



Office of Inspector General U.S. Small Business Administration

June 2012 Update

Business Loans

Texas Man Sentenced to Five Years

On June 4, 2012, a Texas man was sentenced to 5 years probation, 6 months home confinement, and ordered to pay restitution of \$1,207,459.35, as a result of his guilty plea to one count of false statements. The investigation disclosed that the man contracted to buy a motel from another business for \$2,350,000. He then conspired with others to create yet another company to serve as a straw seller in order to inflate, artificially, the sales price to \$2,950,000. He then submitted fraudulent documents to the SBA lender in support of this scheme. The subject paid the straw seller \$400,000 of the required cash injection outside of closing, but \$308,000 was secretly returned to him prior to closing. This allowed the man to apply some of the same funds again toward the remaining balance of the cash injection, thereby reducing the out of pocket funds he had to pay in order to purchase the property. At the closing, the straw seller received approximately \$196,000, which was identified as seller's proceeds. The \$196,000 was then covertly funneled to a company owned by the subject who was the buyer in the transaction. This is a joint investigation with the FBI.

Former North Dakota Loan Officer Indicted

On June 12, 2012, a former bank loan officer in North Dakota was indicted on five counts of bank fraud, ten counts of false entry in bank records, six counts of false statements to a financial institution, one count of false statements, and one forfeiture count. The charges relate to him providing inaccurate and misleading information in order to secure a \$2 million SBA-guaranteed loan for a husband and wife's business. The investigation also determined that the bank failed to properly verify the cash injection and to provide the required proof that the loan proceeds were used according to the agreed upon terms, i.e. to purchase inventory for the new business. The husband was previously indicted for misrepresenting his cash injection for the loan. Based upon these deficiencies by the bank, the SBA Office of General Counsel has decided to deny liability on the full SBA guaranty. This denial of liability resulted in a cost avoidance to the SBA of \$1,342,000.40 (the 75 percent guaranty of the loan balance when it was transferred into

liquidation). This is a joint investigation with the U.S. Secret Service, Federal Deposit Insurance Corporation OIG, FBI, Immigration and Customs Enforcement - Office of Investigations, and the Tampa Police Department.

Disaster Loans

Two Texas Men Sentenced for False Invoice Scheme

On June 1, 2012, two Texas men were each sentenced to 12 months home confinement, 3 years supervised release, and ordered to pay a \$4,000 criminal fine as a result of their previous guilty pleas to conspiracy related to a false invoice scheme. The investigation disclosed that a third man was approved for \$999,700 in SBA home and business disaster loans to repair/replace more than 40 rental properties allegedly damaged by Hurricane Ike. The investigation revealed that the first subject verified to the SBA Processing and Disbursement Center (PDC) approximately \$680,000 in fictitious repairs and payments supposedly made to his construction company. The second subject, a property manager, created fictitious repair invoices and checks for submission to the SBA. The third man, the SBA borrower, who also previously pled guilty, has not been sentenced. This case was the result of a referral by the PDC. This is a joint investigation with the Department of Homeland Security (DHS) OIG.

Mississippi Man Sentenced on False Statements Charge

On June 5, 2012, a Mississippi man was sentenced to 3 years probation, and ordered to pay a \$250,000 fine and restitution of \$1 million. The subject previously pled guilty to a criminal Information charging him with one count of false statements. The subject and his wife, who has also been charged, submitted a Disaster Business Loan Application for business properties located in Mississippi and Louisiana. The couple received \$1 million in loan proceeds to repair properties damaged by Hurricane Katrina. The investigation charged that they (1) did not use the proceeds as detailed in the Loan Authorization Agreement, (2) submitted fraudulent receipts to the SBA, and (3) used \$389,923 of the loan proceeds to the purchase a 43-foot yacht. This case was developed through a joint proactive initiative involving

members of the Department of Justice Hurricane Katrina Fraud Task Force. This was a joint investigation with the Federal Bureau of Investigation (FBI).

