraudulent documentation overstated the net worth and equity injection amounts of the borrowers to falsely enhance their creditworthiness. This is a joint investigation with the Federal Bureau of Investigation (FBI) and the United States Postal Inspection Service.

\$2.5 Million Judgment Entered Against New Jersey Man

On April 18, 2013, a default judgment was entered against a New Jersey man in the amount of \$255,793.98, plus \$370.00 in costs, and post-judgment interest. This case was based on a referral from the OIG Early Fraud Detection Working Group and involved a \$255,000 SBA Express loan disbursed to the man for his business. Allegations against him included false statements and misuse of loan proceeds in connection with this loan. After the case was declined both crimi-

nally and civilly, the SBA filed a Complaint on March 13, 2012, with the SBA Office of Hearings and Appeals. The Complaint against the man and his business was filed under the authority of the Program Fraud Civil Remedies Act (PFCRA).

Texas Attorney Pleads Guilty to Misprision of a Felony

On April 23, 2013, a Texas attorney pled guilty to one count of misprision of a felony. The investigation revealed that the attorney and two women, who have already pled guilty to their charges, conspired to deceive two banks into making loans to the buyer. The conspiracy involved an SBA-guaranteed loan from one bank for \$1.835 million to purchase a laundromat, and two private commercial loans from a second bank totaling over \$1.3 million. Both purchases involved companies affiliated with the seller. The investigation revealed that on the loan applications and in conversations with bank personnel, the defendants misrepresented the buyer's assets, source of the equity injection, and down payment funds. The attorney, acting as the escrow officer for the buyer, fraudulently disbursed \$498,729 of proceeds to the seller without the consent or permission of the SBA lender. The seller immediately purchased a cashier's check for \$431,229 for the buyer to use as the required equity injection. The seller also paid the attorney \$30,000 to assist in obtaining approval of the loans from both banks. This is a joint investigation with the FBI.

Alabama Woman Sentenced in Loan Fraud Case

On April 23, 2013, an Alabama woman was sentenced to five years of probation, a \$100 special assessment fee, and restitution of \$1,380,486.17, to be paid jointly and severally with a co-conspirator. The woman pled guilty on July 26, 2012, to a single count Information charging her with loan fraud. She had obtained an SBA-guaranteed loan of \$1,529,000 from the Small Business Loan Source (SBLS) for the purchase of a business. The loan had an outstanding balance of \$1,380,486. The investigation revealed that the \$260,000 equity injection that she was required to pay on this loan actually came from the seller, and that both individuals falsely represented to the SBLS that the equity injection came from the woman. Specifically, the two created and submitted false bank statements, checks, and certificate of deposit receipts to represent that the funds were originally a gift to the woman from her grandmother. This case was predicated on information received from the OIG's Early Fraud Detection Working Group.

Disaster Loans

Texas Man Pleads Guilty to Forgery Related to Hurricane Katrina

On April 8, 2013, a Texas man pled guilty to one count of forgery of contracts, deeds, or powers of attorney, as charged in an indictment filed on March 28, 2012. This case was predicated on a referral received from the SBA Disaster Processing and Disbursement Center. The investigation revealed that the man forged signatures of his estranged wife and others on SBA loan documents in

order to obtain two SBA disaster loans in connection with Hurricane Katrina. The SBA approved a \$95,600 home loan to repair his alleged residence and a \$71,800 business loan to repair the other half of the same duplex, which was purportedly utilized as a rental property. The man used the loan proceeds for personal living expenses (i.e. hotel rooms, dining, a vehicle purchase, gas, etc.) and none to repair the real property, which actually belonged to his estranged wife. The SBA suffered a loss of approximately \$54,000.

Louisiana Man Sentenced on False Statements Charge

On April 18, 2013, a Louisiana man was sentenced to 3 years' probation, restitution of \$54,174.91, and a special assessment of \$100. The sentencing was a result of his guilty plea to one count of making a false statement. He had obtained a \$430,500 SBA disaster loan for the repair of his dental practice, which was destroyed by Hurricane Katrina. According to the SBA Loan Authorization and Agreement, he agreed to use, as collateral for the loan, a property where he was to operate his surgical practice and the fixtures and equipment that he was to purchase with the loan funds. The investigation revealed that the property to be used as collateral was in disrepair. The walls were unfinished, showing the studs, and the building had no permanent electrical power. Also, there were no furnishings, fixtures, or

equipment that one would expect to find at a surgical practice which, according to notes in SBA's Disaster Credit Management System, was fully operational. In addition, he submitted fraudulent invoices to the SBA for \$56,449.91 and used SBA funds for living expenses and gambling. He also received \$150,000 from the Louisiana Road Home program based on an application he filed for damages to a home he did not live in at the time of Hurricane Katrina. This is a joint investigation with the U.S. Housing & Urban Development OIG and the FBI.

