Office of Inspector General

February and March 2016

Business Loans

Owner of Philadelphia Business Sentenced to 9 Years in Prison and Ordered to Pay About $1.2 Million

On February 2, 2016, the owner of a Philadelphia, PA, business was sentenced in Federal court to 9 years in prison and 9 years of supervised release, and was ordered to pay nearly $1.2 million in restitution and a $2,125 special assessment fee. He had previously been convicted for his schemes to defraud banks, the Internal Revenue Service (IRS), the Small Business Administration (SBA) and the Philadelphia School District of hundreds of thousands of dollars. The jury had found the owner guilty of 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 investigation disclosed that, between 2005 and 2012, the man made false statements to banks to obtain loans, made other false statements to banks and SBA to settle loans for less than what was owed, filed false Federal income tax returns, failed to pay Federal taxes, and stole from the Philadelphia School District, which had received Federal funds for its operations. Regarding the SBA charges, the business received three SBA-guaranteed loans in the amounts of $25,000; $15,000; and $10,000. The loans defaulted and were charged off.

During collection proceedings, the owner made false statements regarding repayment ability pertaining to the first two SBA loans. The investigation was conducted jointly with the Federal Bureau of Investigation (FBI), IRS Criminal Investigation (CI) and the U.S. Department of Education, with the cooperation of the Philadelphia School District's Office of Inspector General (OIG).

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Co-Owner and CFO of New Hampshire Business Pleads Guilty for Involvement in $12 Million Fraud

On February 2, 2016, in the U.S. District Court for Vermont, the co-owner and chief financial officer (CFO) of a New Hampshire steel fabricator pled guilty to making a false statement. He previously had been indicted for making false statements and reports, overvaluing property and security for the purpose of influencing the actions of Federal Deposit Insurance Corporation (FDIC) insured financial institutions, and aiding and abetting. In addition, the man was to forfeit to the United States any property resulting from the crime, including but not limited to nearly $1.3 million. As part of his plea agreement, the Government will not pursue the forfeiture. He will instead pay $500,000 in restitution.

The man's firm had relied on financing from an FDIC-insured Vermont bank. By the end of 2010, the bank had extended $10 million in line-of-credit financing based on the value of the firm's assets, including accounts receivable, inventory, and work in progress. The bank's loans were so large that it needed two other FDIC-insured banks to share in the lending. The first bank also funded a $2 million SBA-guaranteed loan in December 2010, bringing the total borrowing to over $12 million. The man made false statements and reports in connection with the bank loans by manipulating the value of the firm's assets, including the value of its inventory and work in progress, in order to maintain and expand the firm's bank borrowing. This joint investigation continues in conjunction with FDIC OIG and the FBI.

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Chicago Man Pleads Guilty to Mail Fraud and Aggravated Identity Theft

On February 3, 2016, a Chicago man pled guilty in Federal court to mail fraud and aggravated identity theft. The investigation showed that, between 2010 and 2012, he and other co-defendants participated in a scheme to defraud the U.S. Department of Education and several colleges. They submitted college enrollment and financial aid applications for themselves and others containing materially false representations. These representations involved applicants' enrollment eligibility, intent to complete coursework if enrolled, and intent to use financial aid for educational purposes. The individuals also used the proceeds for themselves and others for purposes unrelated to educational expenses.

Between 2006 and 2008, two of the co-defendants, who owned a property management firm, obtained individuals' personal identifying information and made false statements in applications for lines of credit and credit card accounts without the purported applicants' consent. During the same time, they fraudulently obtained a $35,000 SBA-guaranteed bank loan. As part of their scheme, the pair used the personal identifying information of a mentally disabled man. They caused the man to sign personal guarantees for mortgages, bank loans, and the SBA loan despite knowing that the man had neither the financial means nor mental capacity to repay the loans. Moreover, the investigation showed loan proceeds were used for purposes unrelated to their business. The two co-owners previously had pled guilty to mail fraud and aggravated identity theft.

Finally, the investigation showed that, between 2006 and 2011, these co-defendants and a Chicago woman took part in a 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.

