Office of Inspector General

April 2015

Business Loans

Co-Owner and CFO of New Hampshire Steel Fabricator to Forfeit Nearly $1.3 Million

On April 6, 2015, the indictment in Vermont of the co-owner and chief financial officer of a New Hampshire steel fabricator was unsealed. He had been indicted for (1) making false statements and reports as well as overvaluing property and security to influence Federal Deposit Insurance Corporation (FDIC)-insured financial institutions' actions in connection with loan applications, commitments, and renewals, and (2) aiding and abetting. In addition, he must forfeit to the United States any property or proceeds obtained as the result of such violations, including but not limited to $1.26 million.

The steel fabricator had relied on financing from an FDIC-insured savings bank in Vermont. By the end of 2010, the bank had extended $10 million in line-of-credit financing based on the value of the firm's key assets, including accounts receivable, inventory, and work in progress. The bank's loans were so large that it needed two other FDIC-insured banks to share in the lending. In December 2010, the savings bank also funded a $2 million loan guaranteed by the Small Business Administration (SBA), bringing the total borrowing to over $12 million. The steel fabricator's co-owner made false statements and reports in connection with the bank loans by manipulating the value of the firm's assets, including the value of its inventory and work in progress, in order to maintain and expand its bank borrowing. This joint investigation continues in conjunction with the U.S. Attorney's Office, the FDIC Office of Inspector General (OIG), and the Federal Bureau of Investigation (FBI).

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Real Estate Agent Pleads Guilty for Involvement in Large-Scale, Long-Term Profit Scheme

On April 17, 2015, a real estate agent and wife of the owner of a Denver, CO, investment firm pled guilty to violating the Colorado Organized Crime Control Act (conspiracy). She was sentenced the same day to three years of probation and advised that her Colorado real estate license may be revoked with this felony conviction. All other counts against her were dismissed. A restitution hearing is pending.

The real estate agent was originally indicted with her husband and four other family members in a 37-count indictment filed in September 2014. The indictment included charges of violating the Colorado Organized Crime Control Act; committing forgery and making false statements to SBA, the state of Colorado, and various lenders; attempting to influence a public servant; criminal impersonation; conspiracy; and theft.

The investigation showed that her husband had obtained a $2.32 million SBA-guaranteed loan to refinance his office building and other existing debt. To obtain the loan, he concealed his extensive criminal history and the fact that he was on probation. He also falsified documents related to his debts and the taxes owed to the state of Colorado. It was also discovered that the woman, her husband, and four other family members created a criminal enterprise using their status as real estate professionals to execute a large long-term fraud for profit scheme. This scheme primarily centered on mortgage fraud, including but not limited to the manipulation of multiple real estate transactions through fraudulent statements, material omissions, false identification and notary commissions, and "straw buyers" to buy and sell real estate.

This case was initiated after SBA OIG received a referral from a California bank. This was a joint investigation with the Colorado Attorney General's Office, Colorado Bureau of Investigation, FBI, and Federal Housing Finance Agency OIG.

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Washington Man Sentenced to 30 Months' Imprisonment for Bank and Wire Fraud Exceeding $1.3 Million in Credit and $600,000 in Actual Loss

On April 21, 2015, a Washington State man was sentenced to 30 months of imprisonment and 5 years of court supervision following his release from prison. The court also ordered him to pay $379,143 in restitution and $900 in court fees. The man had previously been found guilty of bank fraud, conspiracy to commit bank fraud, and wire fraud. The total amount of fraud exceeded $1.3 million in credit and approximately $600,000 in actual loss divided disproportionately among three financial institutions.

The charges originated from an investigation of a $50,000 SBA Business Express loan in his wife's name for her computer company. The couple had submitted false and fraudulent information to a credit union to receive a line of credit which was 50 percent guaranteed by SBA. The investigation immediately uncovered a check kiting scheme targeting multiple financial institutions, as well as the man's involvement in additional credit and loan kiting schemes. This included eight collateralized loans from the credit union, two mortgage loans from a major bank, and multiple credit lines from another major bank. All credit was approved in a complex scheme utilizing hoax national and international business income, inaccurate financial documentation, and falsified balloon payment earnest money, all of which was fashioned by the couple.