Government Contracting

Two Plead Guilty in 8(a) Conspiracy Investigation

On April 8, 2013, a Virginia man pled guilty to one count of false statements to the SBA. The man submitted an 8(a) application on behalf of a security firm of which he was the sole owner. The application contained numerous false and misleading statements concerning his employment and the source of funding and revenue for his firm. On April 11, 2013, a regional director of the Federal Protective Service (FPS), U.S. Department of Homeland Security (DHS), pled guilty in the Eastern District of Virginia to one count of conspiracy to commit bribery. The FPS director and another man, the former owner of the security firm, entered into an agreement whereby the director would be paid

\$50,000 annually to assist the firm, an 8(a) certified business, in obtaining DHS contracts. The former director received \$12,500 before the scheme was discovered. This is a joint investigation with the U.S. National Aeronautics and Space Administration (NASA) OIG, the Defense Criminal Investigative Service (DCIS), and DHS OIG.

Two Plead Guilty in Bribery Investigation

On April 11, 2013, a technology firm pled guilty to a criminal Information charging one count each of conspiracy and bribery of a public official in U.S. District Court for the District of Columbia. On the same date, a woman pled guilty to a single count Information charging her with conspiracy to commit bribery of a public official. The investigation revealed that the woman, the technology firm, and others conspired to enrich themselves by the fraudulent procurement of government contracts and subcontracts to the firm by the U.S. Army Corps of Engineers (USACE) and the U.S. Department of the Army (Army). The firm and its representatives paid bribes in return for the public officials using their official positions to provide preferential treatment to the company, an SBA certified 8(a) program participant. This is a joint investigation with the FBI; the Internal Revenue Service, Criminal Investigations (IRS-CI); the U.S. Army Criminal Investigation Division (Army CID); and DCIS.

*Woman and technology
firm plead guilty in
US Army
Corps of Engineers
Bribery Investigation*

Department of Defense Employee Charged with Bribery

On April 12, 2013, a supervisor in the Department of Defense, Construction and Service Contracts Inspection Branch, was charged by criminal Information with one count of bribery. This case is associated with an investigation involving numerous violations of federal statutes, including false statements to the SBA. The allegations of bribery of a public official developed during an investigation into contractors in the SBA's 8(a) Program in San Diego who were allegedly receiving kickbacks from subcontractors. This is a joint investigation with the FBI, Naval Criminal Investigative Service, IRS CI, DCIS, and the General Services Administration (GSA) OIG.

Georgia Man Pleads Guilty to False Statements in Government Contracts Scheme

On April 15, 2013, a Georgia man pled guilty to one count of false statements. The investigation revealed he operated a scheme to use, fraudulently, the status of a legitimate service-disabled veteran to obtain government contracts set-aside for Service-Disabled, Veteran-Owned Small Businesses (SDVOSB). The man owned one business and established a second business as an SDVOSB company owned by the service-disabled veteran. He then created a joint venture be-

tween the businesses to obtain set-aside contracts. The joint venture received two contracts totaling over \$1 million from the Department of Veterans Affairs (VA) before the SDVOSB status of the joint venture was challenged.

In February 2008, the SBA ruled that neither the joint venture nor the man's business 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 business as an SDVOSB and received three additional SDVOSB contracts totaling approximately \$1.7 million. He also forged the veteran's signature on contracts, correspondence, and checks and used other means 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, Department of Agriculture OIG, Army CID, and DHS OIG.

Massachusetts Man Charged with Obstruction of an Official Proceeding

On April 23, 2013, a Massachusetts man was charged in a criminal Information with one count of obstruction of an official proceeding. The Information alleges that the man received a subpoena for records relating to his business dealings with another company, a Service-Disabled, Veteran-Owned business. Allegedly, 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. This is a joint investigation with the VA OIG, Army CID, and the General Services Administration OIG.

Many OIG reports can be found on the OIG's website

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

Office of Inspector General

Peggy E. Gustafson

Inspector General

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

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