On March 2, 2016, the woman was sentenced in Federal court to 1 day of imprisonment, 2 years of supervised release, and 200 hours of community service. She also was ordered to pay $588,940 in restitution jointly and severally with the two male co-defendants. The woman, a licensed loan officer, previously had pled guilty to making false statements on loan and credit applications.

This is a joint and continuing investigation with the Department of Education OIG, the Federal Housing Finance Agency (FHFA) OIG, the Department of Housing and Urban Development (HUD) OIG, and the FBI.

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Maryland Man Sentenced to 2 Years in Prison and Ordered to Pay About $1.7 Million

On February 17, 2016, a Maryland man was sentenced in Federal court to 2 years in prison and 5 years of supervised release. He was also ordered to pay nearly $1.7 million in restitution and forfeit a home. He previously had pled guilty to bank fraud, money laundering, and aggravated identity theft.

The investigation revealed that the man provided false statements and equity injection proof to obtain a $1.7 million SBA 7(a) loan. He had provided a falsified SBA statement of personal history, commercial bank application, and tax returns for 2006 through 2009 to an SBA-approved lender. The man listed the social security number (SSN) of a deceased individual on the documents. He also provided fabricated bank statements to the lender as proof that he maintained enough assets to support an equity injection. Review of the actual bank statements showed that the man did not possess the necessary equity injection to qualify for the loan.

After the 7(a) loan was approved and disbursed, he converted part of the proceeds to personal use when he purchased cashier's checks to buy a new home in Maryland. The man also attempted to file bankruptcy in Maryland by using his actual SSN but falsified bankruptcy documents when he failed to list the SBA-approved commercial lender and the 7(a) loan in his bankruptcy filings. This investigation continues in conjunction with the Social Security Administration OIG.

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Former President of Georgia Banking Company Sentenced to 7 Years in Prison and Ordered to Pay Over $3.9 Million

On February 25, 2016, the former president of a Georgia banking company was sentenced in Federal court to 7 years of incarceration and 3 years of supervised release. He was also ordered to pay over $3.9 million in restitution. The man previously had pled guilty to conspiracy to commit bank fraud and conspiracy to commit major fraud against the United States. He admitted that, from 2005 through 2010, he conspired with others to obtain money, funds, credits, securities, and other property of the banking company while replacing non-performing loans with new Government-guaranteed loans, including a $1.5 million SBA-guaranteed loan to a Georgia business. This was done to make the bank appear financially stronger than it actually was.

To save the failing bank, the president continued these illegal activities during the time that the bank received assistance from the Troubled Asset Relief Program (TARP), a Government initiative established to help institutions during a financial crisis. His actions caused a $3.9 million loss to SBA, the U.S. Department of Agriculture, and the FDIC. This is a continuing joint investigation with the FDIC, Special Inspector General for TARP, FBI, U.S. Department of Agriculture OIG, and Tift County (GA) Sheriff's Office.

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Two Former Loan Officers Debarred for 3 Years

On February 29, 2016, two former loan officers of a major bank were debarred for 3 years from participation in, or representing participants in, Federal financial and non-financial assistance programs, and from Federal procurement transactions. Based on information from OIG, SBA determined that the loan officers showed a lack of business integrity. Specifically, they falsified or altered information appearing on borrower loan applications to ensure those applications met bank approval guidelines. This case was initiated based on a referral from the bank to the OIG Hotline.

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Illinois Real Estate Appraiser Pleads Guilty to Income Tax Evasion

On March 16, 2016, a formerly licensed Illinois commercial real estate appraiser and president of an appraisal group pled guilty in Federal court to income tax evasion. He had been one of seven Chicago area individuals indicted as part of an ongoing investigation. The others included a person charged with bank fraud, bribing a bank official, and filing a false tax return. Three other persons, including an accountant and a former SBA market president at a bank, were charged with bank fraud. Another individual was charged with failing to file a tax return.

