

# Office of Inspector General

August 2012



## Business Loans

### **Kentucky Man Sentenced to 42 Months in Prison**

On July 24, 2012, a Kentucky man was sentenced to 42 months in prison, 5 years supervised release, \$91,250.50 in restitution, and a \$500 assessment fee. On February 22, 2012, he pled guilty to a five-count indictment charging him with one count of bank fraud, one count of forged security, one count of aggravated identity theft, one count of wire fraud, and one count of credit card fraud. The investigation revealed that the man used the identity of a federal air marshal to obtain an SBA Express loan and multiple credit cards. The subject had previously been involved in a small business with the air marshal. In addition, the investigation revealed that man deposited a counterfeit check into a federally insured financial institution. This is a joint investigation with the U.S. Secret Service (USSS).

### **Michigan Man Ordered to Pay \$219,957 in Restitution**

On August 7, 2012, the president of a Michigan real estate investment firm was ordered to pay \$219,957 in restitution. The restitution order was in addition to his sentence handed down on May 16, 2012, following a bench trial in Wayne County Circuit Court, Detroit, Michigan. His convictions were a result of his participation in multiple fraud schemes, including two loan-fraud schemes against the SBA. The first loan-fraud scheme involved a \$98,000 SBA-guaranteed loan to a company purportedly owned by his wife. The investigation, however, corroborated state corpora-

tion records showing that he was the true owner of the company. The second loan-fraud scheme involved a \$100,000 SBA-guaranteed loan made to his firm. The investigation revealed that the subject overstated the company's annual revenues as \$890,000, when the actual revenues were only \$35,240. In addition, proceeds from both SBA loans were processed, laundered, and diverted into his personal bank accounts instead of being used for working capital for the respective businesses. At the trial, the subject was also convicted for his involvement in a residential property "flipping" scheme, a HUD rent-subsidy scheme, and a vehicle code violation. This is a joint investigation with the Michigan State Police, the USSS, and the Wayne County Prosecutor's Office.

### **Three Maryland Men Plead Guilty to Conspiracy to Commit Bank Fraud**

On August 9, 2012, three Maryland men pled guilty to one count of conspiracy to commit bank fraud. In addition, the first agreed to a criminal forfeiture amount of \$13,432,000; the second agreed to a criminal forfeiture amount of \$18,764,900; and the third agreed to a criminal forfeiture amount of \$15,725,000. The investigation disclosed that the three individuals were involved in a scheme to fraudulently obtain business loans guaranteed by the SBA. Losses resulting from the scheme are estimated to be over \$52 million. This is a joint investigation with the Federal Bureau of Investigation (FBI) and the U.S. Postal Inspection Service.

### **Alabama Woman Pleads Guilty to One Count of Money Laundering**

On August 28, 2012, an Alabama woman pled guilty to a criminal Information charging her with one count of money laundering. This case was predicated on a referral from the IRS CI. The information received alleged that an 8(a) construction company, wholly owned by an individual, submitted false information to obtain its 8(a) status and an SBA-guaranteed loan. During the course of the investigation, it was discovered that the individual's girlfriend also submitted false income and employment information to obtain a \$40,000 non-SBA loan from a bank using her boyfriend's 2004 Mercedes Benz as collateral. She submitted a false letter of employment and a false IRS W-2 form stating she earned \$87,245 of income from her boyfriend's firm. In reality, the man created the documents for his girlfriend who was not employed by his firm and did not receive an income from his firm. At the direction of her boyfriend, the woman wired \$20,000 of the loan proceeds to pay a debt owed by his firm. This is a joint investigation with CID, CI, and DCIS.

## Government Contracting & Business Development

### **Co-Owners of a Massachusetts Corporation Plead Guilty to Conspiracy to Commit Wire Fraud**

On August 7, 2012, the vice-president and co-owner of a Massachusetts

corporation pled guilty to one count of conspiracy to commit wire fraud.

In addition, on August 30, 2012, the president and other co-owner of the company was charged via an Information with one count conspiracy to commit wire fraud. The SBA OIG initiated this case based upon a referral from the Government Accountability Office (GAO) FraudNet alleging fraudulent behavior by multiple Service-Disabled Veteran-Owned (SDVO) firms.

The allegations stated that SDVO firms, including this corporation, had been fraudulently certified in order to obtain government set-aside contracts. The allegations against the firm indicated that it used another man's service-disabled status to fraudulently establish the firm as an SDVO for the sole purpose of obtaining set-aside contracts. This is a joint investigation with the Department of Veterans Affairs, OIG; the Department of Army, Criminal Investigations Division (CID); the Department of Labor, OIG; and the General Services Administration, OIG.

