



Office of Inspector General

June 2016



BUSINESS LOANS

Real Estate Investment Firm Owner Found Guilty for Involvement in Long-Term Fraud-for-Profit Scheme

On June 23, 2016, the owner of a Denver, CO, real estate investment firm was found guilty in State court of (1) violating the Colorado Organized Crime Control Act; (2) forgery involving the U.S. Small Business Administration (SBA), a California bank, and the State of Colorado; (3) criminal impersonation; and (4) theft of funds from various lenders. He and five other family members originally had been indicted on 37 total counts. The five family members have pled guilty and have been sentenced.

The investigation found that the owner obtained a \$2.32 million SBA-guaranteed loan to refinance his office building and other existing debt. To obtain the loan, he concealed his extensive criminal history and the fact that he was currently on probation. The owner also falsified documents related to his debts. Moreover, he and the five family members created a criminal enterprise using their status as professionals in the real estate industry to execute a large long-term fraud-for-profit scheme. The scheme primarily centered on mortgage fraud including, but not limited to, manipulating multiple real estate transactions through fraudulent statements, material omissions, false identification and notary commissions, and “straw buyers” to buy and sell real estate.

This was a joint investigation with the Colorado Attorney General’s Office, Colorado Bureau of Investigation, Federal Bureau of Investigation (FBI), and

the Federal Housing Finance Agency Office of Inspector General (OIG).

DISASTER LOANS

New Jersey Woman Pleads Guilty to Theft by Deception for Hurricane Sandy Fraud

On June 15, 2016, a New Jersey woman entered pretrial intervention in State court. She pled guilty to theft by deception for filing false applications following Hurricane Sandy. The woman falsely claimed that a storm-damaged house was her primary residence, when in fact it was a vacation property owned by her and her parents. She had received a \$10,000 Homeowner Resettlement Program grant and \$83,055 in Reconstruction, Rehabilitation, Elevation and Mitigation grant payments to repair that property. Both grants were funded by the U.S. Department of Housing and Urban Development (HUD) and administered by the New Jersey State Department of Community Affairs (DCA). SBA had declined her home disaster loan application in May 2015. The woman has paid \$93,055 in restitution. This investigation was conducted jointly with a task force comprised of the New Jersey DCA, U.S. Department of Homeland Security (DHS) OIG, and HUD OIG, in conjunction with the New Jersey Office of the Attorney General.

New York Man Pleads Guilty to Conspiracy to Commit Wire Fraud

On June 15, 2016, a New York man pled

guilty in Federal court to conspiracy to commit wire fraud. A second man has been indicted for his role in the wrongdoing. The two men originally were accused of participating in mortgage flip and loan modification schemes. In the flip scheme, they allegedly induced lenders to issue mortgages and then kept some of the proceeds. In the modification scheme, they allegedly defrauded more than a thousand homeowners who paid them advance fees to have their troubled mortgages modified. However, the men allegedly did little or no work on the modifications.

In addition, the investigation disclosed that the first man had obtained a \$113,900 SBA disaster loan in October 2013 to repair his damaged property due to Hurricane Sandy. The indictment alleged that he submitted false information to SBA to support his loan application. The man also allegedly misused the loan proceeds by paying for personal expenses, including his wedding in Cancun, Mexico. This investigation is being jointly conducted with the FBI, the Special Inspector General for The Troubled Asset Relief Program, and HUD OIG.

GOVERNMENT CONTRACTING

Wisconsin Businessman Pays \$30,000 Fine for Involvement in HUBZone Fraud Scheme

On June 10, 2015, a Wisconsin businessman paid a \$30,000 fine when he was sentenced in Federal court. Because he was able to pay the fine immediately, the judge waived a 3-year probation period that would have

otherwise been imposed. The Government is negotiating a separate civil settlement with the man.

The businessman previously had pled guilty to making a false statement to SBA as a result of his involvement in a Historically Underutilized Business Zone (HUBZone) Program fraud scheme perpetrated by an investment firm's principals. In response to a competitor's protest, he had provided false information to SBA in order to remain in the HUBZone program and was subsequently awarded a \$1.9 million set-aside contract.

The man was a co-owner and officer of both the investment firm and a tool and trailer company. The latter was a manufacturing company incorporated and operating in an area not located in a designated HUBZone. In contrast, the investment firm was an asset-holding company with no employees or manufacturing capacity but was located in a HUBZone. In 2006, the man fraudulently obtained HUBZone certification for the investment firm. He and his business partner later 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 principal office location, 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 its HUBZone status. However, the work was performed at the manufacturing company's facility and completed by its employees. This is an ongoing joint investigation with the Defense Criminal Investigative Service (DCIS) and Naval Criminal Investigative Service (NCIS).