The appraiser had been the president and sole owner of a property valuation firm and maintained a bank account in the firm's name. He also was the president and sole shareholder of the appraisal group. Accordingly, all ordinary income or loss from the group was required to be reported on his individual income tax return. In calendar year 2008, the group had gross receipts exceeding $1 million. He diverted more than $550,000 of its gross receipts to his own use by directing employees of the group to issue checks payable to his property valuation firm or to him personally, which he then deposited or caused to be deposited into a separate bank account. The embezzled funds were then used for his personal purposes.

The appraiser's actions related to the tax evasion charges were discovered during an SBA loan fraud investigation into a bank. The former SBA market president at the bank had utilized the appraiser for every fraudulent SBA loan that he approved. Over the past 10 years, the appraiser had valued hundreds of different businesses associated with fraudulent SBA-guaranteed loans. This is joint investigation with the IRS CI, FDIC OIG, and the FBI.

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Loan Processor Pleads Guilty to Felony Theft for Involvement in $2.3 Million Fraud

On March 24, 2016, a loan processor and father to the owner of a Denver real estate investment firm pled guilty to felony theft. On the same day, an office assistant and mother to the owner pled guilty to felony criminal mischief. She also was sentenced to 5 years of probation and ordered to pay $597,340 in restitution. The father is scheduled for sentencing at a later date and faces deportation from the United States.

The father and mother were originally indicted with their son and three other family members in a 37-count indictment that included charges of violating the Colorado Organized Crime Control Act, attempting to influence a public servant, criminal impersonation, conspiracy, theft, and committing forgery and/or making false statements to SBA, the State of Colorado, and various lenders.

This investigation showed that the firm's owner obtained a $2.3 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 on probation. The investigation also discovered that he and five other family members created a criminal enterprise using their status as real estate professionals to execute a large, long-term fraud-for-profit scheme. The scheme primarily centered on mortgage fraud, including but not limited to the manipulation of multiple real estate transactions through fraudulent statements, material omissions, acquiring false identification and notary commissions, and using straw buyers to buy and sell real estate.

This case was initiated after OIG received a referral from a California bank. This was a joint investigation with the Colorado Attorney General's Office, Colorado Bureau of Investigation, FBI, and FHFA OIG.

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Report 16-11: Management Advisory Memorandum

On March 17, 2016, OIG issued a memorandum which provides SBA with early notification of issues identified as part of its review of a high-risk 7(a) loan. OIG identified that the lender did not provide sufficient information to support that it approved the loan in accordance with SBA's origination and closing requirements. Specifically, the lender did not comply with material SBA requirements regarding new construction and improvements to an existing building. The lender also failed to address and mitigate adverse changes affecting both project control and the borrower's financial condition, compounding the risk to the SBA loan. As a result, SBA should recover $2 million from the lender appropriate to cure the lender's material deficiencies on this loan. The Agency agreed with the recommendation to recover funds from the lender.

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Disaster Loans

New Jersey Man Sentenced to 3 Years in Prison for Hurricane Sandy Fraud

On January 22, 2016, a New Jersey man was sentenced in State court to 3 years of incarceration. He previously had pled guilty to theft by deception for filing a false application to collect Federal relief funds after Hurricane Sandy. The man had obtained rental assistance grant monies in excess of $500 from the Federal Emergency Management Agency from approximately November 2012 to August 2013 for monthly rent for an apartment where he lived after being displaced from his home following the hurricane. He actually did not pay rent on that property. The man also applied for an SBA disaster home loan, which was declined in May 2013. This investigation was 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 HUD OIG, under the direction of the New Jersey Office of the Attorney General.

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Illinois Man Sentenced for Fraudulently Obtaining an EIDL Loan

On February 1, 2016, an Illinois man was sentenced in Federal court to 1 day of imprisonment, 4 months of home confinement, 800 hours of community service, and 4 years of supervised release. He also was ordered to pay $963,696 in restitution for bank fraud and making false statements. The total restitution the man must pay to SBA is $222,867.

The man had been the president and majority shareholder of a firm that sold and serviced industrial batteries and related products. His co-defendant had been the vice president, the chief financial officer, and a shareholder of the company.