Government Contracting & Business Development

Idaho Construction Firm Sentenced on Wire Fraud

On June 6, 2012, an Idaho construction company was sentenced to 36 months probation, and fined \$65,000. On March 28, 2012, the firm pled guilty to one count of wire fraud in connection with fraud within the SBA's HUBZone Program. The firms also pled guilty to one count of false statements pertaining to the General Service Administration's (GSA) Surplus Property Program, through which SBA 8(a) companies can obtain surplus property. The president of the firm pled guilty on behalf of the corporation for defrauding the U.S. Department of Agriculture on a \$274,283 HUBZone set-aside contract for roofing work to be performed at a research site in Oregon. The contract was awarded to the defendant corporation on the basis it was an eligible HUBZone entity, when in fact, it was not. The investigation revealed that the business submitted a fraudulent HUBZone application to the SBA stating that its principal place of business was located in a HUBZone and that it had two employees residing within a HUBZone, when in fact, both representations were false. In addition, the investigation found that the firm obtained property as an SBA certified 8(a) company under the GSA's Surplus Property Program, and immediately sold or transferred that property to a non-8(a) entity, which is against GSA Surplus Property rules. This is a joint investigation with the Internal Revenue Service - Criminal Investigations (IRS-CI, Department of Veterans Affairs (VA) OIG, General Services Administration (GSA) OIG, U.S. Department of Agriculture OIG, Department of Interior OIG, Air Force Office of Special Investigations, Department of the Army, Criminal Investigations Division (Army CID), and the Defense Criminal Investigative Service (DCIS).

Virginia Firm Pleads Guilty on Bribery of Public Official

On June 20, 2012, the president of a Virginia technology firm pled guilty in U.S. District Court for the District of Columbia, on two counts of bribery of a public official. The investigation revealed that the subject gave approximately \$55,000 to a public official with the U.S. Army Corps of Engineers in return for preferential treatment on 8(a) contracts to his business, which was an SBA 8(a) program participant. Additionally, the subject provided approximately \$40,000 and ownership interest in his business to an unnamed public official in return for providing preferential treatment to his firms on potential

contracts with the Department of the Army. On June 27, 2012, in the same court, the owner of a construction firm pled guilty to a criminal information charging him with one count of conspiracy to commit interstate transportation of stolen money. Additionally, he agreed to the forfeiture of \$83,403. The charges relate to allegations that the subject, and others, conducted financial transactions in an effort to conceal bribe payments from law enforcement and tax authorities. The bribe payments were made to U.S. Army Corps of Engineers officials in return for preferential treatment on 8(a) contracts. The investigation revealed that he conspired to transmit, unlawfully, or cause to be transmitted approximately \$611,904. Of that amount, the subject's company retained \$83,404 and paid approximately \$528,500 to his brother, a Corps of Engineers official. This is a joint investigation with the FBI, IRS-CI, Army CID, and DCIS.

Massachusetts Man Charged with Conspiracy

On June 22, 2012, a criminal information was filed against a Massachusetts man, who was the vice president and co-owner of a business, charging him with one count of conspiracy to commit wire fraud. The information alleges that he used another individual's service-disabled veteran status to establish, fraudulently, his business as a Service-Disabled Veteran-Owned business for the sole purpose of obtaining set-aside contracts. The Government Accountability Office (GAO) referred this case to the OIG. This is a joint investigation with the VA OIG, Army CID, the Department of Labor OIG, and the General Services Administration (GSA) OIG.

Man Sentenced on Acceptance of Gratuities Charge

On June 25, 2012, a Missouri man was sentenced to 15 months incarceration and 12 months supervised release. The subject pled guilty on March 15, 2012, to a criminal information that charged him with acceptance of gratuities to influence decisions in an official capacity as a federal employee. The man, while serving as a director of projects for the VA Medical Center (VAMC) in St. Louis, accepted illegal gratuities in the form of tickets to sporting events, meals/entertainment, and interest-free loans from the owners of a contracting firm and others in exchange for steering work to the contracting firm. This firm was awarded \$3.4 million in government 8(a) set-aside contracts from January 2007 to late 2010, the time during which the subject recommended the company to personnel at the VAMC. This is a joint investigation with the GSA OIG and VA OIG

Peggy E. Gustafson, Inspector General

If you are aware of suspected waste, fraud, or abuse in any SBA program, please report it [online](#) at <http://www.sba.gov/office-of-inspector-general/2662> or call the OIG Hotline toll-free, at (800) 767-0385.

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SBA OIG
409 Third Street SW, 7th Floor
Washington, DC 20416
E-mail: oit@sba.gov
Telephone number (202) 205-6586
FAX number (202) 205-7382

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