



Office of Inspector General

August 2014



Business Loans

Missouri Man Sentenced in 17-Person Conspiracy

On August 11, 2014, the president of a corporation and former mayor of a Missouri city was sentenced to 5 years of probation and ordered to pay \$150,030 in restitution jointly and severally with other co-defendants. He previously pleaded guilty to making false statements to the U.S. Small Business Administration (SBA) and aiding and abetting. The president, doing business as a consulting firm, obtained a \$150,000 SBA Express loan from a bank in June 2006. In connection with the SBA application and loan closing documents, he stated that he was the president of the consulting firm and that the loan proceeds would be used for working capital. In reality, he did not own, operate, or manage the consulting firm, and the loan proceeds were used to benefit other individuals and business entities. He is 1 of 17 people charged in a complex conspiracy to defraud the bank and the SBA. This investigation is being worked jointly with the Federal Bureau of Investigation (FBI).

Missouri Woman Sentenced in 17-Person Conspiracy

On August 11, 2014, a former vice president and loan compliance officer at a Missouri bank was sentenced to 1 year of probation. She previously had pleaded guilty to making a false statement to the SBA and aiding and abetting. The vice president had assisted her supervisor in fraudulently securing a \$1.6 million SBA loan for a company by preparing a false affidavit and providing it to the SBA. This affidavit falsely represented that a

particular company loan, which was to be refinanced, had never been reported as 30-days past due. In fact, her supervisor had created false bank entries to conceal the fact that the loan had been 30-days past due on multiple occasions. She is 1 of 17 people charged in a complex conspiracy to defraud the bank and the SBA. This investigation is being worked jointly with the FBI.

Government Contracting

Four Individuals Indicted for Major Fraud

On August 12, 2014, a couple and a woman from North Carolina, as well as a Kentucky man, were indicted in Tennessee for wire fraud, conspiracy to commit wire fraud, and major fraud against the U.S. Government. The indictment also provided notice of \$141,618 in potential asset forfeiture, a potential \$15,000,000 money judgment against the three North Carolinians, and a potential \$5,000,000 money judgment against the Kentucky man.

An investigation had determined that the defendants allegedly conspired to fraudulently obtain SBA 8(a) certification for a North Carolina investment firm to gain access to \$9,000,000 in sole-source and set-aside contracts. They allegedly also inappropriately claimed service-disabled veteran-owned small business (SDVOSB) status for a Kentucky construction firm to obtain \$5,000,000 in contracts reserved for qualified SDVOSB companies. The defendants allegedly submitted fraudulent invoices, receipts, and credit card statements to the SBA, Department of Veterans Affairs (VA), Department of the Interior (DOI), and other Government entities. The hus-

band and a North Carolina construction firm had already graduated from the 8(a) program in 2008. This case is being investigated jointly with the VA Office of Inspector General (OIG), DOI OIG, U.S. Secret Service, and the Department of Justice.

Construction Company Owner and Sister Indicted for Visa Fraud and Conspiracy

On August 15, 2014, the owner of a construction company in Guam and his sister, the firm's vice president, were indicted for visa fraud, conspiracy to commit visa fraud, conspiracy to defraud the United States, illegal harboring, and forfeiture. Previously on August 1, 2014, case agents had served a seizure warrant to a bank for \$1,875,407. The bank froze the funds and issued an official bank check payable to the U.S. Department of the Treasury. Immediately following the bank seizure, the construction company owner was arrested.

The investigation revealed that the man had misused the H-2B visa worker program while working on Section 8(a) set-aside contracts. He had a prior criminal history associated with a similar visa fraud violation in 1998, which he failed to disclose to the SBA in his 8(a) application or any of the company's annual updates to the SBA.

His prior criminal history and present misuse of the visa program violated the 8(a) program's entry and continued eligibility requirements related to good character. Because of the non-disclosures, his firm was granted 8(a) status and illicitly awarded set-aside 8(a) contracts in excess of \$20,000,000.

This ongoing investigation is being conducted jointly with the Internal Revenue Service (IRS) Criminal Investigation (CI) and Department of Homeland Security Investigations.

Nebraska Contracting Firm and Businessman Plead Guilty in \$23.5 Million Fraud Scheme

On August 15, 2014, a Nebraska contracting firm, represented by a service-disabled veteran, pleaded guilty to major program fraud and wire fraud. The firm also agreed to the forfeiture of any seized funds in an amount to be determined by the court. Per a plea agreement, the Government agreed to dismiss all charges against the veteran, whose services had been utilized by a Nebraska businessman.

