Office of Inspector General

August 2015

Business Loans

California Man Pleads Guilty to Theft

On July 14, 2015, a man pled guilty to theft by false pretenses in the Superior Court of California for the County of Riverside. He was also sentenced to serve 30 days in the county jail and 36 months of summary probation, as well as pay restitution to be determined later.

A criminal felony complaint had previously been filed against the subject and three other men for their participation in fraudulently obtaining a Small Business Administration (SBA) guaranteed loan and other business loans. The complaint alleged 55 counts, which included charges of grand theft, money laundering, and embezzlement.

This investigation was initiated after SBA's Office of Inspector General (OIG) received a referral from SBA District Counsel regarding an approximately $1.4 million guaranteed loan made to a medical group business. The lender filed a civil complaint against the business based on its alleged fraud scheme to obtain the loan. According to the lender, the business submitted false invoices and did not purchase business equipment with the loan proceeds.

The investigation revealed two of the men acted in concert to obtain a $1.4 million loan to purchase two magnetic resonance imaging machines. The two inflated the price of the machines to over $950,000, while the actual purchase price was approximately $450,000. Months after obtaining the loan, one of these men obtained two additional loans to purchase what appeared to be the same machines purchased with original loan proceeds. During this time, the other two men, including the subject, assisted the first two men in furthering this fraud. The three men other than the subject are awaiting trial. This investigation was conducted jointly with the Riverside District Attorney's Office.

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Maryland Man Pleads Guilty to Bank Fraud After Brokering 76 SBA Loans

On August 13, 2015, a Maryland man pled guilty in Federal court after previously having been indicted for bank fraud, conspiracy to commit bank fraud, aiding and abetting, criminal forfeiture, and destruction of records in a Federal investigation. According to the indictment, the man and others encouraged prospective borrowers using the services of two financial services firms to apply for SBA Section 7(a) guaranteed business loans.

The investigation revealed that the man had submitted 17 commercial non-SBA loans to a bank. In each of those loans, the Internal Revenue Service (IRS) tax documents had been altered. The borrowers' personal and business income was inflated to support a more favorable debt-to-income ratio, thus increasing the likelihood that the loans would be approved. The investigation also found that he was responsible for brokering 76 SBA loans to 13 different SBA lenders. The forecasted loss amount for non-SBA loans and SBA loans is $54.6 million. The investigation continues in conjunction with the U.S. Postal Inspection Service.

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California Man and Two Firms Debarred For Role in Bank Fraud

On August 18, 2015, SBA debarred a California man and two firms from participating in covered transactions and contracts subject to the Federal Acquisition Regulation. The debarments are in effect for 30 months. SBA proposed the debarments based upon the man's November 2014 conviction in Federal court for bank fraud. The conviction resulted from a criminal investigation into his involvement in both SBA and non-SBA bank loans.

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California Company and CEO Enter into $6.2 Million Settlement

On August 27, 2015, a California certified development company (CDC) and its chief executive officer (CEO) entered into settlement agreements with the U.S. Department of Justice (DOJ) and SBA. Under the agreements, the CDC, its CEO, and related entities agreed to turn over approximately $6 million in assets. Moreover, the CEO personally agreed to pay an additional $200,000.

The settlements resolve claims that the CDC and its CEO violated the False Claims Act in connection with the firm's failure to maintain adequate reserves in its loan loss reserve fund (LLRF). Although the CDC was required to fund its LLRF at a level determined by the riskiness of its Section 504 Loan Program portfolio, it allegedly concealed hundreds of troubled loans from SBA to avoid its obligation to fully fund its LLRF.

The settlements also resolve a lawsuit filed by the United States against the firm and a related entity alleging that the CDC failed to remit required payments to SBA to satisfy its loss-sharing obligations. The lawsuit alleged that SBA agreed to advance funds to the CDC in connection with certain defaulted Section 504 loans but that, after the CDC assigned the loan documents for these loans to the related firm, neither firm remitted the monies owed on these loans to SBA.

The settlements resulted from a coordinated effort by the DOJ Civil Division, SBA OIG, and SBA's Office of General Counsel (OGC). The investigation was initiated based on a referral from SBA's OGC.

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Government Contracting

Maryland Man Sentenced to 21 Months of Imprisonment for Illegally Passing 8(a) Federal Contracts to Another Company

On August 3, 2015, a Maryland man and owner of a certified Section 8(a) firm was sentenced in Federal court to 21 months in jail and 3 years of supervised release, and was ordered to forfeit $554,541. He had previously been indicted for wire fraud, conspiracy to commit wire fraud, and criminal forfeiture. The investigation disclosed that he owned and operated the 8(a) firm, which purported to perform information technology services to the Government and commercial clients. However, his firm illegally and substantially had passed through several million dollars of Federal contracts to another company.

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Three Men Agree to Plead Guilty to Major Fraud for Multi-million Dollar SDVOSB Scheme

On August 28, 2015, two brothers (CEOs of different firms) and a third man agreed to plead guilty to major fraud against the United States under a plea agreement with the U.S. Attorney's Office for the District of Puerto Rico. They previously had been indicted in connection with a multi-million dollar service-disabled veteran-owned small business (SDVOSB) scheme to defraud the U.S. Department of Veterans Affairs (VA).

The investigation determined that, from 2008 to 2013, the president and CEO of a plumbing, heating, and air conditioning contracting firm; the president and CEO of a general contracting firm; and the second firm's project manager conspired to use the second CEO's service-disabled veteran status to create the second firm as a SDVOSB. It served as a pass-through, or front, company for the first CEO's business, which was a graduated 8 (a) firm. The investigation further determined that the second CEO and owner of the second firm was employed as a full-time U.S. Postal Service carrier. Thus, he was not in charge of his firm's day-to-day operations, but was merely a figurehead being used for his service-disabled veteran status to obtain con-tracts for his brother's company. Consequently, the second firm unlawfully received $6.6 million in SDVOSB set-aside and sole source VA contracts, as well as $443,493 in SDVOSB contracts funded through the American Recovery and Reinvestment Act. This investigation was worked jointly with the VA OIG, which is the lead investigative agency.

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Office of Inspector General
Peggy E. Gustafson
Inspector General

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