#### **Chief Financial Officer Charged in Five Count Criminal Information in District of Columbia**

On August 21, 2012, the chief financial officer of a firm was charged in a criminal Information with bribery of a public official, conspiracy to commit bank fraud,

willful failure to file a return, aiding and abetting and causing an act to be done, and criminal forfeiture in U.S. District Court for the District of Columbia. The investigation revealed that the man engaged in bribery of government officials from approximately February 2009 until about October 2011. Further, the bribery related to a \$1.3 billion dollar U.S. Army contract, which was performed by 8(a) and Alaska Native Corporation contractors. Additionally, the subject engaged in a scheme to defraud and obtain money and property from financial institutions by means of false and fraudulent pretenses, representations, and promises. Finally, the man failed to file an income tax return in 2010 for income in excess of \$100,000. This is a joint investigation with the FBI; the Defense Criminal Investigative Service (DCIS); the Internal Revenue Service (IRS), Criminal Investigation Division (CI); and CID.

#### **Agency Management**

##### **Alabama Woman Pleads Guilty to Fraud by Wire for Charges to Government Purchase Card**

On August 6, 2012, an Alabama woman pled guilty to one count of fraud by wire. The investigation revealed that she made approximately \$30,553 of personal, unauthorized purchases using the government purchase

card assigned to the SBA Alabama District Office. Further, she filed approximately 59 falsified travel vouchers, resulting in her receiving approximately \$21,905. She also made approximately \$3,346 of unauthorized purchases on her government travel card. This case was initiated based on a referral from the Alabama District Office.

##### **Two Women, Including Former SBA Payroll Assistant, Indicted on Conspiracy to Commit Wire Fraud**

On August 8, 2012, two women were indicted on one count of conspiracy to commit wire fraud in U.S. District Court, District of Maryland. The first woman, a former payroll assistant in the Office of Human Capital Management at the SBA, allegedly provided three altered copies of her own SBA Earning and Leave Statement to the second woman to use in the financing of an automobile. The altered E & L Statement reflected that the second woman was an SBA employee, even though she never worked at the SBA and was not employed at the time. When the automobile dealership requested additional proof of employment, the first woman faxed a fourth altered E & L Statement from the SBA headquarters in Washington, DC, to the dealership in Maryland.

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**“DC Man engaged in bribery of government officials related to \$1.3 Billion U.S. Army Contract”**

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

**If you are aware of  
suspected waste, fraud, or  
abuse in any SBA program,  
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### **Audit Report 12-16**

On August 6, 2012, the OIG issued Report 12-16, *Audit of the Small Business Administration's Procurement Process used to Reconfigure Space for the Office of International Trade*. This advisory memorandum, the first of two reports, presented the results of the OIG's limited scope audit of the SBA's procurement process used to reconfigure space for the Office of International Trade. While conducting the audit, the OIG found that SBA personnel with purchase card authority had inappropriately purchased \$34,044.77 in construction transactions. These transactions were over the \$2,000 threshold established by the Federal Acquisition Regulations for construction purchases at the Washington, DC area offices.

The OIG recommended that the SBA (1) ensure all purchase cardholders have, on file, current delegation letters that reflect current limitations and approving official; (2) provide training to SBA purchase cardholders and approving officials on the proper use of a government purchase card, to include purchase limitations and the definition of construction; and (3) review the routine maintenance needs of SBA buildings within the Washington, DC area.

### **Audit Report 12-18**

On August 16, 2012, the OIG issued Report 12-18, *A Detailed Repayment Ability Analysis is Needed on High-Dollar Early-Defaulted Loans to Prevent Future Improper Payments*. The limited scope review found that the assessment of delegated lender underwriting performed at the National Guaranty Purchase Center (NGPC) on early-defaulted loans was not effective in identifying whether lenders were clearly negligent in determining the borrowers' repayment ability. As a result, the NGPC made improper payments, which resulted in unnecessary losses to the Agency. Based on previous audit work, the OIG's analysis indicated that improved reviews for repayment ability could result in a cost savings to the SBA of at least \$43 million over the next two years. To prevent future losses, the OIG recommended that the SBA perform a detailed analysis of the delegated lenders' computation of repayment ability on all high-dollar early-defaulted loans and provide training to NGPC purchase staff.

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