On August 22, 2014, the businessman pled guilty to major program fraud. In addition, his paving company pled guilty to money laundering. The two men and the two firms had previously been indicted in connection with a \$23.5 million SDVOSB fraud scheme.

The investigation showed that, from May 2007 through August 2010, the contracting firm unlawfully received 45 set-aside and sole-source SDVOSB contracts from the VA and Department of Defense, including contracts involving American Recovery and Reinvestment Act funds. Moreover, the contracting

firm was a pass-through and front company for the businessman's other firms, such as the paving company. The veteran was simply a figurehead who was used for his service-disabled veteran status.

This ongoing investigation is being conducted jointly with the General Services Administration (GSA) OIG, the VA OIG, the Federal Deposit Insurance Corporation OIG, and the Defense Criminal Investigative Service (DCIS).

Law Firm Pays to Settle Civil Claims

On August 22, 2014, a law firm agreed to pay \$30,000 to settle civil claims. The law firm had represented a masonry firm. The masonry firm's owner allegedly created a construction company in order to obtain two small business subcontracts on a Department of the Navy contract. He allegedly did so after a \$14 million subcontract was awarded to the masonry firm. He offered the use of the construction company to replace the masonry firm in exchange for a two percent fee. The law firm prepared and sent a letter to the prime contractor stating that the construction company was a small business despite being aware that it was not a small business due to its affiliation with the masonry firm. This case is being investigated jointly with the DCIS and the Naval Criminal Investigative Service.

* * *

Pennsylvania Man Pleads Guilty to Fraud

On August 25, 2014, a Pennsylvania man pled guilty to an information for major fraud against the United States, obstruction of a federal audit, and making false claims. The information and plea were the result of an investigation into allegations that the man was the actual owner of a small business that purported to be woman-owned. It was actually 85% owned and operated by the man, who had previously been convicted of a felony and was not eligible. In addition, the man fraudulently diverted \$1.2 million in Government progress payments on Department of Defense contracts to pay outstanding obligations on other contracts or for other business and personal expenses. He directed two employees of the company to present false checks to Defense Contract Audit Agency staff during a federal audit.

This investigation continues and is being worked in conjunction with the U.S. Army Criminal Investigation Command, DCIS, and U.S. Air Force Office of Special Investigations.

Colorado Businessman Indicted

On August 27, 2014, a Colorado businessman was indicted for conspiracy, making false statements to the SBA, and filing false tax returns. The investigation showed that the man, who owned an SBA 8(a)

Nebraska Contracting Firm and Businessman Plead Guilty to Major Program Fraud and Wire Fraud in \$23.5 Million Fraud Investigation

company, failed to disclose that over \$2 million had been diverted to him as compensation. He submitted false and misleading information to the SBA regarding his compensation and assets, making it appear that his firm was still eligible for the 8(a) program. In addition, he failed to disclose all assets and compensation on his tax returns for at least 3 years. The man also failed to disclose that funds had been transferred outside of the United States. This case was initiated after the OIG received a referral from the U.S. Government Accountability Office FraudNET. This is a joint investigation with the IRS CI, U.S. Army Criminal Investigation Command, DCIS, and GSA OIG.

Disaster Loans

New Jersey Woman Enters Pretrial Intervention

On August 29, 2014, a New Jersey woman entered pretrial intervention based on a complaint summons which had previously charged her with theft by deception, in violation of New Jersey law. She had filed false applications to collect federal relief funds after Hurricane Sandy. The woman received \$31,900 in Federal Emergency Management Agency grants for which she made full restitution. The investigation disclosed that she falsely claimed that a storm-damaged house in Port Monmouth, NJ, was her primary residence, when in fact it was a vacant investment property that she planned to renovate.

SBA had declined her SBA home disaster loan application in March 2013.

This investigation was conducted jointly with a task force comprised of the New Jersey State Department of Community Affairs, the U.S. Department of Homeland Security OIG, and the U.S. Department of Housing and Urban Development OIG, under the direction of the New Jersey Office of the Attorney General.

* * *

Many OIG reports
can be found on the
OIG's website

[http://www.sba.gov/
office-of-inspector-
general](http://www.sba.gov/office-of-inspector-general)

Agency Management

Audit Report 14-15: Opportunities Exist for the SBA to Improve the Monitoring of Non-Manufacturer Rule Waivers and Determine the Impact on Small Businesses

On August 14, 2014, the OIG issued the results of its review of the Small Business Administration's waivers to the non-manufacturer rule. The OIG was unable to determine if the SBA appropriately issued waivers to the non-manufacturer rule because of a lack of established procedures, missing files, and other deficiencies. The OIG found that between FY 2010 and FY 2013, the SBA approved 81 percent of the 214 individual waiver requests they received. However, the SBA has recently begun to deny or close more waivers due to incomplete requests or insufficient market research, and, since the beginning of FY 2014, SBA officials have identified areas of improvement and have begun to make changes to improve the guidance and operating structure of this function. The SBA needs to implement steps identified by the program staff and take additional action to improve the program's efficiency and effectiveness.

