



Office of Inspector General

February 2014



Business Loans

Man Pleads Guilty to Wire Fraud & False Statements

On February 3, 2014, a Louisiana man pled guilty to wire fraud and making a false statement to the SBA. According to a referral from the SBA National Guaranty Purchase Center, the man's business made an offer in compromise of a \$10,000 lump sum payment to satisfy a \$511,400 balance on an SBA guaranteed loan. He allegedly sold the collateral business personal property without the lender's knowledge. The investigation determined that he misrepresented the value of the collateral for this loan and then sold it to another furniture store he owned. The man also falsely represented that he sold the second store and provided false financial information to the lender and the SBA when submitting the offer in compromise.

Former SBA Branch Manager Pleads Guilty

On February 3, 2014, a former SBA branch manager in Missouri pled guilty by entering a nolo contendere plea for submitting a false document to the SBA. He had falsely reported to the SBA on his Confidential Financial Disclosure Report that he had no reportable liabilities and no reportable outside positions when, in fact, he was the managing member of a custard stand in Texas. He had also obtained an \$80,000 SBA guaranteed loan for this business. The manager was previously indicted for bank fraud, making false statements, money laundering, and conspiracy. He is one of 17 people charged in this investigation and is the last defendant to enter a guilty plea. This is a joint investigation with the Federal Bureau of Investigation (FBI).

Two Plead Guilty to Fraud

On February 10, 2014, the president of a California gas station and car wash pled guilty to bank fraud. On February 19, 2014, her daughter pled guilty to wire fraud. The president previously had been indicted for mail fraud, bank fraud, false statements, making false statements in a loan application, making false statements to obtain an SBA loan, and aiding and abetting. The indictment alleged that the president, her daughter, her husband, and another man executed a scheme to defraud the SBA, a bank, and a financing corporation by making false statements to obtain business loans for the business.

The investigation found that the president and her daughter made false statements on an application for an SBA guaranteed loan from the bank. They falsely reported that neither they nor their businesses were involved in any bankruptcies or pending lawsuits and did not have a controlling interest in other businesses. The four individuals also made material false statements to obtain another business loan for the gas station from a financing corporation. The loss to the financing corporation was approximately \$1.65 million and the loss to the bank and the SBA was approximately \$1.45 million. Of the \$1.45 million, the SBA-guaranteed portion was approximately \$931,368.

The husband, daughter, and others were charged in a superseding indictment for trying to defraud yet another bank and the SBA while the original case was pending trial. The husband and daughter allegedly paid an individual \$100,000 to pose as the owner of a petroleum business and apply for a \$4.5 million SBA loan to purchase two South-

ern California gas stations. The bank allegedly was misled into believing that the phony owner made a \$2.1 million down payment to purchase the two gas stations. In addition, the father and daughter allegedly skimmed large portions of cash from the business for personal expenses, which included payments to criminal defense attorneys who were representing them in the first case. These new allegations are being investigated jointly with the FBI.

Kansas Couple Indicted on Charges of Conspiracy & Money Laundering

On February 20, 2014, a Kansas couple was indicted for conspiracy to commit bank fraud and money laundering. The wife was allegedly used a nominee borrower to obtain a \$163,924 SBA Express loan for a construction company owned and operated by her husband. Although the loan's stated purpose was equipment purchases, the proceeds allegedly were diverted to pay off equipment loans and make payments on construction loans held in the name of the husband's various business entities, as well as for the couple's personal use. This is a joint investigation with the Federal Deposit Insurance Corporation OIG, the Internal Revenue Service, and the U.S. Secret Service.

Alabama Man Pleads Guilty to Fraud

On February 27, 2014, an Alabama man pled guilty to wire fraud and bank fraud. As part of a plea agreement, he agreed to pay restitution of \$3,085,000 and consented to a forfeiture of \$1,760,000. The man obtained a \$1,760,000 Section 504 loan for his grocery store. As a condition of this loan, he was required to pay at least \$736,920 in cash injection. After making only one payment, he defaulted on the loan.

As documentation that he had paid his cash injection, he submitted copies of six cancelled checks totaling \$564,745, which allegedly showed payments made to vendors in connection with the grocery store's construction. When these copies were compared with copies of the checks obtained from his financial institution, the investigation discovered that checks bearing the same check numbers had a combined face value of approximately \$16,700. This amount was far less than the \$564,745 reported to the SBA, and the checks were payable to different entities than those identified on the checks supplied to the SBA. Not only was the evidence of cash injection fraudulent, but the man inflated construction bids prior to their submission to the SBA. Finally, one contractor alleged that the man forged his signature on draws submitted to the lender. This investigation, based on a referral from the SBA Little Rock Commercial Loan Servicing Center, was a joint investigation with the FBI.

