



Office of Inspector General

July 2014



Government Contracting

Maryland Man Sentenced for Section 8 (a) Program Fraud

On July 2, 2014, a Maryland man was sentenced to 42 months of incarceration, followed by 36 months of supervised release. He was also ordered to forfeit \$7,033,844 and pay restitution of \$6,194,828 to the SBA and \$839,016 to the Internal Revenue Service (IRS). His wife pled guilty to conspiracy to defraud the United States in connection with deceitful accounting practices. The couple had fraudulently sought Section 8(a) program federal contracts. He had owned less than half of a roofing and construction company while it participated in the program and later became the company's president and sole owner.

Prior to that, he had caused a second company to be incorporated and arranged for a member of an underrepresented group—a former roofer and project manager at the first firm—to own 60 percent of the second company, and for his son to own the remaining 40 percent, while he became senior vice president. The two firms shared office space and many of the same employees.

The man concealed on the second firm's 8(a) application and updates that, among other things, he exercised control over the second firm's operations and, along with his wife, had personally guaranteed bonding and credit for the second firm. The second firm paid millions of dollars to the man, including salary and other payments to bank accounts in his and his wife's names. There were also payments to the first firm and casinos, as well as personal charges to the second firm's credit cards. The fraudulent documentation resulted in the second firm receiving

more than \$50 million in undeserved 8 (a) contracts.

Further, he caused more than \$1 million in transfers to bank accounts and casinos to be falsely recorded in the first company's records as corporate expenses paid for subcontractors, and concealed this fact from his tax preparer. As a result, the tax preparer prepared corporate tax overstating the company's expenses, and personal income tax returns that understated his taxable income. This case is being jointly investigated with the Defense Criminal Investigative Service (DCIS), General Services Administration (GSA) Office of Inspector General (OIG), and IRS Criminal Investigation (CI).

California Man Pleads Guilty

On July 8, 2014, the owner of a California architectural firm pled guilty to structuring transactions to evade a domestic financial institution's reporting requirements. He accomplished this by intentionally withdrawing less than \$10,000 on two separate occasions to evade filing a currency transaction report. The owner committed the offense as part of a pattern of illegal activity involving more than \$100,000 in a 12-month period.

He previously had been charged in connection with his and four other subcontractors' participation in a scheme with two SBA Section 8(a) prime contractors in San Diego involving bribery and kickbacks at a Navy and Marine base. This investigation is being conducted jointly with the FBI, NCIS, IRS CI, DCIS, and GSA OIG.

Owner of Purported Woman-owned Small Business Charged in Pennsylvania

On July 17, 2014, a Pennsylvania man was charged with major fraud against the United States, obstruction of a federal audit, and making false claims. He is the owner of a small business that purported to be woman-owned, but was actually 85 percent owned and operated by him. Because he had previously been convicted of a felony, he was not eligible to participate in an SBA program.

An ongoing joint investigation revealed that 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 to present false checks to Defense Contract Audit Agency (DCAA) auditors during a federal audit. The man is set to plead guilty at a later date. This investigation is being worked in conjunction with the U.S. Army Criminal Investigative Command (CIC), DCIS, and U.S. Air Force Office of Special Investigations.

West Virginia Man Pleads Guilty in Section 8(a) Program Fraud

On July 22, 2014, a West Virginia man pled guilty to conspiracy to defraud the Government with respect to claims. He had been employed as a project manager with a construction company and other affiliated companies. An unindicted co-conspirator had instructed him to alter invoices submitted by subcontractors to an inflated amount. The man then caused these inflated invoices to be submitted to the Government in a bid proposal under an SBA Section 8(a) set-aside contract, which was subsequently awarded to the construction company.

The SBA previously had issued a notice of suspension to the man. The investigation was conducted jointly with the U.S. Attorney's Office, DCIS, FBI, Department of Veterans Affairs (VA) OIG, and Department of Labor OIG.

Former U.S. Department of Defense Supervisor Sentenced

On July 25, 2014, a former U.S. Department of Defense supervisor for the construction and service contracts branch at a Navy and Marine base in California was sentenced to 24 months in prison and supervised release for two years, as well as being ordered to forfeit \$106,964 from illegal proceeds. He had been convicted of bribery of a public official and conspiracy to bribe public officials.

