



# Office of Inspector General

May 2015



## Business Loans

### ***California Woman and Mother Sentenced to Prison and to Pay \$1.62 Million with Business Associate for Involvement in Fraud Scheme***

On May 4, 2015, a California woman was sentenced to 18 months in prison and 3 years of supervised release for her involvement in fraudulently obtaining Small Business Administration (SBA) Section 7(a) business loans for a gas station and car wash she owned with her mother and stepfather. She was also held jointly and severally liable with her mother, her stepfather, a business associate, and a former attorney to pay \$1.62 million in restitution. On the same date, her mother was sentenced to 8 months' imprisonment and 3 years of supervised release for her involvement in the same scheme. The woman had previously pled guilty to wire fraud, and her mother had pled guilty to bank fraud. A Federal grand jury originally had indicted the stepfather, the two women, and the business associate for fraud.

The original indictment alleged that the defendants executed a scheme to defraud a financing corporation, a bank, and SBA by making false statements to obtain business loans for the gas station and car wash business. The investigation found that the two women made false statements on an SBA business loan application, reporting that neither they nor their businesses were involved in any bankruptcies or pending lawsuits, and that they did not have a controlling interest in other businesses. At the time the application was signed, however, the women had both been involved in bankruptcy proceedings. Moreover, the mother was involved in a pending law-

suit and had a controlling interest in another business. The two women, the stepfather, and the business associate also made material false statements to obtain another business loan from the financing corporation to purchase the car wash. The loss to the bank and SBA was approximately \$1.45 million, and the loss to the financing corporation was approximately \$1.65 million. Of the \$1.45 million, SBA had guaranteed \$931,368.

A subsequent superseding indictment charged that, while the original case was pending trial, the woman, stepfather, the former attorney, and others engaged in a new scheme to defraud a small business lending firm and SBA. The woman and stepfather allegedly paid the former attorney \$100,000 to pose as the owner of a petroleum business and apply for a \$4.5 million SBA-guaranteed loan to purchase two gas stations in southern California. The superseding indictment also alleged that the small business lending firm was misled into believing that the former attorney had made a \$2.1 million down payment to purchase the two gas stations. Finally, the woman and stepfather allegedly skimmed large portions of cash from the business for personal expenses, including payments to defense attorneys who were representing them in the existing case. This investigation originated with the SBA Office of Inspector General (OIG), and newer activities were worked jointly with the Federal Bureau of Investigation (FBI).

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### ***Wisconsin Man Ordered to Pay Restitution for Submitting False Statements Prior to Selling Failing Business***

On May 7, 2015, a Federal court in Wis-

consin ordered a Minneapolis-area entrepreneur to pay \$621,858 in restitution. The man had previously been sentenced to 12 months and 1 day of imprisonment, to be followed by 180 days of house arrest and 1 year of probation. He also had been ordered to pay a \$25,000 fine. The man originally had pled guilty to submitting false statements to a financial institution, in connection with the July 2009 sale of a Wisconsin retail auto parts and repair business for \$1.14 million.

The investigation revealed that, in order to profit from the sale of his failing business, the man directed his on-site bookkeeper to make false entries into the business' accounting software. This resulted in grossly inflated sales income on corporate financial statements and tax returns, which were provided to the bank and its appraiser to support an inflated business value and a commercial loan application for the buyer. Influenced by the inflated financial statements, the bank approved nearly \$1 million in SBA-guaranteed loans. Shortly after the sale, most of the false entries were removed so that the man could file amended tax returns and lower his tax liabilities.

The business failed immediately following the sale. His actions caused a full loan default and increased losses to the buyer, the bank, and SBA, and forced the buyer to file for bankruptcy. This was a joint investigation with the FBI and the New Richmond (WI) Police Department.

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### ***California Man Found Guilty of Making False Statements to Gain Business Loans Used for Personal Expenses***

On May 8, 2015, a jury found a California man guilty of making false statements in connection with loan and credit applications. He had been the owner of a now defunct computer business. The man had made false statements and submitted false documents in connection with four loans made to his business between August 2005 and February 2007. Three of the loans were funded, with him receiving approximately \$500,000 in proceeds. The man soon defaulted on all the loans. Two of the loans were SBA Express loans from two major banks totaling \$400,000. The man also fraudulently obtained a \$350,000 line of credit from one of the major banks and a \$100,000 conventional loan from a local bank. The investigation revealed that he used a certain social security number to apply for SBA loans, bank credit cards, and other financial assistance. However, before applying for the SBA loans, the man had filed bankruptcy using a different social security number.