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One of Six Men Pleads Guilty to His Involvement in Chicago Area Gas Station Fraud Scheme

On April 23, 2015, the former market president of an Illinois bank pled guilty to committing bank fraud. He was one of several Chicago-area individuals indicted as part of an ongoing investigation. A second man had been charged with committing bank fraud, bribing a bank official, and filing a false tax return. Two other men, including an accountant, were charged with committing bank fraud. A fifth man was charged with failing to file a tax return, and a licensed appraiser was charged with evading income tax.

Two of the men actively conspired with the bank official and others to "flip" gas stations to unqualified buyers financed by SBA-guaranteed loans made by the bank. The official and one of the men utilized the accountant to create the false tax returns needed for the loan files. The two men provided the bank official with "kickbacks" exceeding $150,000 in return for his actions in getting the loans approved. The bank official also fraudulently instructed the bank to pay the brother of one of the men over $340,000 in broker commissions for multiple SBA loans, even though the brother had no involvement with the loans. After accepting these commission payments, the brother then failed to file Federal tax returns to report the income. In addition, the bank official utilized the appraiser for every fraudulent SBA loan that he approved. This investigation is being conducted jointly with the FBI, Internal Revenue Service (IRS) Criminal Investigation (CI), and FDIC OIG.

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Government Contracting

Washington State Laser Technology Company to Pay U.S. Government $420,000 After Receiving Contracts and Grant Agreements Through SBA Programs

On March 30, 2015, the U.S. Government entered into a $420,000 settlement agreement with a Washington State laser technology company for its false certifications of eligibility to receive contracts and grant agreements through the SBA Small Business Innovation Research and Small Business Technology Transfer programs. The U.S. Attorney's Office and the U.S. Department of Justice alleged that, from 2004 through 2013, the firm received contracts and grant agreements based on these false certifications. The investigation found that the contracts and grants were issued by the Department of the Army, the Department of the Air Force, the Department of the Navy, the Department of Energy (DOE), and the National Aeronautics and Space Administration (NASA). The company's chief executive officer signed the agreement on behalf of the firm.

This is an ongoing joint investigation with the Defense Criminal Investigative Service (DCIS), Army Criminal Investigation Command's Major Procurement Fraud Unit, Naval Criminal Investigative Service (NCIS), Air Force Office of Special Investigations, DOE OIG, and NASA OIG.

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Maryland Couple Indicted and Ordered to Pay $1.5 million for Fraudulently Obtaining SDVOSB Contracts

On April 2, 2015, a superseding indictment was unsealed regarding a Maryland couple who were the controlling officers and the majority shareholders of two technology corporations. The pair had been previously charged with conspiracy to commit wire fraud, embezzlement from an employee benefit plan, tax evasion, and criminal forfeiture. They were also ordered to forfeit to the United States any property involved in the offenses, including at least $1.5 million.

The two firms had been awarded millions of dollars in Federal contracts, pursuant to small business and Service-Disabled Veteran-Owned Small Business (SDVOSB) set-aside status. Competitors had protested the awarding of contracts to the two firms based on affiliation and size determination matters. However, each time, SBA found both companies to be small businesses.

According to this indictment, the couple allegedly embezzled approximately $284,000 from employees' retirement plans and converted employee welfare benefit plans and a related fund to their own use. In addition, they allegedly were responsible for preparing a false and fraudulent Federal joint tax return. The couple allegedly stated that their joint taxable income for calendar year 2009 was $180,251 and that the tax due was $42,350. In fact, as they allegedly knew at the time, their joint taxable income was $821,579 and the income tax was $256,069.

This investigation is continuing and being conducted jointly with the IRS, DCIS, and Department of Labor OIG, under the direction of the U.S. Attorney's Office.

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Settlement Reached on Qui Tam Claim for False HUBZone Certification

On April 8, 2015, SBA OIG, the Department of Justice, a Florida company, its married co-owners, and a *qui tam* relator reached a settlement agreement. The agreement resolved a False Claims Act case against the firm and its two co-owners, which was initiated in response to a May 2013 *qui tam* complaint. In a *qui tam* complaint, a private citizen (the relator) can sue on behalf of the United States and share in any recovery.