The sentencing relates to a scheme involving bribery and kickbacks at the base. From 2008 to 2011, the supervisor, who called himself the "godfather" of the base, accepted over \$100,000 in bribes from two former SBA 8(a) prime construction contractors in San Diego. The bribe payments were made to the supervisor with the understanding that their respective business would be awarded 8(a) contracts.

In addition to the bribe payments, the two 8(a) contractors did free remodeling work at a property owned by the supervisor. This investigation originated based on allegations that contractors in the 8(a) program in San Diego were receiving kickbacks from sub-contractors. These additional

allegations of bribery of a public official developed during the investigation. The supervisor is the ninth defendant sentenced in this investigation. This investigation is being conducted jointly with the FBI, Naval Criminal Investigative Service (NCIS), IRS CI, DCIS, and GSA OIG.

Alabama Man Sentenced

On July 29, 2014, an Alabama man was sentenced to 108 months of confinement for wire fraud, making false statements on loan and credit applications, and money laundering. He was also sentenced to 24 months of confinement for making false statements to the SBA, with the term to be served separately and concurrently with the previous sentence. The man was also ordered to serve 36 months of supervised release and forfeit \$1,019,760 to the United States.

This case originated from information received from the IRS CI. The man's company had failed to file corporate or personal tax returns from 2002 through 2009. He admitted to providing false and unfiled tax returns to a bank to secure an SBA guaranteed loan and to the SBA itself to obtain and maintain his firm's Section 8(a) certification. Consequently, a \$300,000 line of credit was approved, and an outstanding balance of \$80,876 was eventually charged off.

A review of the SBA 8(a) file for the firm revealed that the

man submitted false and unfiled corporate and personal tax returns to the SBA with the initial application for 8(a) certification in June 2003 and with their annual updates through September 2008. Consequently, his firm received 22 8(a) set-aside contracts and task orders worth \$14,187,084 in payments.

Former Department of the Army Contracting Official Pleads Guilty

On July 31, 2014, a former Department of the Army contracting official pled guilty in Virginia to conspiracy to commit bribery, wire fraud, and attempting to interfere with and impede tax laws. In addition, the plea agreement calls for him to pay restitution, including \$250,000 to the Department of Defense and nearly \$125,000 to the IRS, as well as \$490,262 in forfeiture. The guilty plea stems from a scheme in which he accepted over \$490,000 worth of benefits, including cash payments and vacations from favored contractors. In return, he helped these businesses obtain millions of dollars in federal contracts.

Thus far, 10 individuals have been sentenced and 18 individuals (including the above official) and 1 company either have been charged or have pled guilty in a scheme involving more than \$30 million in bribes and kickback payments. In addition, various defendants have been ordered to pay over \$32.9 million in restitution.

A multi-agency investigation

uncovered a conspiracy that included the use of a \$1.3 billion Alaska Native Corporation (ANC) sole source contract to pay for the bribes and the planned steering of a \$780 million government contract to a favored Section 8(a) program participant. The individuals involved have thus far pled guilty to bribery, conspiracy, money laundering, and other charges. They include government officials, executives of 8(a) contractors, and employees of the ANC contractor. The United States has seized for forfeiture or recovered approximately \$22.8 million in bank account funds, cash and repayments, 19 real properties, 6 luxury cars, and fine jewelry. This is a joint investigation with the FBI, IRS CI, U.S. Army CIC, DCIS, and DCAA.

Business Loans

Grocery Store Owner Indicted for Bank Fraud and False Statements

On July 2, 2014, the former owner of a Chicago grocery store was indicted for bank fraud and making false statements in connection with a scheme to defraud the SBA and a lender. The indictment seeks forfeiture of at least \$1,487,000. The investigation revealed that the owner initially attempted to obtain an SBA loan from one bank, but her application was declined due to her lack of credit history and business experience.

In a second attempt to receive an SBA loan, the owner

went to a second bank after recruiting a family friend to falsely sign all SBA loan paperwork as the president of the store, even though the friend had no involvement with the business. As a result of using the friend's name and credit information, the business was approved for SBA loans of \$200,000 and \$1,287,000.

The SBA loan application paperwork submitted to the second bank concealed significant outstanding loan debt, including multiple SBA loans. The application falsely claimed that the friend worked as a supervisor for a grocery store from 1998 until 2005 and was president and director of operations for the subject's grocery store from 2005 to 2007. Finally, the application did not disclose the subject's criminal history, which would have included felony check fraud and assaulting a police officer. This investigation is being conducted jointly with the Federal Bureau of Investigation (FBI).

