



Office of Inspector General



December 2015 and January 2016

Business Loans

President of Georgia Banking Company Pleads Guilty to Bank Fraud

On December 4, 2015, the former president and chief executive officer of a Georgia banking company pled guilty in Federal court to conspiracy to commit bank fraud and conspiracy to commit bank fraud and major fraud against the Government. In entering his plea, he admitted that, from 2005 through 2010, he conspired with others to obtain money, funds, credits, assets, securities, and other banking company property while replacing non-performing loans with new loans, including a \$1.5 million Small Business Administration (SBA) guaranteed loan and a \$2.5 million U.S. Department of Agriculture (USDA) guaranteed loan. This practice was conducted to make the bank appear financially stronger than it was. As a result, the bank, SBA, and USDA lost approximately \$3.5 million. To save the failing bank, the president continued these illegal activities even while receiving assistance from the Troubled Asset Relief Program (TARP), a Government program established to help financial institutions during a crisis. This case is being investigated jointly with the Federal Deposit Insurance Corporation (FDIC), Special Inspector General for TARP, Federal Bureau of Investigation (FBI), USDA Office of Inspector General (OIG), Tift County (GA) Sheriff's Office, and U.S. Attorney's office.

Former Executive Vice President of Missouri Bank Pleads Guilty to Role in Complex, 17-Person Commercial Loan Fraud Scheme

On December 4, 2015, the former executive vice president and chief lending officer of a Missouri bank pled guilty in Federal court to possessing and uttering a forged security. He previously had pled guilty to conspiracy to defraud the United States in connection with a complex commercial loan fraud scheme that took advantage of SBA's guaranteed business loan program. Sixteen other individuals also had been charged via a 185-count indictment.

During his pre-trial release related to these original charges, the executive engaged in a check fraud scheme. At that time, he was employed by a concrete business, issued numerous business checks, and forged the owner's signature. The executive is the last of the 17 persons to be sentenced in connection with the commercial loan fraud scheme. This investigation is being conducted jointly with the FBI.

Audit Report 16-06: Small Business Development Center Hosted by Middle Tennessee State University

On December 18, 2015, OIG presented the results of its audit of the Tennessee Small Business Development Center's compliance with grant requirements. Small business development centers (SBDCs) provide aspiring and current small business owners a variety of free business consulting and low-cost training

services. Typically, these SBDCs are hosted by universities and State economic development agencies and referred to as lead centers. For every dollar that lead centers receive from SBA, SBDCs must provide a dollar-for-dollar match. SBA awarded about \$1.9 million to the Tennessee SBDC (Lead Center) hosted by Middle Tennessee State University for calendar year 2013. OIG audited the \$1.9 million grant to determine whether the Lead Center complied with SBA grant requirements related to Federal expenditures and program performance.

The audit found the Lead Center generally complied with grant requirements relating to reporting, budget management, and control; and its Federal expenditures and matching contributions were, in general, properly authorized, classified, supported, and charged to the grant. Of the \$1.9 million that SBA awarded to the Lead Center, the approved budget designated nearly \$1.2 million to be used for personnel costs. However, a significant portion of the personnel expense transactions that OIG tested did not have sufficient documentation to indicate the actual time personnel spent working on the grant. Because employees' time and effort spent on the grant counted towards the Lead Center and subcenters' required match, if this time and effort was overstated, the match could also be overstated. OIG made two recommendations to improve the Lead Center's financial and programmatic grant performance. SBA management's planned actions resolve both recommendations.

Management Advisory Memo 16-08

As part of its High-Risk 7(a) Loan Review Program, on January 8, 2016, OIG issued a memorandum that provides SBA with early notification of issues identified as part of its review. OIG identified that the lender did not provide sufficient information to support that it approved the loan in accordance with SBA's origination and closing requirements. Specifically, the lender did not inspect or adequately value the significant fixed assets for this limousine and transportation service business, resulting in increased losses to SBA. As a result, a repair to the guarantee payment for \$299,318 is appropriate to cure the lender's material deficiencies on this loan. The Agency agreed with the recommendation to recover funds from the lender.