Co-Owner of Massachusetts Construction Firm Found Guilty for SDVOSB Fraud

On June 15, 2016, the co-owner of a Massachusetts construction firm was found guilty in Federal court of conspiracy to defraud the United States and wire fraud in connection with the service-disabled veteran-owned small business (SDVOSB) contracting program. The investigation disclosed that, between 2006 and 2010, the man had made false statements to the Department of the Army, General Services Administration (GSA), Department of the Navy, and Department of Veterans Affairs (VA) regarding his firm's SDVOSB qualifications in order to receive SDVOSB set-aside contracts. The investigation was conducted jointly with the U.S. Army Criminal Investigation Command, GSA OIG, NCIS, and VA OIG.

Connecticut Man Pleads Guilty for Involvement in \$70 Million Fraud

On June 22, 2016, a Connecticut man pled guilty in Federal court in the District of Columbia to conspiring to obstruct justice before SBA. The man is a former owner and officer of a Colorado construction corporation.

His firm and other businesses conspired with two companies that were eligible to receive Federal contracts set aside for small disadvantaged businesses (SDBs). The Colorado firm would illegally perform all of the work. Consequently, the company was able to win 27 Government contracts worth over \$70 million from 2008 to 2011. The scope and duration of the scheme resulted in a significant number of opportunities lost to legitimate SDBs.

In one such contract, the GSA contracting officer filed a protest with SBA, claiming that one of the companies was not a small business because of its relationship with the Colorado firm. SBA then conducted a size determination to decide whether the firm's bid on behalf of one of the companies violated SBA rules and regulations. The former owner and others took steps to corruptly influence, impede, and obstruct the SBA size determination protest by willfully making false statements to SBA about the nature of the relationship between the Colorado firm and one of the companies. This case is being jointly investigated with the FBI, DCIS, and GSA OIG.

Program Manager for a Florida-based, Certified Section 8(a) Company Pleads Guilty to Conspiracy

On June 14, 2016, a program manager for a Florida-based, certified Section 8(a) company pled guilty in Federal court in Maryland to conspiracy. He previously had been indicted after it was found that three companies—his firm, a company qualified under the HUBZone and SDVOSB Programs, and an "other than small" firm—were involved in bid rigging, collusion, major fraud, defective pricing, false claims, a false statement on an SBA application, and violations of SBA size standards. These actions related to the award of a contract issued by the U.S. Navy Space and Naval Warfare organization for work performed at Andrews Air Force Base in Maryland.

The manager participated in the scheme to defraud the Government by submitting false and fraudulent invoices that double-billed against the contract. The investigation continues and is being worked jointly with the Air Force Office of Special Investigations, DCIS, NCIS, and the U.S. Attorney's Office.

AGENCY MANAGEMENT***Report 16-16: Weakness Identified During SBA's Office 365 Cloud Email***

On Tuesday, June 7, 2016, the Office of Inspector General issued Audit Report 16-16, *Weakness Identified During SBA's Office 365 Cloud Email*. In order to meet Office of Management and Budget (OMB) guidance, the Small Business Administration (SBA) started the Office 365 cloud email migration project, which will move its email system off of the on-premises SBA email servers to Office 365's cloud-based system. Our audit objective was to determine whether SBA's email cloud migration to Office 365 followed applicable Federal guidance and standards, such as those outlined in FedRAMP. We identified multiple risk areas during the migration. First, our office found that the Capstone working group has not taken preliminary steps to develop an archive policy or establish testing plans to ensure the Office 365 cloud email migration meets Capstone requirements. Additionally, because the project has faced significant delays, the Office of the Chief Information Officer should evaluate whether to continue, modify, or terminate the cloud email project. We also determined that SBA has not reported the project's status accurately and timely. Due to a lack of planning and oversight, the Agency has exceeded anticipated timelines without deploying a system that meets OMB deadlines and guidance.

The Office of the Chief Information officer generally agreed with the memorandum results and five recommendations. However, we noted that management's response to Recommendation 5 only addressed the status of the Office 365 cloud email migration, rather than reporting the controls for all SBA IT investments on the Federal IT dashboard.

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

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in any SBA program to the OIG Hotline* at
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SBA Office of Inspector General
409 Third Street SW, 7th Floor
Washington, DC 20416
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