Man Arrested for False Claim of U.S. Citizenship

Around July 3, 2014, a man using an alias was arrested at John F. Kennedy Airport in Queens, New York, upon attempting to enter the United States from Abu Dhabi. The arrest was the result of a 2004 indictment, charging him with making a false claim of U.S. citizenship when attempting to secure a \$420,000 SBA loan. A federal court in New York ordered that the man be committed to a federal court in Texas to address the charge.

Michigan Man Sentenced to Report to Embassy After Concealing Criminal Activity

As the result of criminal activity in his company, on July 9, 2014, the president of a Michigan construction company was sentenced to report to the U.S. Embassy in Qatar every three months for one year to verify that he has not been involved in any criminal behavior. He was also ordered to pay \$460,286 in restitution and a \$10,000 fine after previously pleading guilty to misprision of a felony.

The president had a history of concealing criminal activities: he had been aware that others made false statements on a 2001 loan application to obtain a \$1,100,000 SBA guaranteed loan. He also knew that, as evidence of a required equity injection, two men falsely claimed that the president's construction company had completed \$210,000 in repairs and renovations to the auto service center prior to the loan closing, when in fact it had not. The loan was charged off in the amount of \$789,186 in 2005. The president knew of the false statements and remained in Qatar, thus concealing the information and not promptly making the offense known to U.S. authorities.

California Businessman Pleads Guilty in Multi-million Dollar Fraud Schemes

On July 21, 2014, a California businessman pled guilty to mail fraud, wire fraud, and

bank fraud after having led co-conspirators in multi-million dollar fraud schemes involving SBA loans.

In 2006 and 2007, he defrauded a financing corporation which provided a \$4.5 million loan for the purchase of a gas station business. He could not obtain the loan himself because of his poor credit rating and a history of being sued by creditors and failing to pay judgments. Accordingly, he recruited a "straw buyer" to pose as the owner of a newly-created shell company and apply for the loan in the corporation's name.

The businessman and a co-conspirator included false information in the loan application regarding the straw buyer's experience and assets. The businessman and a co-conspirator also bribed an escrow agent to falsely tell the bank that a \$600,000 equity down payment had been used for the purchase. During this scheme, he worked with his wife, a step-daughter, a business associate, and others.

Later in 2007, the businessman orchestrated a scheme to defraud a bank. He formed another shell corporation, installed his wife as owner, and had the new corporation "buy" the gas station business. He then had his wife and step-daughter apply to the bank for a loan to "refinance" the supposed debt one shell company owed the other, without disclosing to the bank that they con-

trolled both companies. The bank was provided false information about his wife's credit history and a \$600,000 deposit supposedly used for the purchase. More than one-third of the \$1.4 million in loan proceeds went to a bank account the family controlled.

Over the rest of 2007, the man and his family used the bank loan proceeds, as well as money from the gas station business, to pay personal expenses, including luxury items. By early 2008, the shell corporations had defaulted on the loans, causing the institutions to suffer several hundred thousand dollars in losses. The SBA, which partially guaranteed the bank loan, lost nearly \$1 million. In May 2012, the man, his wife, his step-daughter, and a business associate were indicted for the schemes.

The businessman, his step-daughter, and the defense attorney then engaged in a similar plot to defraud a small business lending firm. He and the attorney recruited a new straw buyer to pose as the owner of a new shell corporation and to apply for \$4.5 million in loans to finance the purchase of two gas station businesses.

This scheme again involved providing false information regarding the straw buyer's experience and assets, bribing an escrow agent to falsely tell the small business lending firm that there were \$2.1 million in down payments, and overstating the sale prices of the businesses. The

firm funded the SBA-guaranteed loans. From the loan proceeds, the businessman and his family received nearly \$300,000, the defense attorney received \$250,000, and the new straw buyer received \$100,000.

Again, the businessman and his family used the loan proceeds and substantial funds from the gas station businesses for personal expenses, as they began to default on the new loans. The small business lending firm and the SBA now face an estimated \$3 million in losses. Investigators believe that banks and the SBA suffered approximately \$5 million in losses because of these schemes. In addition to the businessman's guilty pleas, his wife, his step-daughter, and defense attorney have pled guilty to various charges. This is a joint investigation with the FBI.