Kansas Couple Sentenced for Fraudulently Obtaining \$163,924 SBA Express Loan

On January 11, 2016, two former commercial account customers at a Kansas bank were sentenced in Federal court to 3 years of probation and were ordered to pay \$53,737 in restitution. The couple previously had pled guilty to providing false statements to SBA and to money laundering. Their scheme involved the wife serving as a nominee borrower to obtain a \$163,924 SBA express loan from the bank for her husband's construction company. The stated purpose of the SBA loan was for equipment purchases. However, the loan proceeds were diverted to pay off equipment loans and to make payments on construction loans held in the name of the husband's other business entities. The couple also used the loan funds for personal expenses. This investigation is being conducted jointly with the FDIC

OIG, Internal Revenue Service (IRS), and U.S. Secret Service (USSS).

Disaster Loans**Florida Couple Charged with Theft by Deception for Hurricane Sandy Relief Fraud and Make Full Restitution**

On December 16, 2015, the New Jersey Office of the Attorney General charged a Florida couple with theft by deception for filing false applications to collect Federal relief funds after Hurricane Sandy. Both defendants entered into New Jersey's pretrial intervention program and made full restitution of \$31,900 to the Federal Emergency Management Agency (FEMA), and another \$10,000 to the New Jersey Department of Community Affairs (DCA) for a grant under the Homeowner Resettlement Program (RSP). The couple had also been approved for a \$129,600 SBA disaster home loan, from which they had received \$50,000 in proceeds. They paid the loan in full. While the couple had claimed that their primary residence in New Jersey was damaged by Hurricane Sandy, the house was actually a vacation property. Their primary residence was in Florida. This investigation was worked jointly with a task force comprised of the New Jersey DCA, U.S. Department of Homeland Security (DHS) OIG, and U.S. Department of Housing and Urban Development (HUD) OIG, under the direction of the New Jersey Office of the Attorney General.

New Jersey Woman Pleads Guilty to Theft by Deception and Ordered to Pay \$143,051 in Full Restitution

On December 16, 2015, a New Jersey woman pled guilty in State court to theft by deception. In addition, she is required to make \$143,051 in full restitution to the State of New Jersey for a Reconstruction, Rehabilitation, Elevation and Mitigation (RREM) grant, which was funded by HUD and administered by the New Jersey DCA. The woman has made partial restitution of \$56,000 to the State of New Jersey for the RREM grant. She previously paid the \$24,479 outstanding balance of her SBA disaster loan after learning of the investigation into her primary residence.

The investigation disclosed that she claimed that a storm-damaged house in New Jersey was her primary residence, when in fact it was a vacation home, and she was living in New York during Hurricane Sandy. As a result of fraudulent disaster applications, the woman received \$40,000 in SBA disaster loan proceeds and \$143,051 in New Jersey grants under the RREM Program. This case was investigated jointly by a task force comprised of SBA OIG, HUD OIG, DHS OIG, the New Jersey Division of Criminal Justice, and the New Jersey DCA, under the direction of the New Jersey Office of the Attorney General.

New Jersey Woman Ordered to 12 Months' Probation and Pay \$23,148 in Restitution

On January 4, 2016, a New Jersey woman pled guilty in State court and was convicted of theft by deception. She was sentenced to 12 months of probation

and 100 hours of community service, and paid \$13,148 in restitution to FEMA and \$10,000 in restitution to the State of New Jersey. The woman previously had paid the \$115,255 outstanding balance of her SBA disaster loan. The investigation disclosed that she claimed that a storm-damaged New Jersey house was her primary residence, when in fact it was a vacation home at the time of Hurricane Sandy. As a result of fraudulent disaster applications, the woman received \$137,400 in SBA disaster loan proceeds, a \$10,000 grant funded through HUD, and \$13,148 in FEMA rental assistance. This case was investigated jointly by a task force comprised of SBA OIG, HUD OIG, DHS OIG, and the New Jersey Division of Criminal Justice, under the direction of the New Jersey Office of the Attorney General.