The investigation showed that, from approximately April 2007 until around May 2011, the two men submitted reports and other financial information to a bank which falsely inflated their company's account receivables, sales, and inventory. The purpose was to conceal the company's declining financial condition and prevent the bank from demanding repayment and seizing company assets.

Moreover, around May 2009, the two men submitted to SBA the same materially false information in order to receive a $240,100 Economic Injury Disaster Loan (EIDL). They submitted inflated monthly sales figures for 2007 and 2008 in their disaster loan application while knowing the numbers were false.

Finally, the men submitted to SBA the firm's 2008 Federal corporate tax return as a supplementary submission in order to obtain the disaster loan. The tax return falsely represented the company's sales for 2008 as $5.4 million, when in fact the company's sales were only $3 million. The firm defaulted on the disaster loan, resulting in losses to SBA of $222,867. This is a joint investigation with the FBI.

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New Jersey Women Ordered to Make Final Restitution Payment for Fraudulently Obtaining Over $180,000 in Disaster Loans and Grants

On February 17, 2016, a New Jersey woman was sentenced in State court to make a final restitution payment of $87,051 to the State DCA for a Reconstruction, Rehabilitation, Elevation and Mitigation (RREM) grant, which was funded by HUD and administered by the DCA. She previously made partial restitution of $56,000 to the DCA for the RREM grant and paid in full the $24,479 outstanding balance of her SBA disaster loan, after learning of the investigation into her primary residence. The woman had previously pled guilty to theft by deception.

The investigation disclosed that she claimed that a storm-damaged New Jersey house was her primary residence, when in fact it was a vacation home and she was living in New York State during Hurricane Sandy. As a result of fraudulent disaster applications, the woman received $40,000 in SBA disaster loan proceeds and $143,051 in New Jersey grants under the RREM Program. This case was investigated jointly by a task force comprised of SBA OIG, HUD OIG, DHS OIG, the New Jersey Division of Criminal Justice, and State DCA under the direction of the New Jersey Office of the Attorney General.

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Louisiana Woman Sentenced to 3 Years of Probation and Ordered to Pay $9,443 for Submitting Fraudulent Documentation

On February 24, 2016, a Louisiana woman was sentenced in Federal court to 3 years of probation and was ordered to pay $9,443 in restitution to SBA. She previously had pled guilty to making false statements. The sentencing is in relation to her submitting fraudulent documentation to stop SBA's garnishments of her husband's wages.

In 2006, SBA approved a $182,700 disaster loan to the woman and her husband. The loan amount was later increased to $196,700. The couple subsequently defaulted on the loan. The husband was gainfully employed as a fire department captain. Accordingly, around June 2010, SBA began garnishing his wages. In December 2011, SBA stopped receiving payments in connection with the garnishment and was informed by the man's employer that the payments were discontinued per SBA's written request. After a subpoena was served, it was determined that a letter, allegedly on SBA letterhead, was submitted to the employer falsely purporting that the couple's financial obligation to SBA had been fulfilled and instructing that the garnishment of his wages cease. The letter was a forgery prepared by the woman, who supplied it to her husband. He, in turn, unwittingly hand-delivered the letter to his employer, having been told by his wife that it was from SBA.

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President of Texas Community Care Center Pleads Guilty for $1.3 Million Disaster Fraud

On March 17, 2016, the former president of a Texas community care center pled guilty in Federal court to fraud in connection with a major disaster. He had obtained an SBA disaster loan for Hurricane Ike-related damages to his Houston non-profit organizations—the community care center and a religious institute. The initial $995,400 disaster loan amount was increased to over $1.3 million after the man claimed a cost overrun for his repairs. Over $1.3 million was disbursed, and the loan is in liquidation.

The investigation found that several contractor and vendor-related invoices submitted to SBA never were paid or were merely proposals purported as having been paid. The man's first $250,000 loan disbursement was deposited in his bank. On the same date, he wrote a $200,000 check from that account to a roofing firm with "Roofing Repair/Replacement" in the check's memo section. Also on that date, the roofing company owner wrote a $200,000 check to the man with "donation" in the memo section. This check was deposited into the subject's bank. However, the roofing company had not even started repairs at the disaster sites prior to the first disbursement.

