Office of Inspector General

January 2015

Business Loans

Co-Owner and President of New Hampshire Company Pleads Guilty

On January 14, 2015, the former co-owner and president of a New Hampshire-based steel fabricator was charged in a criminal information and pled guilty to (1) making false statements and overvaluing property to influence the actions of a Federal Deposit Insurance Corporation (FDIC)-insured financial institution and (2) conspiracy. The company relied on financing from a Vermont savings bank, including $10 million in line-of-credit financing by the end of 2008, and a $2 million Small Business Administration (SBA)-guaranteed loan funded in December 2010. The company president admitted to conspiring with others in submitting borrowing base certificates to the bank that contained false information about the value of the work in process, as well as inventory based on false value for change orders on a contract. He also admitted to providing to the bank a draft financial statement for fiscal year 2010 which had false information about the value of inventory. This joint investigation continues in conjunction with the FDIC Office of Inspector General (OIG) and the Federal Bureau of Investigation (FBI).

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Director of Florida Company Ordered to Pay Restitution for Wire Fraud and Identity Theft

On January 23, 2015, the director of a Florida company was ordered to pay $336,914 in restitution to SBA. She previously had been sentenced to 18 months imprisonment and 3 years of supervised release for wire fraud and aggravated identity theft. Her firm had been a local intermediary company in the SBA microloan program. In this program, SBA provides large loans to intermediaries, who in turn provide training and smaller loans of up to $50,000 to small businesses. The director had provided escrow agreements with forged signatures and false bank statements to SBA to induce it to make loans of $200,000 and $550,000 to her firm, of which only $192,500 of the second loan was disbursed. To further induce SBA to disburse the approved loans, she submitted false information indicating that her firm had made 21 local small loans using SBA loan proceeds. However, her intermediary company only provided a total of $25,000 to a business owned by her and another controlled by her boyfriend. She also submitted false reconciliation statements and bank statements to SBA to support the other false information. Of the $392,500 disbursed to the intermediary company, about $362,000 was transferred to the bank account of another company incorporated and controlled by her. She and that company used the SBA loan proceeds to purchase an apartment building in Tallahassee, FL. That apartment complex was previously seized and sold at auction. She initially objected to the restitution amount, believing the seized apartment building was sold too cheaply and that her restitution amount should be offset by the actual value of the building. This case was investigated jointly with the Internal Revenue Service Criminal Investigation and the Department of Justice.

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Disaster Loans

Michigan Postal Carrier Charged with Mail Theft

On January 14, 2015, a postal carrier in Michigan was charged with theft of mail by a postal employee. This case was initiated by a referral from the Processing and Disbursement Center (PDC) for SBA's disaster loan program. The PDC had received a complaint from a borrower reporting that he never received a $25,000 disaster loan disbursement in the form of a U.S. Treasury check via U.S. Mail delivery. The borrower also stated that he had noticed a change in postal carriers. The check was subsequently cashed at a liquor store near the borrower's residence.

This information was relayed to the Department of Homeland Security (DHS) OIG, whose agents confirmed they were also investigating allegedly stolen Treasury checks (for Federal Emergency Management Agency (FEMA) programs) that had also been cashed at the liquor store. As a result of these complaints, the U.S. Postal Service (USPS) OIG conducted a theft deterrence test on the postal carrier assigned to the zip code delivery route. The postal carrier was found in possession of the USPS OIG test items.

This is a joint investigation with DHS OIG, USPS OIG, and the U.S. Postal Inspection Service.

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New Jersey Woman and Man Charged for Falsely Applying for Hurricane Sandy Funds

On January 22, 2015, the New Jersey Office of the Attorney General filed separate complaints against a woman and a man, both of whom were homeowners who allegedly filed false applications to collect Federal relief funds after Hurricane Sandy.

- The woman was charged by a complaint-summons with theft by deception and unsworn falsification. She allegedly received $12,270 by filing fraudulent applications for a FEMA grant and for state grants under the Homeowner Resettlement Program (RSP) and Reconstruction, Rehabilitation, Elevation, and Mitigation Program, which are funded by the U.S. Department of Housing and Urban Development (HUD) and administered by the New Jersey State Department of Community Affairs (DCA). She received $2,270 in FEMA rental assistance and a $10,000 RSP grant. The woman claimed that a storm-damaged home she owned in one New Jersey city was her primary residence. However, her actual primary residence allegedly is a home that she owns with a relative in another city. Her application for an SBA Disaster Home Loan was declined in May 2013.
- The man was charged by a complaint-summons with theft by deception and unsworn falsification. He had filed an application for FEMA rental assistance, claiming that he was paying $1,415 in monthly rent for an apartment after being displaced from his home following Hurricane Sandy. However, the owner of the apartment allegedly allowed him and his wife to stay in the apartment rent-free. The man allegedly submitted fraudulent documents, including a lease and rental receipts, indicating that he paid monthly rent of $1,415. As a result of the alleged fraud, he received a total of $11,320 in Federal rental assistance. He also had applied for an SBA Disaster Home Loan, which was declined in May 2013.

These investigations were worked jointly with a task force comprised of the New Jersey DCA, DHS OIG, and HUD OIG, under the direction of the New Jersey Office of the Attorney General.