Owner of a Maryland Title Company Enters into a Deferred Prosecution Agreement

On February 28, 2014, the owner of a Maryland title company entered into a Deferred Prosecution Agreement (DPA). The DPA requires that the owner pay a \$75,000 monetary penalty to the United States and agree to refrain from conducting any residential or commercial

loan closings during the agreement's pendency.

The owner was part of a scheme to obtain, fraudulently, SBA guaranteed loans, which has resulted in over \$100 million in losses. Besides the owner, the scheme included a loan brokerage company, the two brothers who owned the company, and an attorney who owned a Virginia title company. The conspirators encouraged prospective borrowers to apply for Section 7(a) business loans but submitted loan applications and supporting documentation containing fraudulent personal financial information to loan originators and underwriters on behalf of their clients, thereby falsely enhancing the creditworthiness of the borrowers and their businesses. This is a joint investigation with the U.S. Postal Inspection Service and the FBI.

Government Contracting

Texas Man Pleads Guilty to Making False Statements

On February 7, 2014, a Texas man pled guilty to making false statements to federal agencies. In early 2009, he had recruited a service-disabled veteran to be a partner in a service-disabled veteran-owned small business (SDVOSB). The veteran, believing he was to be a silent partner, agreed to be part of the SBVOSB. In reality, the veteran had no financial investment in the firm, performed no work on the com-

pany's behalf, and did not exercise a controlling interest in it. The Texas man used the firm's fraudulently obtained SDVOSB status to secure nearly \$1,329,000 in funds through Department of Veterans Affairs (VA) contracts.

Owner of California Architectural Firm Charged for Violations of Anti-Kickback Act

On February 11, 2014, the owner of a California architectural firm was charged with violating the Anti-Kickback Act. The architectural firm's owner and four other subcontractors were charged in connection with a bribery and kickback scheme at a military base and other federal facilities. The owner was specifically charged with knowingly and willfully providing a \$5,000 check (kickback) to a prime contractor.

This investigation originated from allegations that 8(a) contractors were receiving kickbacks from subcontractors. Additional allegations of bribery of a public official developed during the investigation. Moreover, because of this investigation, the Department of the Navy suspended seven individuals and six companies during February 2014. This is a joint investigation with the FBI, Naval Criminal Investigative Service (NCIS), Internal Revenue Service Criminal Investigation (IRS CI), Defense Criminal Investigative Service (DCIS), and the General Services Administration (GSA) OIG.

California Man and Others Charged With Violating the Anti-Kickback Act in Connection with Bribery and Kickback Scheme

North Carolina Woman Indicted on Fraud and Identity Theft

On February 11, 2014, a North Carolina woman was indicted for major fraud against the government, making false statements, wire fraud, mail fraud, and aggravated identity theft. The woman, as the owner of a masonry firm, allegedly created a construction company in order to obtain two small business subcontracts on a Department of Navy contract. She created the construction company after a \$14 million subcontract was awarded to her masonry firm. Moreover, she offered the use of the construction company to replace the masonry firm in exchange for a two percent fee. In 2010, she mailed a falsified North Carolina Historically Underutilized Business Zone (HUBZone) application, with numerous fraudulently altered supporting documents, on behalf of the construction company. She also forged her daughter's signature on documents related to that company. This is a joint investigation with the DCIS and the NCIS.

Former Employee of SDVOSB Firm Sentenced and Ordered to Forfeit Over \$1 Million

On February 21, 2014, a former employee of a Virginia-based contractor that claimed SDVOSB status was sentenced to sixteen months in prison, followed by two years of supervised release, for conspiracy to commit wire fraud and major fraud against the government. He was also

ordered to forfeit \$1,065,104 in personal proceeds from the conspiracy.

Specifically, he and employees of other SDVOSBs conspired to submit what appeared to be competing bids for government contracts, when in fact they knew the bids were not competitive. They would identify government contracts to bid on and prepare bids for one another using the bid templates of the other. The subject employee would then direct other SDVOSB employees to submit the completed bids to the government as their own. All of them knew and understood that these bids were not true competitive bids. This practice restricted legitimate competition by creating the false impression that the government had already received multiple competing bids.

In addition, he worked with co-conspirators within the government to gain access to documents such as Internal Government Cost Estimates in advance of bidding on contracts and drafted portions of internal government procurement documents. Finally, he agreed to pay co-conspirators working within the government for his competitive advantage on contracts that totaled approximately \$33 million. He gained at least \$1,065,104 because of his participation in the conspiracy. This is a joint investigation with the Department of Homeland Security OIG, VA OIG, GSA OIG, and the Department of Justice.

Former President of Idaho Construction Firm Sentenced to 84 Months

On February 27, 2014, the former president and majority shareholder of an Idaho construction company was sentenced to 84 months in prison followed by three years of supervised release for conspiracy, wire fraud, and mail fraud. She was also sentenced to 24 months in prison for tax fraud and obstruction of justice followed by three years of supervised release. The sentences will run concurrently. In addition, she was ordered to pay \$98,825 in restitution to the IRS, \$32,575 to the Idaho Disadvantaged Business Enterprises (DBE) Program, and \$22,859 in prosecution costs. She also entered into an agreement, which stipulated a \$3,084,038 forfeiture that she paid prior to sentencing. She had previously been convicted of filing false individual and corporate tax returns, conspiracy to defraud the United States, wire fraud, mail fraud, making a false statement, interstate transportation of property taken by fraud, conspiracy to obstruct justice, and obstruction of justice.