The former president then withdrew $223,000 from the bank, purchased a cashier's check for that amount, and deposited it into an escrow account for his attempted purchase of a Houston radio station for $8.75 million. He later manipulated a bank employee to withdraw escrow funds, thus violating his brokerage agreement and resulting in the radio station owner suing the bank for releasing the funds without the owner's consent. Consequently, the radio station owner received a monetary settlement from the bank.

Moreover, SBA instructed the former president to address liens and judgments appearing on his title commitment. To show these judgments as having been paid, he submitted copies of checks never negotiated by the lien holders. The man apparently used the same ploy with the title company, thus obtaining a clear title policy. Nonetheless, contacts with attorneys and a title search during the investigation determined that the liens still existed.

In addition, the man and his wife used over $263,000 for gambling, with the SBA disaster loan being the primary funding source. There were also several thousand dollars of cash withdrawals from bank accounts consisting of checks written by the husband or wife and made payable to the other spouse.

Finally, the former president purchased the locations of his two organizations in an arrangement with two Florida companies. He issued several hundred thousand dollars of church bonds on behalf of the community center, with the bonds to be backed by the properties as collateral. Although required to pay a monthly mortgage payment to be used to repay bond holders, he defaulted. His only payment to bond holders was a nominal amount using SBA disaster loan proceeds. After forming a nonprofit development corporation, he foreclosed on all three nonprofits' locations in an attempt to eliminate existing liens. This is a joint investigation with the FBI.

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Government Contracting

Colorado Construction Corporation Pleads Guilty to Conspiracy to Commit Major Fraud

On February 2, 2016, a Colorado construction corporation pled guilty in the U.S. District Court for the District of Columbia to conspiracy to commit major fraud against the Government and wire fraud. The firm also pled guilty to a single forfeiture count. The corporation had entered into an agreement to obtain contracts using the set-aside status of two companies controlled by a woman. One company was a 8(a) and HUBZone-certified firm; the other was an 8(a)-certified firm. Both companies received 3 percent of the value of set-aside contracts in return for passing the entire contracts through to the Colorado corporation. The two companies did not complete any work on the contracts. The Colorado corporation received over $70 million in set-aside contracts as a result of the scheme. This case is being jointly investigated with the FBI, the Defense Criminal Investigative Service (DCIS), and the General Services Administration OIG.

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Texas Man Convicted for Fraudulently Representing his Company as an SDVOSB

On February 12, 2016, a Texas man was convicted in Federal court of theft of Government money or property and of aggravated identity theft. The earlier indictment included not only these crimes but also a notice of intent to seek criminal forfeiture of approximately $2.7 million.

The man had created a company that was awarded contracts set aside for service-disabled veteran-owned small businesses (SDVOSB). He was not a service-disabled veteran, but had stolen and used the identity of his father, who was. His father was in no way affiliated with the company.

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Two Maryland Men Sentenced to 3 Years of Probation and Each Ordered to Pay Over $850,000

On February 18, 2016, a Maryland man was sentenced in Federal court to 3 years of supervised probation with a 6-month stay at a residential facility. He also was ordered to pay $855,000 in restitution. The man previously had pled guilty to conspiracy to commit wire and tax fraud. He knowingly and intentionally made material misrepresentations to the U.S. Government by representing himself as the president and owner of two technology firms. A husband and wife were in fact the companies' controlling corporate officers and majority shareholders.

On March 11, 2016, the two firms' in-house counsel also was sentenced in Federal court to 3 years of supervised probation and was ordered to pay $851,762 in restitution. He had previously pled guilty to conspiracy to commit wire fraud and tax fraud.

The two firms had been awarded millions of dollars in Federal contracts, pursuant to small business and SDVOSB set-aside contracts. Competitors had protested the firms' awards several times based on affiliation issues and size determination matters. Each time SBA had found the two firms to be small businesses based on information the in-house counsel provided. To accomplish this, the in-house counsel knowingly and intentionally caused false documents to be submitted for Government contract proposals and small business size protests. He also failed to pay taxes on various funds associated with the companies. This investigation was conducted jointly with the IRS CI, DCIS, Department of Labor OIG, and the Air Force Office of Special Investigations.