The settlement resulted from allegations that, from 2010 to 2013, the company falsely certified to SBA that its principal office was located in a designated HUBZone, when in fact it was not. Both the sham and actual office are located in Orlando, FL. Using this fraudulently-obtained certification, the firm then received various Federal Government contracts set aside for qualified HUBZone companies, and submitted claims for payment under those contracts. The investigation substantiated the *qui tam* relator's claims. The company had used a "virtual office" in Orlando as its HUBZone address. Under the contract with the virtual office business, the firm could use the mailing address and phone number of the virtual office, as well as office space by the hour. Account statements showed that the firm never paid for hourly office space. The company also used its non-HUBZone address for nearly all non-government business, as well as for its tax returns. Not only did the firm misrepresent the location of its principal office to SBA, it also submitted a fabricated lease agreement and other documents to SBA for its purported HUBZone office. Moreover, during the investigation, the defendants created another version of its agreement for the virtual office and submitted that false document to the Government.

In the settlement, the firm and its co-owners agreed to a $250,000 payment (which has been paid), plus contingency payments of 5 percent of the gross annual revenue for the firm or any successor for the 5 years following the agreement's effective date up to $15 million, based on any local, State, or Federal contract the firm receives as of February 1, 2015, whose price exceeds $300,000. In return, the United States agreed to release the firm from any civil or administrative monetary claim that has been or could have been asserted.

This case has been worked in conjunction with the Department of Justice, U.S. Attorney's Office, U.S. Department of Homeland Se-curity (DHS) OIG, U.S. Coast Guard Inves-tigative Services, and DCIS.

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Former GSA Employee Pleads Guilty After Receiving $42,000 in Bribes to Help 8(a) Program Participant Obtain GSA Contracts

On April 16, 2015, a former General Services Administration (GSA) building manager in San Diego, CA, pled guilty to conspiracy to commit bribery and theft of government property, and to filing a false tax return. He had been charged in an earlier complaint with engaging in a bribery scheme with a former SBA Section 8(a) Program firm's owner in San Diego and failing to report illegal proceeds on his Federal tax returns. Between 2007 and March 2014, the building manager used his official position to help the 8(a) participant firm obtain GSA contracts. In one instance, he demanded $120,000 from the 8(a) firm's owner in exchange for being awarded a GSA 8(a) sole source construction contract. The actual amount of bribe payments that the firm made to the building manager totaled $42,000. He also demanded that the firm provide repair work to his residence at no cost and improperly converted to his own use Government property that was later sold for $8,057.

This investigation originated based on allegations that contractors in the 8(a) Program in San Diego were receiving kickbacks from subcontractors. During the course of the investigation, agents became aware of other allegations that two public officials were bribed. The GSA building manager is the eleventh defendant charged in this investigation. This is a joint investigation with the FBI, NCIS, IRS CI, DCIS, and GSA OIG.

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Administrative Assistant Signs Pre-Trial Diversion Agreement for Fraudulently Submitting Contracts

On April 24, 2015, the administrative assistant of two construction companies—one in North Carolina and the second in Kentucky—signed a pre-trial diversion agreement letter with the U.S. Attorney's Office outlining her participation in the charges of an earlier indictment and agreeing to cooperate with the Government's case against three other individuals. She admitted to signing Department of the Interior (DOI) and Department of Veteran Affairs (VA) contracts fraudulently submitted to the Government at the request of the North Carolina construction firm's president. She still works for him in North Carolina.

The earlier indictment charged her and the three others with wire fraud, conspiracy to commit wire fraud, and major fraud against the Government. It also provided notice of the potential asset forfeiture of $141,618 in money traceable to these offenses, as well as separate potential money judgments of $15 million and $5 million. The indictment resulted from an investigation that determined the defendants conspired to fraudulently obtain SBA 8(a) certification for a North Carolina investment firm in order to gain access to $9 million in 8(a) sole source and set-aside contracts. The defendants also inappropriately claimed SDVOSB status for the Kentucky construction firm to obtain $5 million in SDVOSB contracts. Accordingly, the defendants submitted fraudulent invoices, receipts, and credit card statements to the SBA, VA, DOI, and other Government entities. The administrative assistant claimed to have not gained monetarily from this scheme beyond her employment pay check.

The trial of the other three individuals is scheduled to begin in August 2015. This case was investigated jointly with the VA OIG, the DOI OIG, the U.S. Secret Service, and the Department of Justice.

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Office of Inspector General
Peggy E. Gustafson
Inspector General

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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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