In addition, he failed to disclose his criminal history on his SBA loan applications. There was also evidence of misuse of an internal revenue stamp, bankruptcy fraud, and social security fraud. The man used the majority of the loan proceeds for personal items, including mortgage payments, trips, payments to family members, and cash withdrawals. During the investigation, he relocated from California to Minnesota and obtained a Federal Government position. The man was allowed to remain on bond pending the sentencing hearing. This is a joint investigation with the U.S. Treasury Inspector General for Tax Administration and the FBI.

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### ***Kansas Couple Pleads Guilty to Making False Statements and Money Laundering***

On May 12, 2015, a Kansas husband and wife pled guilty to making false statements to SBA and money laundering. The investigation showed that the wife served as a nominee borrower to obtain a \$163,924 SBA Express loan for a construction firm owned and operated by her husband. Although the stated purpose of the SBA loan was for equipment purchases, the proceeds were diverted to pay off equipment loans and make payments on construction loans held in the name of the husband's other business entities. The loan funds were also used for the couple's personal expenses. OIG is conducting this ongoing investigation jointly with the Federal Deposit Insurance Corporation OIG, Internal Revenue Service, and U.S. Secret Service.

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### ***Illinois Man Pleads Guilty to Mail Fraud and Aggravated Identity Theft After Completing Fraudulent Credit Applications***

On May 26, 2015, an Illinois man pled guilty to mail fraud and aggravated identity theft. The investigation showed that, between 2006 and 2008, the man and another defendant obtained and used individuals' personal identifying information to apply for lines of credit and credit card accounts without the purported applicants' consent. During the same time, the two defendants, who also owned a property management company, fraudulently obtained a \$35,000 SBA-guaranteed bank loan. They used a mentally disabled man's personal identifying information and caused him to sign guarantees for mortgages, bank loans, and the SBA loan, despite knowing that he had neither the financial means nor mental capacity to repay the loans. The loan proceeds were used for purposes unrelated to their

business.

Moreover, between 2006 and 2011, the two defendants and a licensed loan officer participated in a mortgage fraud scheme to obtain more than \$2.1 million in mortgage loans for 14 properties. The three individuals prepared and submitted false documents and made false statements to lenders.

Finally, between 2010 and 2012, the two defendants and two other men submitted at least 40 fraudulent applications for Federal student aid using stolen identities. These individuals used the proceeds for themselves and others for purposes unrelated to educational expenses. This is an ongoing joint investigation with the Department of Education OIG, the Federal Housing Finance Agency OIG, the Department of Housing and Urban Development (HUD) OIG, and the FBI.

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## **Disaster Loans**

### ***New Jersey Woman Charged with Theft by Deception and Filing False Applications for Hurricane Sandy Relief Funds***

On April 29, 2015, a New Jersey woman entered pretrial intervention based on a complaint-summons charging her with theft by deception and unsworn falsification for filing false applications to collect Federal relief funds after Hurricane Sandy. She had received \$2,270 in Federal Emergency Management Agency rental assistance grants and a \$10,000 State grant under the HUD-funded Homeowner Resettlement Program administered by the New Jersey State Department of Community Affairs (DCA). The woman also owed \$5,351 to a construction firm for work on a Reconstruction, Rehabilitation, Elevation and Mitigation Program project that was to be funded by HUD and administered by DCA. She made full restitution to all parties totaling \$17,621. The woman had

falsely claimed that a storm-damaged home she owned in one city was her primary residence. However, the investigation disclosed that her primary residence was actually a home that she owned with a relative in another city. She also had applied for an SBA Disaster Home Loan which was declined in May 2013. This investigation was conducted jointly with a task force comprised of the DCA, U.S. Department of Homeland Security OIG, and HUD OIG, under the direction of the New Jersey Office of the Attorney General.