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Defendants Agree to a $5 Million Settlement for a Fraudulent SDVOSB Scheme

On March 14, 2016, the U.S. Attorney's Office for the Northern District of New York filed a settlement agreement in a civil action against four firms and four individuals for violating the False Claims Act. On the same day, the defendants agreed to a $5 million judgment in settlement of the civil action for their fraudulent certification as an SDVOSB. From 2009 to 2012, the defendants claimed that a service-disabled veteran was the controlling owner of a construction company so that they could obtain approximately $14.4 million in Government contracts as an SDVOSB. The investigation revealed that two men created the company and set up a service-disabled veteran employed by another firm as the majority owner of the construction company. However, the construction company's management and daily operations were actually controlled by the two who created the company. This investigation was conducted jointly with Department of Veterans Affairs OIG and DCIS.

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Report 16-12: The Small Business Administration's B2B Grant Award

On March 28, 2016, OIG issued the results of its audit of SBA's Boots to Business (B2B) grant award. SBA designed the B2B Program to provide transitioning service members interested in exploring business ownership or other self-employment opportunities with technical assistance and access to information on available resources and start-up capital.

OIG found that SBA designed and included in its program announcement a process to evaluate B2B grant applications. However, reviewers responsible for evaluating and scoring applications did not consistently follow evaluation guidance. Additionally, although officials in the Office of Veterans Business Development (OVBD) met with the reviewers to discuss which applicant should be selected to receive the $3 million award, SBA has no documentation delineating or rationalizing its final selection of Syracuse University. Because SBA lacked such documentation, it could not demonstrate that it made a merit-based selection in awarding the grant. Overall, these issues may have been prevented if officials in the Office of Grants Management and OVBD had provided effective oversight and SBA had a current Standard Operating Procedure for grants management that (1) provided clear guidance on how to develop program-specific review criteria, (2) clearly defined the roles and responsibilities of grants and program personnel involved in the evaluation process, and (3) ensured grants and program personnel maintained a record of the evaluation process. OIG made four recommendations to improve SBA's oversight of grants management. SBA management's planned actions resolve these recommendations.

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Agency Management

Report 16-09: FY 2015 Risk Assessment of SBA Charge Card Programs

On February 5, 2016, SBA OIG published the results of its risk assessment regarding SBA's internal controls over its purchase and travel charge card programs for fiscal year 2015. This risk assessment was performed in accordance with OMB Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012*. OIG's objectives were to (1) assess risks of illegal, improper, or erroneous purchases and payments associated with SBA's purchase and travel card programs, and (2) determine the status of prior year recommendations.

OIG found that SBA has implemented internal controls and guidance to administer its purchase and travel charge card programs. However, SBA could improve its risk management controls and practices for the purchase card program, particularly overs its records management and continuous monitoring. OIG made four recommendations to strengthen SBA's risk management controls for its Purchase Cards Program, which the Agency agreed to implement.

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Report 16-10: Weaknesses Identified During the Fiscal Year 2015 Federal Information Security Management Act Review

On March 10, 2016, SBA OIG published the results of its Federal Information Security Management Act (FISMA) review. The Act requires that OIG review SBA's information technology security program. OIG contracted with an independent public accountant, KPMG, to perform review procedures relating to FISMA. OIG also assessed the Agency's progress in implementing 31 open recommendations and compared OIG's current year assessment with its fiscal year 2014 FISMA evaluation. OIG made five new recommendations to address FISMA-related vulnerabilities. SBA fully agreed with all five recommendations, provided documentation to support that two have been implemented, and agreed to complete two by September 2016 and one by March 2017.

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Office of Inspector General
Peggy E. Gustafson
Inspector General

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To promote integrity, economy, and efficiency,
we encourage you to report suspected instances of
fraud, waste, abuse, or mismanagement
in any SBA program to the OIG Hotline* at
https://www.sba.gov/oig/hotline

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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