Alabama Man Sentenced for Wire and Bank Fraud

On July 29, 2014, an Alabama man was sentenced to three years in prison and was ordered to forfeit \$1,760,000 in assets to the federal government, as well as pay restitution of \$1,760,000 to the SBA, \$50,000 to a finance company, and an as of yet undetermined amount to a credit union. This sentence resulted from the man's guilty plea to wire and bank fraud.

This matter was originally referred to the OIG by SBA's Little Rock Commercial Loan Servicing Center. A \$1,760,000 SBA Section 504 debenture had been approved to the man's

grocery store. After making only one payment, the borrower defaulted on the note. This investigation was worked jointly with the FBI.

Pennsylvania Business Owner Indicted

On July 29, 2014, a Pennsylvania business owner was indicted for bank fraud, making false statements, filing a false federal tax return, failing to pay federal income tax, theft concerning programs receiving federal funds, and wire fraud.

The OIG received a referral from the FBI alleging fraudulent behavior by the man. The referral stated that he made false statements during settlement discussions pertaining to SBA guaranteed loans. His firm received SBA guaranteed loans of \$25,000; \$15,000; and \$10,000. The loans went into default and were charged off. During collection proceedings, the referral stated that the man made false statements regarding repayment ability pertaining to the \$25,000 and \$15,000 loans. This case is being worked jointly with the FBI, IRS CI, and Department of Education OIG.

Four Illinois Men and One Woman Indicted

On July 30, 2014, four men and one woman from Illinois were indicted on various charges including mail fraud, wire fraud, bank fraud, making false statements on loan applications, student loan fraud, and aggravated identi-

ty theft. The indictments relate to separate fraud schemes to obtain \$2.7 million in mortgages, student aid, bank loans, and an SBA loan. The individuals allegedly prepared and submitted false documents and made false statements to banks, mortgage lenders, the U.S. Department of Education and the SBA. The indictment also seeks forfeiture of more than \$2.41 million from four of the individuals.

The investigation found that, between 2006 and 2008, two of the individuals allegedly obtained other persons' identifying information and made false statements in applications for lines of credit and credit card accounts without the consent of the applicants.

At the same time, the two individuals—who owned a property management firm—are alleged to have fraudulently obtained a \$35,000 SBA guaranteed loan, which they allegedly used for purposes unrelated to their business.

Between 2006 and 2011, these same two property management firm owners, along with a licensed loan officer who is also a defendant, allegedly took part in a mortgage fraud scheme to obtain more than \$2.1 million in mortgage loans for fourteen properties. The three allegedly prepared and submitted false documents and made false statements to lenders. In addition, between 2010 and 2012, the original two individuals, along with two new individuals, allegedly

submitted at least forty fraudulent applications for federal student aid using stolen identities. The aforementioned individuals allegedly used the proceeds for themselves and others for purposes unrelated to educational expenses.

Finally, the two property management firm owners allegedly used the personal identifying information of a mentally disabled man and caused him to sign personal guarantees for mortgages, bank loans, and the SBA loan, despite knowing that he did not have the financial means to make payments if required to do so. This is an ongoing joint investigation with the Department of Education OIG, Federal Housing Finance Agency OIG, HUD OIG, and FBI.

Disaster Relief

Two Women Charged for Filing False Applications

On July 16, 2014, the New Jersey Office of the Attorney General filed separate complaints against a Pennsylvania woman and a New Jersey woman. Both were homeowners who allegedly filed false applications to collect federal relief funds after Superstorm Sandy, and were charged with theft by deception and unsworn falsification.

The first woman allegedly falsely claimed that a storm-damaged house in New Jersey was her primary residence, when it was a vacation

home. The woman received \$137,400 in SBA disaster loan proceeds, as well as \$10,000 through the U.S. Department of Housing and Urban Development (HUD) and \$13,148 in Federal Emergency Management Agency (FEMA) rental assistance.

The second woman's New Jersey home was damaged in Superstorm Sandy. She obtained \$2,270 in FEMA rental assistance by allegedly falsifying checks and receipts for two months of rent that she purportedly paid to her daughter to rent a home in another town. The woman allegedly never rented the home, which was not owned by her daughter. She also received \$40,000 from an SBA disaster home loan for her property located in the first town.

These investigations were worked jointly with a task force comprised of the New Jersey Department of Community Affairs (DCA), the U.S. Department of Homeland Security (DHS) OIG, and the HUD OIG, under the direction of the New Jersey Office of the Attorney General.

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

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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

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