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## Government Contracting

### ***Texas Man Charged for Falsely Claiming Service-Disabled Veteran Status***

On May 13, 2015, a Texas man was charged with theft of Government money or property and aggravated identity theft. The indictment also included a notice of intent to seek criminal forfeiture of approximately \$2.72 million.

While not a veteran, the man stole the identity of his father, a service-disabled veteran, in order to bid on procurements and receive contracts for his firm that were intended for service-disabled veteran-owned small businesses. The father was in no way affiliated with the firm.

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### ***Evaluation Report 15-10, Improvements Needed in SBA's Management of the Women-Owned Small Business Federal Contracting Program (WOSBP)***

On May 14, 2015, an OIG evaluation disclosed that Federal agencies' contracting officers made awards without the proper assurance that the firms were eligible and met program requirements. Specifically, Federal agencies' contracting officers

awarded 15 of 34 set-aside awards without meeting WOSBP's set-aside requirements. For example, 10 of 34 WOSBP set-aside awards were for ineligible work, and 9 of these 34 were awarded to firms that did not provide required documentation to prove they were eligible for WOSBP. As a result, the \$7.1 million these firms received in fiscal year (FY) 2014 set-aside awards may be improper.

In addition to the 9 WOSB awards that did not have any documentation in the WOSBP repository, 13 of 25 firms in OIG's sample uploaded some—but not all—of the required documentation to the repository necessary to prove their eligibility for the program. Additionally, 12 firms did not provide sufficient documentation to prove that a woman or women controlled the day-to-day operations of the firm. These firms, which received \$8 million, may be ineligible for their WOSBP set-aside awards.

OIG made five recommendations to the Associate Administrator for Government Contracting and Business Development intended to improve how SBA manages and administers WOSBP. WOSBP will undergo some major programmatic changes based on the National Defense Authorization Acts for FY 2013 and 2015 which will considerably increase SBA's oversight role. Since SBA is still determining how it will implement these mandated changes, OIG encourages SBA officials to use the results in this report to assist them in creating a more robust WOSBP.

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## Agency Management

### ***Audit Report 15-11, SBA's FY 2014 Compliance with the Improper Payments Elimination and Recovery Act***

On May 15, 2015, an OIG audit reported that SBA continued to make progress in

its efforts to prevent and reduce improper payments. However, SBA's improper payment rate for the Disaster Assistance loan disbursements exceeded the 10 percent threshold, and 7(a) guaranty loan approvals did not meet their annual reduction target. Specific areas include reported improper payment rates' accuracy, and test plans' completeness.

However, SBA has taken steps to address this issue, including publishing and posting an AFR on its website, conducting program-specific risk assessments, publishing improper payment estimates for all programs and activities identified as susceptible to significant improper payments, publishing extracts from the applicable programmatic corrective action plans in the AFR, reporting a gross improper payment rate of less than 10 percent for 5 of 6 areas tested for FY 2014, and publishing and meeting the annual reduction target for 5 of the 6 areas tested.

OIG made six recommendations. In response, SBA plans to refine its guidelines and protocols, and to develop a more robust test plan and provide training for staff that performs the improper payment review.

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### ***Evaluation Report 15-12: Improvement is Needed in SBA's Separation Controls and Procedures***

On May 26, 2015, an OIG report found that existing separation controls were not effectively followed, including deactivating network accounts within 24 hours of separation and collecting Federal property from separated personnel. Specifically, 73 accounts were not deactivated when they should have been, and two network accounts were accessed after the personnel had separated from the Agency—which were identified as security incidents.

The checklists that are used to document

the termination of network access and collect Federal property from separated employees were not being followed: OIG reviewed 57 and found that 46 percent were incomplete, and 19 percent could not be found at all. Finally, OIG found multiple errors in the manner that contracting officer's representatives (CORs) carried out contractor separations, and also noted that SBA did not have formal procedures on how to deactivate and terminate intern and volunteer accounts.

OIG made six recommendations to SBA. SBA fully agreed with five of the six recommendations, and partially agreed with the sixth recommendation.

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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

<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.*

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SBA Office of Inspector General  
409 Third Street SW, 7th Floor  
Washington, DC 20416  
E-mail: [oig@sba.gov](mailto:oig@sba.gov)  
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