Government Contracting

Maryland Woman Sentenced and Ordered to pay \$1.6 Million in Restitution and a \$30 Million Forfeiture and Residence

On December 3, 2015, a Maryland woman was sentenced in Federal court to 366 days of incarceration, to be followed by 3 years of supervised release. She was also ordered to pay \$1.6 million in restitution, \$492,961 in tax restitution, and a \$30 million forfeiture along with her residence, jointly and severally, with her husband. The couple had previously pled guilty to conspiracy to commit wire fraud and tax evasion. They had been controlling

corporate officers and the majority shareholders of two technology firms. The husband was sentenced in November 2015.

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 awards. Competitors had protested the firms' awards, based on affiliation issues and size determination matters. Each time SBA had found the companies to be small businesses. However, the firms had submitted materially false documents to SBA in order to be awarded each contract. This investigation was conducted jointly with the IRS, Defense Criminal Investigative Service (DCIS), Department of Labor OIG, and U.S. Air Force Office of Special Investigations.

Wisconsin Man Pleads Guilty to Making False Statement in HUBZone Fraud Scheme

On December 8, 2015, a Wisconsin man pled guilty in Federal court to making a false statement. The guilty plea resulted from his involvement in an SBA Historically Underutilized Business Zone (HUBZone) fraud scheme perpetrated by the principals of an investment firm. On January 6, 2016, the plea agreement was accepted as part of a plea hearing.

The man had provided false information to SBA in response to a protest filed by a competitor of the investment firm. This information fraudulently allowed the firm to remain in the HUBZone Program. The man was the co-owner and officer of both a manufacturing company and the investment firm. The manufacturing

company was incorporated and operating in an area outside of a HUBZone. The investment firm was an asset-holding company with no employees or manufacturing capacity, but was in a HUBZone. In 2006, the man fraudulently applied for and obtained HUBZone certification from SBA for the investment firm. Subsequently, he and his business partner submitted proposals on behalf of the investment firm to Department of Defense agencies in order to win set-aside contracts. These proposals included materially false statements regarding the investment firm's location of its principal office, the number of employees, the percentage of employees residing in a HUBZone, and its manufacturing capabilities. The investment firm obtained three different Government contracts based on HUBZone status. However, the work was done at the manufacturing company by its employees. This is an ongoing joint investigation with DCIS and the Naval Criminal Investigative Service.

Virginia Vice President of 8(a) Construction Management Firm Pleads Guilty to Conspiracy to Commit Major Fraud

On December 17, 2015, a Virginia man pled guilty in U.S. District Court for the District of Columbia to conspiracy to commit major fraud against the United States. He formerly served as the vice president of a Section 8(a) construction management firm. In January 2009, the firm graduated from the 8(a) Program, and a second firm applied to the program. The second firm was certified for the 8(a) Program in May 2009. The Government alleged that the man

impermissibly controlled both firms and sought to conceal that control from the Government. The second firm relied on the first firm's employees, equipment, vehicles, and information technology resources, and obtained over \$8.5 million in 8(a) set-aside contracts from the General Services Administration (GSA). In November 2010, the man was convicted of bribery of a Government official. The conduct alleged in this matter occurred while he was on probation for the bribery. This case is being jointly investigated with the GSA, DOI, and FBI.

North Carolina Couple Convicted for Fraudulently Obtaining \$9 Million in Sole-Source and Set-Aside Contracts and \$5 Million in SDVOSB Contracts

On December 17, 2015, a North Carolina couple was convicted in Federal court in the Eastern District of Tennessee of conspiracy to commit wire fraud, wire fraud, and major fraud against the United States. The investigation determined that the defendants conspired to fraudulently obtain 8(a) certification for an investment firm to gain access to \$9 million in sole-source and set-aside contracts reserved for award to qualified 8(a) small businesses. They also inappropriately claimed SDVOSB status for a construction company to obtain \$5 million in contracts reserved for SDVOSBs. The defendants submitted fraudulent invoices, receipts, and credit card statements to SBA and other Government entities. By virtue of the guilty verdicts, \$179,004 in cash and five pieces of real property previously identified and seized as fruits of the

crime were forfeited. This case was investigated jointly with the Department of Veterans Affairs (VA) OIG, Department of Interior (DOI) OIG, USSS, and Department of Justice.

