



## Office of Inspector General U.S. Small Business Administration

April 2011 Update

### *Business Loan Programs*

#### Korean National Indicted

On April 8, 2011, a Korean national was indicted in the District of New Jersey on one count of conspiracy to commit bank fraud. The investigation disclosed that an organized group of Korean nationals were obtaining credit cards and loans from various lending institutions using false identities, documents, and business names. The indictment alleges that the subject obtained a \$100,000 loan from a bank and a \$50,000 SBAExpress loan from another bank for a nail salon using the identity and financial information of another business. This is a joint investigation with the Internal Revenue Service–Criminal Investigations Division, the Federal Bureau of Investigation (FBI), the Englewood New Jersey Police Department, and the Bergen County Prosecutors Office.

### *Disaster Loans*

#### SBA's Response to the Deepwater Horizon Oil Spill

On April 7, 2011, the OIG issued a report on a review of the SBA's response to the deepwater horizon oil spill. The purpose of the review was to determine whether the SBA's disaster response was most cost effective and targeted toward the needs of those concerned.

In response to the disaster, the Agency made extensive outreach efforts to businesses impacted by the disaster and maintained Business Recovery Centers (BRCs) in affected locations for several months. The OIG found that SBA's disaster response could have been provided at a lower cost by reducing the number of BRCs, or staff at BRCs, or both. According to the Office of Disaster Assistance's Daily Field Activity Report, SBA employees appeared to experience a significant amount of idle time during the period of our review. We estimated the salaries and travel expense relating to the idle time totaled approximately \$2.5 million based on reported costs for the BRCs during May through August 2010. The OIG recommended that the SBA develop (1) written procedures to establish performance metrics to assess workload and (2) appropriate onsite staffing

levels and guidelines for monitoring onsite productivity and adjusting staffing levels in a timely manner.

#### Mississippi Couple Indicted

On April 19, 2011, a federal grand jury in the Southern District of Mississippi returned a seven count indictment against a couple for fraudulently obtaining \$1 million in Hurricane Katrina disaster assistance. Each was charged with one count of conspiracy, five counts of wire fraud, and one count of theft of government funds. The couple received a \$1 million disaster loan to repair business properties damaged by Hurricane Katrina. It is alleged that they did not use the loan proceeds as provided in the Loan Authorization Agreement, submitted fraudulent receipts to the SBA, and used \$389,923 of the loan proceeds to the purchase a 43-foot yacht. This indictment resulted from a joint proactive investigation by the National Center for Disaster Fraud targeting individuals making false claims for government disaster assistance and is being conducted jointly with the FBI.

#### Mississippi Homeowner Charged

On April 27, 2011, a homeowner was charged via criminal information in the Southern District of Mississippi with one count of theft of public money. The charge alleges that the subject fraudulently represented the location of his primary residence when applying for Hurricane Katrina disaster assistance from the SBA, the U.S. Department of Housing and Urban Development (HUD), the Federal Emergency Management Agency and both Louisiana and Mississippi State Grant programs. The subject was approved for an SBA loan of \$88,800, of which \$10,000 was disbursed. This is a joint investigation with the HUD OIG, the Department of Homeland Security (DHS) OIG, and the Mississippi State Grant Authority.

### *Government Contracting & Business Development*

#### New Mexico Man Pleads Guilty

On April 7, 2011, the owner of a fence and construction company in Ruidoso Downs, New Mexico, pled guilty in

U.S. District Court for the District of New Mexico, to an Information charging him with accessory after the fact, related to intent to convert to his use or gain public money, property, or records. The company had bid on and was selected for a project to build a road for the U.S. Forest Service. The project was an SBA set-aside contract for Historically Underutilized Business Zone (HUBZone) businesses. The Forest Service selected the company for this project; however, the company was not HUBZone certified, and when the Forest Service requested a copy of the company's HUBZone certification, a company employee obtained another company's HUBZone certification, altered it to make it appear authentic, and sent the false certification to the Forest Service. The investigation disclosed that the business owner knew about the false certification and did not report it to the authorities but, rather, encouraged the employee to press forward in order to obtain the contract. The owner was sentenced to 48 hours incarceration, a \$10,000 fine, and one year supervised release. This is a joint investigation with the FBI.

#### Design Company Owner Pleads Guilty

On April 18, 2011, the owner of a design company pled guilty to one count of conspiracy and one count of false claims. The subject, who owns an 8(a) certified design/remodeling business, conspired to submit falsified information to the U.S. General Services Administration (GSA) in the course of obtaining an 8(a) contract with the DHS, Immigration and Customs Enforcement (ICE). As a result of the conspiracy, ICE suffered a loss of \$389,738. This is a joint investigation with DHS ICE, GSA OIG, and the Department of Justice Antitrust Division.

#### Construction Company Owner Found Guilty

On April 20, 2011, in the Southern District of New York, the president and Chief Executive Officer of a construction company was found guilty of all six counts against him following a jury trial. The subject was found guilty of one count of mail fraud, three counts of major fraud against the United States, one count of false statements and one count of tampering with a victim, witness or an informant. The charges relate to the company falsely claiming status as a Service-Disabled Veteran-Owned (SDVO) business. The company was awarded one Veteran-Owned set-aside contract in the amount of \$5,698,000 and three SDVO set-aside contracts totaling \$10,980,690. The evidence gathered revealed that the owner is neither a veteran nor a service-disabled veteran. This is a joint investigation with the Department of Veterans Affairs and the Department of Army, Criminal Investigations Division.

#### Alabama Computer Sales Company Owner Indicted

On April 25, 2011, in U.S. District Court for the Northern District of Alabama, the owner of a computer sales company was indicted on two counts of misrepresentation. The indictment alleges that the subject falsely obtained an SBA HUBZone certification because the company's principal office was not located within a HUBZone, nor did 35 percent of its employees reside within a HUBZone, as required by program regulations. As a result of the subject's representations to the SBA, the company was awarded 28 federal contracts from 2006 to 2009, valued at \$2,565,692, which the company would not have been eligible to receive if it did not have HUBZone status. This is a joint investigation with the U.S. Army Criminal Investigation Division and the Defense Criminal Investigative Service.

### *Agency Management*

#### Review of the SBA's Accounting of FY 2010 Drug Control Funds and Performance Summary Report

On April 18, 2011, the OIG issued a report on SBA's accounting of drug control funds and performance summary report for the year ended September 30, 2010, as required by 21 U.S.C § 1704(d). Agencies are required by the Office of National Drug Control Policy (ONDCP) Circular, *Drug Control Accounting*, to annually provide a detailed accounting of all funds expended on National Drug Control Program activities and the results associated with those activities. When drug-related obligations are less than \$50 million and a detailed accounting would constitute an unreasonable burden, agencies are permitted to submit an alternative report, as long as it is accompanied by Agency and OIG statements.

Because SBA's FY 2010 drug-related obligations were less than \$50 million, SBA submitted an alternative report for the year ended September 30, 2010. Nothing came to the OIG's attention during a review of this alternative report that would indicate it was not presented, in all material respects, in conformity with ONDCP's Circular, or that management's assertions were not fairly stated, in all material respects, based on the criteria set forth in ONDCP's Circular, *Drug Control Accounting*.

This update is produced by the SBA OIG,  
Peggy E. Gustafson, Inspector General.

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