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Texas Man Indicted for Alleged Role in Hurricane Ike Fraud Scheme

On January 28, 2015, a Texas man was indicted for allegedly participating in a fraud scheme in connection with a major disaster, making a false statement and false representations in connection with a major disaster. He had been the president of a registered Texas non-profit corporation and also served as the president or director of several other such corporations. The man allegedly falsified numerous documents to SBA in order to receive $1.3 million in Hurricane Ike disaster relief funds on behalf of the registered non-profit corporation from approximately September 2008 to December 2010. Even though SBA disbursed these funds for the repair or replacement of real estate, inventory, supplies, machinery, and equipment damaged during the disaster, the man allegedly used a significant portion of the proceeds for his own personal use. This is a joint investigation with the FBI.

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Government Contracting

Texas Man Pleads Guilty to Wire Fraud

On January 6, 2015, a Texas man pled guilty to wire fraud. This case was based on a referral from the U.S. Government Accountability Office (GAO). GAO's FraudNET received a letter from an anonymous source alleging the man's company was falsifying documents to establish its status as a Service-Disabled Veteran-Owned Small Business (SDVOSB) and as an architectural and engineering firm. The firm reportedly falsified the credentials of its engineers, its office locations, the number of employees, and its past projects.

The investigation determined that the man did not have a Department of Veterans Affairs (VA) disability rating or a service-connected disability. Thus, the firm was not a legitimate SDVOSB. In addition, the firm submitted an architect-engineer qualifications package to the VA contracting office in San Antonio, TX, which included "example projects which best illustrate proposed team's qualifications for this contract" that the company did not actually work on. Moreover, at least three of the firm's "key personnel" contained in its document package had never worked with, or even heard of, the man or his company. The man confessed to these findings during an OIG interview. The firm had been awarded an SDVOSB set-aside contract, and ten task orders under that contract, by the VA contracting office in San Antonio, TX, with a cumulative value of $1,587,952.

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DHS Branch Executive Sentenced to 2 Months' Imprisonment for Receiving Illegal Gratuities

On January 16, 2015, a former supervisory information technology specialist and branch executive of the DHS Customs and Border Patrol was sentenced to 2 months in prison, followed by one year of supervised release, for conspiracy to obtain illegal gratuities. The official was also ordered to forfeit the $5,299 that represented his personal proceeds from the conspiracy. The sentencing was related to a previous information and guilty plea wherein he admitted to receiving illegal gratuities, such as an Apple laptop computer and tickets to professional sporting and entertainment events, from Government contractor companies' representatives in exchange for acts that he performed related to Government procurements. These included the Wide Area Network Optimization contract and the Enterprise Network Architecture Services contract.

This investigation continues and is being worked in conjunction with DHS OIG, the VA OIG, the General Services Administration OIG, and the Department of Justice.

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Pennsylvania Man Sentenced for Major Fraud

On January 16, 2015, a Pennsylvania man was sentenced to 37 months of confinement followed by 3 years of supervised release. In addition, he was ordered to pay $1,200,000 in restitution and a $7,500 fine.

The man had previously pled guilty in a criminal information to major fraud against the United States, obstruction of a Federal audit, and making false claims. The information and plea resulted from an investigation into allegations that he was the actual owner of a small business that purported to be woman-owned, but was actually 85 percent owned and operated by him. He had previously been convicted of a felony and was not eligible to participate in a contracting program. Moreover, 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. Finally, he directed two employees of his firm to present false checks to Defense Contract Audit Agency auditors during a Federal audit.

This was a joint investigation with the U.S. Army Criminal Investigation Command, the Defense Criminal Investigative Service, and the U.S. Air Force Office of Special Investigations.

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New Jersey Firm Pays Settlement for Fraudulently Obtaining Set-Aside Contracts

On January 20, 2015, a New Jersey firm agreed to pay $1,300,000 to settle the case against it under the authority of the False Claims Act. SBA OIG originally received a referral from GAO's FraudNet alleging fraudulent behavior by an extensive list of SDVOSBs. The allegations stated that the firms were fraudulently certified in order to obtain Government set-aside contracts.

Specifically, the allegations pertaining to the New Jersey firm state that one man, using another man's service-disabled status, established the company for the sole purpose of obtaining set-aside contracts. The second man allegedly had nothing to do with the business other than in name and is a full-time employee of the State of New Jersey's Military and Veterans Services Department.

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Florida Firm and Owner Enter into Pre-Settlement Agreement for False Certifications

On January 27, 2015, a Florida firm and its owner and chief financial officer entered into a pre-settlement agreement with the U.S. Department of Justice for the resolution of a False Claims Act action. The action was initiated upon receipt of a qui tam complaint filed by a competitor that had lost a bid to the Florida firm for a HUBZone set-aside contract. In a qui tam complaint, a private citizen can sue on behalf of the United States and share in any recovery.

The settlement is the result of allegations that, from 2010 to 2013, the Florida firm falsely certified to the SBA that its principal office was located in a designated HUBZone when it was actually located outside of a HUBZone. Using this fraudulently-obtained certification, the firm bid on and received Federal Government contracts that had been set-aside for qualified HUBZone companies, and then submitted claims for payment under those contracts.

The U.S. Government thoroughly investigated the allegations, and the evidence substantiated the complainant's claims. The Florida firm had used a "virtual office" in Orlando as its HUBZone address when it applied in September 2010. Under the contract with a virtual office company, the firm could use the mailing address and phone number of the virtual office, as well as office space by the hour on an as-needed basis. Account statements show that the firm never paid for hourly office space there. At the same time, the firm used its non-HUBZone address for nearly all non-Government business, as well as its tax returns. In the settlement, the firm agreed to pay $250,000 to the United States. This investigation was performed jointly with DHS OIG.

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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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**In accordance with Sections 7 and 8L(b)(2)(B) of the Inspector General's Act, confidentiality of a complainant's personally*

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