Audit Report 16-05: SBA Needs to Strengthen Its Information Technology Procurement Practices to Ensure Adequate Planning and Financial Oversight

On December 17, 2015, OIG issued the results of its audit of SBA's procurement practices for contracts to acquire information technology (IT) products and services. For fiscal years (FY) 2013 and 2014, SBA obligated \$161.7 million on new contract actions, of which, \$109 million (67 percent) were IT product or service contracts.

OIG reviewed 12 contracts with estimated total contract values of \$98.4 million. Of these, six were awarded by SBA contracting officers and six were awarded by DOI's Interior Business Center (IBC) on behalf of SBA. OIG's objectives were to determine whether SBA's procurement practices for contracts to acquire IT products and services: (1) followed Federal Acquisition Regulations (FAR) and SBA's *Acquisition Standard* for ensuring fair and reasonable contract prices, (2) complied with Federal regulations when using interagency assisted acquisitions, and (3) ensured funds were used in compliance with Federal appropriations regulations.

OIG found that SBA personnel did not adequately plan for contracts and inconsistently evaluated vendor quotes while performing a best value determination for one contract. If these

problems persist, SBA will be unable to determine whether it is receiving its IT deliverables at fair and reasonable prices. In addition, for the six contracts awarded by IBC, SBA did not comply with FAR requirements when determining whether using IBC was the best procurement approach. As a result, SBA spent over \$600,000 in service fees to use IBC for the six contracts OIG reviewed. SBA could incur an additional \$1.3 million in contract services fees if the six contracts are fully exercised. OIG also found that SBA funded 8 of the 12 contracts—with a total estimated value of \$64.3 million—using a variety of SBA appropriations that Congress authorized for specific purposes without providing justification or documentation.

OIG made 13 recommendations to improve SBA's planning and oversight of IT acquisitions. SBA management's planned actions resolve 9 of 13 recommendations.

General Manager of Firm Sentenced for Involvement in \$33 Million SDVOSB Fraud Scheme

On December 18, 2015, the general manager and part owner of a technology firm that claimed status as an SDVOSB was sentenced in Federal court in Virginia to 8 months of imprisonment, 1 year of supervised release, and a \$10,000 fine. He also forfeited \$322,800. The man previously had pled guilty to conspiracy.

The manager had directed employees of his firm to conspire with other SDVOSBs to submit what appeared to be competing bids for Government contracts, when in fact they knew the

bids were not competitive. He, his firm's employees, and other SDVOSBs' employees identified Government contracts to bid on and prepared bids for one another using the bid templates of the other. The man would then direct his employees and other SDVOSB employees to submit the bids as their own. This practice restricted legitimate competition by creating the false impression that the Government had already received multiple competing bids.

In addition, the man worked with co-conspirators within the Government to gain access to in-house documents, such as internal Government cost estimates, before bidding on contracts. He agreed to pay co-conspirators within the Government for competitive advantage on contracts totaling approximately \$33 million. This investigation was worked in conjunction with DHS OIG, VA OIG, GSA OIG, and the Department of Justice.

Idaho Woman Sentenced to 60 Months of Imprisonment and Pay Approximately \$3.2 Million

On January 11, 2016, following an appeal which overturned four tax charges, an Idaho woman pled guilty in Federal court to making and signing a false tax return. Following her plea, she was sentenced for the tax conviction and resentenced for previous wire fraud, mail fraud, and interstate transportation of property taken by fraud convictions. The woman was sentenced to 60 months of imprisonment on the fraud convictions and 24 months of imprisonment on the tax conviction, with the sentences to run

concurrently. She was also ordered to pay \$131,400 in restitution, \$22,859 for the costs of prosecution, and a \$3.1 million forfeiture money judgment. The woman had previously paid these amounts. In addition, her former significant other, who was also a minority shareholder in her construction company, was found guilty of obstruction of justice and conspiracy to obstruct justice.