Further, the OIG found that the SBA has not evaluated the impact of non-manufacturer rule waivers on small businesses, and that the SBA currently lacks the processes to make such an evaluation. Non-manufacturer rule waivers affect a significant amount of federal contracting dollars. From FY 2010 to FY 2013, the SBA approved waivers with an estimated total of approximately \$10.6 billion federal contracting dollars associated with set-aside contracts for small businesses.

The OIG recommended five actions directed to the Associate Administrator for Government Contracting and Business Development to improve the efficiency and oversight of the non-manufacturer waivers as well as provide greater insight into the impact of non-manufacturer rule waivers on small businesses.

Evaluation Report 14-17: Evaluation of SBA's 2013 and 2014 Cash Gifts

On August 27, 2014, the OIG issued the results of its review of SBA controls over the solicitation, acceptance, holding, and utilization of cash gifts. The OIG determined that the SBA obtained proper approvals to solicit and accept gifts for the 2013 National Small Business Week. The donors were properly vetted through the SBA program offices to ensure no business relationships existed that would cause a conflict of interest. The SBA's Office of General Counsel confirmed that no conflict of interest existed between the SBA and those entities. We also determined the SBA adequately complied with the Act regarding the holding of \$36,510 and utilization of \$29,106 in cash gifts. The SBA recorded the cash donations in the Business Assistance Trust Fund and made the funds available to the SBA program offices for expenditure. We further determined that those funds were used to pay for valid expenses in accordance with the Act.

However, the SBA did not employ sufficient controls to ensure the acceptance of cash gifts. More specifically, the Office of Strategic Alliances erroneously reported to the Office of Inspector General that a \$10,000 cash gift was received from an organization. This occurred due to the lack of communication between respective SBA officials. As a result, cash gifts reported in the OIG *Semi-annual Report: Spring 2013* were overstated by \$10,000. Also, the SBA did not timely close out its 2013 National Small Business Week cosponsored activity and accurately record and deposit the excess cosponsor funds that were gifted to the Agency. These issues occurred because the Office of Strategic Alliances did not provide adequate oversight, and did not correctly calculate excess cosponsored funds that should have been deposited in the Business Assistance Trust Fund. As a result, SBA personnel did not comply with SBA policies, and cash gifts deposited to the Business Assistance Trust Fund were understated by \$300.

The OIG recommended three actions directed to the Deputy General Counsel to improve controls over the SBA's cash gifts authority and controls over the administration and close out of the SBA's cosponsored activities.

Audit Report 14-16: Effectiveness and Timeliness of the Hurricane Sandy Disaster Loan Closing and Disbursement Processes

On August 27, 2014, the OIG issued the results of its audit of Hurricane Sandy disaster loan closing and disbursement processes. The OIG reviewed these processes to determine whether all required closing documents were being obtained, all required closing steps were being performed prior to disbursement, and whether the SBA met its strategic goal of making initial disbursements within five days or less after receipt of executed closing documents.

The OIG found that the SBA closed and disbursed Hurricane Sandy disaster loans in compliance with established procedures and

performance standards. The OIG also determined that the SBA obtained all required closing documents during the closing process and all steps for each disbursement were performed as required. Additionally, the OIG determined that after receipt of executed closing documents from the borrowers, the SBA made initial disbursements within its strategic goal of five days after receipt of executed closing documents. The audit did not identify significant concerns regarding the disaster loan closing and disbursement processes. During the audit, the OIG identified opportunities for management consideration which may further reduce overall loan disbursement times. Specifically, OIG believes the SBA could significantly reduce overall loan closing and disbursement times if it obtained certain documents from borrowers earlier in the application process.

* * *

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

To promote integrity, economy, and efficiency, 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.*

We welcome your comments concerning this update or other OIG publications.

To obtain copies of these documents please contact us at:

SBA Office of Inspector General
409 Third Street SW, 7th Floor
Washington, DC 20416
E-mail: oig@sba.gov
Telephone: (202) 205-6586 FAX (202) 205-7382

Many OIG reports can be found on the OIG's website at <http://www.sba.gov/office-of-inspector-general>

To view recent press releases, click [here](#), or visit our website at <http://www.sba.gov/office-of-inspector-general/17611>