The former president had taken steps to lower her personal net worth, artificially, by acquiring, holding, and transferring assets into the names of nominees in order to appear to be economically disadvantaged. This allowed her firm to qualify for the Department of Transporta-

Former President of Idaho Construction Firm Sentenced to 84 months and Forfeits Over \$3 Million

tion's (DOT) DBE and the SBA 8(a) programs. She also caused false and fraudulent tax returns to be filed for herself and the company, which did not report all income received by her or the company. The false returns and financial statements were submitted in support of 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 she omitted, deleted, altered, and miscategorized entries in her firm's financial records. She also concealed her role or relationship in other business entities that dealt with her company. Consequently, the firm received more than \$2.5 million in federal government contracts based on the company's fraudulently obtained 8(a) status and more than \$15 million in state government contracts based on the company's fraudulently obtained DBE status in Idaho and Utah. The government also presented evidence that to impede an IRS audit of the firm and a criminal investigation of her, she and the minority shareholder conspired to obstruct justice by fabricating documents and making false statements that sought to conceal the true nature, source, and extent of property belonging to her. This was a joint investigation with IRS CI, DOT OIG, and the FBI.

Disaster

Louisiana Woman Charged with Theft of Government Funds

On February 6, 2014, a Louisiana woman was charged with theft of government funds. The woman had been approved for a \$98,700 home disaster assistance loan to repair her residence, which had incurred damages from Hurricane Isaac. She received \$50,000 in loan proceeds before the fraud was detected. The investigation found that the woman submitted false documents to the SBA to obtain loan proceeds and that her contractor provided false repair verifications to the SBA Processing and Disbursement Center (PDC) in Fort Worth, TX. The contractor subsequently admitted to falsifying \$84,121 in bids, invoices, and repairs at the woman's request. The investigation originated from a referral by the PDC.

Man Sentenced to 60 Months for Role in 8(a) Scheme & Ordered to Forfeit \$2,960,697

On February 28, 2014, a Florida man was sentenced in Virginia to 60 months incarceration followed by 24 months of supervised release, and was ordered to pay a \$12,500 fine and a forfeiture of \$2,960,697. He had previously pled guilty to major fraud against the government.

The man admitted that in 2005, he learned that an executive at a security service-consulting firm illegally controlled another such company. The second firm was a participant in the SBA Section 8(a) program, which provides preferential contracting treatment for minority-owned and disadvantaged small businesses. Although the executive at the first company controlled the second company, the second firm had obtained its 8(a) status based on the disadvantaged status of a nominal owner.

The Florida man admitted he agreed to pay the executive and the second firm a fee for allowing him to use its 8(a) status to obtain National Aeronautics and Space Administration (NASA) and other U.S. government contracts. Although the second firm was required to perform at least 50 percent of the work on the contracts and had represented it would do so, none of its employees performed any work. Instead, the Florida man and others did all of the work as independent contractors but concealed that fact from the government agencies. In addition, he submitted fraudulent proposals and invoices to hide their scheme, used a third-party company's Federal Employer Identification Number to prevent reporting of his contractor income to the IRS, and did not pay any income taxes on the income he received from the second firm. This is a

joint investigation with the NASA OIG, the DCIS, and the U.S. Department of Homeland Security OIG.

Agency Management

Audit Report 14-10: *The SBA Did Not Follow Regulations and Guidance in the Acquisition of the OneTrack System*

On February 12, 2014, the OIG issued Audit Report 14-10, *The SBA Did Not Follow Regulations and Guidance in the Acquisition of the OneTrack System*. The objective of the audit was to assess the SBA's compliance with Federal contracting regulations and guidance over Information Technology systems acquisition and project oversight. The OIG determined that the SBA did not follow federal regulations and guidance in its acquisition of the OneTrack system for use by the Business Development (BD), HUBZone, and three new Mentor-Protégé Programs. As a result, the SBA did not receive a system with full capabilities as originally designed. The original OneTrack system should have been completed in a 12-month period at a total cost of around \$1.17 million. Instead, the SBA modified the task order to receive a system with the same, limited functions as the existing system in use, the Business Development Management Information System (BDMIS). However, the SBA still did not have a tested and approved system—that included existing BDMIS capabilities—to put into production when the task order expired. To date, the SBA has increased the total cost of the system by approximately \$734,000 and extended the performance of the acquisition by 14 months. The OIG made four recommendations, and the SBA agreed with each of the recommendations.

**Office of Inspector General
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Inspector General**

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