The woman originally had taken steps to artificially lower her personal net worth, such as acquiring, holding, and transferring assets into the names of nominees so as to appear economically disadvantaged. This allowed her firm to qualify for the U.S. Department of Transportation's (DOT) Disadvantaged Business Enterprises (DBE) and SBA's Section 8(a) Programs. She also caused fraudulent tax returns to be filed for herself and the company. These returns did not report all of her or the company's income. The false returns and financial statements had been submitted to support the firm's applications to the 8(a) Program and the DBE Program for Idaho and Utah.

During a 26-day trial, the Government presented evidence that the woman omitted, deleted, altered, and miscategorized entries in her firm's financial records. She also concealed her role in other business entities that dealt with her company. The jury heard evidence that the firm received over \$2.5 million in Federal contracts and over \$15 million in State government contracts based on the company's fraudulently-obtained 8(a) status and DBE status in Idaho and Utah, respectively. The Government also

presented evidence that, to impede an IRS audit of her firm and a criminal investigation of her, the woman and the minority shareholder fabricated documents and made false statements that sought to conceal the true nature, source, and extent of her property. This investigation was conducted jointly with IRS Criminal Investigation, DOT OIG, and the FBI.

Kansas Man Sentenced for Involvement in Fraudulently Obtaining \$7.4 Million in SBVOSB Contracts

On January 27, 2016, a Kansas man was sentenced in Federal court to 9 months of home detention and 1 year of probation for wire fraud and was ordered to pay a \$28,860 monetary judgement. The investigation showed that the man and three co-defendants conspired to defraud the Government in order to obtain SDVOSB contracts. Two of the co-defendants made false statements so that their construction company could obtain SDVOSB status and bid on contracts awarded under the SDVOSB program. In addition, as part of his guilty plea, one of the co-defendants admitted to fraudulently claiming service-disabled veteran status.

Moreover, the investigation showed that the Kansas man, who was the majority owner of a second firm and falsely claimed to have worked for the construction company, conspired with the others to use the construction company as a pass-through and front company for the second firm. The construction company obtained more than \$6.7 million in SDVOSB set-aside contracts from the VA and approximately

\$748,000 in SDVOSB set-aside contract from the U.S. Department of Defense before the scheme unraveled.

In his plea, the Kansas man admitted to willful and deliberate ignorance as to the unlawful nature of the two firms' business relationship. He also admitted to accepting monies generated from fraudulently obtaining SDVOSB contracts from the VA. This is a joint investigation with GSA OIG, VA OIG, and DCIS.

Agency Management

Audit Report 16-04, Management Letter: SBA's FY 2015 Financial Statements Audit

On December 11, 2015, OIG issued the Independent Public Accountant (IPA's) management letter, which includes information related to non-reportable findings identified during the IPA's audit of SBA's FY 2015 financial statements. The IPA noted four matters involving internal controls and other operational matters that included (1) deficiencies in lender assessment corrective action follow-up, (2) deficiencies in lender-delegated authority renewals, (3) deficiencies in disaster loan servicing, and (4) inadequate reviews of STAR time and attendance reports.

Memorandum Report 16-07: Loan Management and Accounting System Incremental Improvement Projects Progress

On December 18, 2015, OIG published the results of its review of SBA's progress on its Loan Management and Accounting

System (LMAS) incremental improvement projects (IIPs). The LMAS IIPs were a series of focused and cost-effective IT projects intended to upgrade financial software and application modules in SBA's legacy Loan Accounting System. The majority of the IIPs were completed prior to OIG's review, but some projects remained opened. In January 2015, SBA completed the remaining IIPs and fully migrated all core financial components off the mainframe.

OIG found that the transition to production generally complied with SBA's system development method but noted that the migration of some user interface screens was delayed. Based on the results of this review, OIG made one recommendation for the Office of Capital Access in coordination with the Office of Chief Information Officer to conduct a security impact assessment and reauthorize the Capital Access Financial System for operation. SBA agreed with this recommendation.

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

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