



Office of Inspector General

June 2015



Business Loans

California Man Sentenced for Making False Statement Regarding Fraudulent Business Loan

On June 8, 2015, a California man was sentenced in Federal court to 3 years of supervised release for making a false statement to a Government agency during the investigation of a fraudulent business loan made under the U.S. Small Business Administration's (SBA) Section 7 (a) Guaranteed Loan Program. Around July 2013, he had been interviewed by Federal agents regarding an SBA loan made by a small business lending company. He told the agents that he had not submitted personal financial statements or other documentation regarding his financial condition to the lending company in the course of the loan transaction.

The man also told agents that he was unaware of false information in documentation provided as part of the loan application. One document was a resume form in his name which claimed that he had been an operator of a petroleum company from 1997 to 2002, and that he had been a principal of Chevron and Shell gas stations from 1973 to 1980. Another document stated that the man had over \$2.2 million in assets and net worth, including \$2.1 million worth of shares in a different petroleum company.

The man knew at the time that he had no prior experience managing gas stations, and he did not have \$2.2 million in assets or net worth. He also knew that the documents containing the false information were transmitted to the small business lending company as part of the SBA loan application. This investigation was conducted jointly by the SBA Office

of Inspector General (OIG) and the Federal Bureau of Investigation (FBI).

Disaster Loans

Complaints Filed Against Four Homeowners for Allegedly Filing False Hurricane Sandy Relief Applications

On June 2, 2015, the New Jersey Office of the Attorney General, as part of a Federal-State task force, filed separate State complaints against four homeowners who allegedly filed false applications to collect Federal relief funds after Hurricane Sandy.

- A man and woman residing in New Jersey and Florida were each charged by State complaint-summons with theft by deception and unsworn falsification. The couple allegedly received \$70,846 in relief funds by falsely claiming that a seasonal New Jersey bed and breakfast business was their primary residence. Their primary residence actually was in another New Jersey city, and they spent their winter months in Florida. They received \$38,396 in Federal Emergency Management Agency (FEMA) relief funds, including \$30,209 for home repairs, \$1,691 in rental assistance, and \$6,496 in transitional shelter assistance. The couple also received a \$10,000 Homeowner Resettlement Program (RSP) grant funded by the U.S. Department of Housing and Urban Development (HUD) and administered by the New Jersey State Department of Community Affairs (DCA). In addition, they received \$6,584 under the Sandy Homeowner/Renter Assistance Program (SHRAP) administered by the

New Jersey State Department of Human Services for people experiencing a Hurricane Sandy-related housing crisis. Finally, the woman received \$15,866 in disaster unemployment assistance (DUA) from October 2012 through May 2013 by claiming she was out of work because her employer, the bed and breakfast, was forced out of business by the storm. DUA, a Federal program administered by States, offers temporary assistance to people left unemployed as the result of a presidentially-declared disaster. However, because the bed and breakfast routinely closed from the end of October until May, her employment was not affected while she was collecting DUA. Although the couple had applied for an SBA disaster home loan, the application was declined in May 2013 because the property was ineligible.

- A New Jersey man and woman were both charged by State complaint-summons with theft by deception and unsworn falsification. The couple received \$26,552 in relief funds. They allegedly claimed that a storm-damaged home was their primary residence when it was actually their vacation home. Consequently, they received \$6,730 in FEMA rental assistance, which they returned after the investigation began. They also received a \$10,000 RSP grant and \$9,822 which was paid to a home design firm on their behalf from the Reconstruction, Rehabilitation, Elevation and Mitigation (RREM) Program, which was funded by HUD and administered by DCA. Moreover, the couple applied for an SBA Disaster Home Loan. The application was declined in September 2013 because SBA had determined

it involved an ineligible real property. The woman worked for the New Jersey State DCA and the man was an employee of the New Jersey State Department of Treasury. Both resigned their positions effective June 1, 2015. There were no allegations that the couple utilized their State positions to further their applications for disaster grant funds.

These investigations were worked jointly with a task force comprised of the New Jersey State 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.

Illinois Man Found Guilty for Bank Fraud

On June 10, 2015, an Illinois man was found guilty in Federal court of bank fraud and making false statements. Both he and his business partner previously had been charged with these crimes. The man was the president and majority shareholder of a firm, which sold and serviced industrial batteries and related products. His partner was the vice president, chief financial officer, and a shareholder of the company.

The investigation showed irregularities involving both bank transactions and an SBA disaster loan. From approximately April 2007 to May 2011, the two men submitted financial information to a commercial bank that falsely inflated their company's account receivables, sales, and inventory in order to conceal the firm's declining financial condition and prevent the bank from demanding repayment and seizing company assets.

Moreover, the investigation revealed that around May 2009, the partners submitted to SBA the same materially false information in order to receive a \$240,100 economic injury disaster loan. They submitted inflated monthly sales figures for 2007 and 2008 in their disas-

ter loan application, fully knowing that the sale figures were false.

Finally, the men submitted to SBA the firm's Federal corporate tax return for 2008 as a supplementary submission for obtaining the disaster loan. The tax return falsely represented the company's sales for 2008 as \$5.4 million when the company's sales actually were only \$3 million. The firm defaulted on the disaster loan, resulting in losses to SBA of nearly \$223,000. This is a joint investigation with the FBI.

New Jersey Man Indicted for Theft by Deception in Hurricane Sandy Fraud

On June 11, 2015, a New Jersey man was indicted for theft by deception, in violation of State law. He allegedly had filed a false application to collect Federal relief funds after Hurricane Sandy. The man had obtained FEMA rental assistance grant funds in excess of \$500 from approximately November 2012 to August 2013 for monthly rent for an apartment where he lived after being displaced from his home following Hurricane Sandy—even though he allegedly did not pay rent on that property. The man had also applied for an SBA disaster home loan, which was declined in May 2013. This investigation is being worked jointly with a task force comprised of the New Jersey DCA, DHS OIG, and HUD OIG, under the direction of the New Jersey Office of the Attorney General.

New Jersey Couple Indicted for Conspiracy and Theft by Deception in Hurricane Sandy and Irene Fraud

On June 11, 2015, a New Jersey man and woman were indicted for conspiracy and theft by deception, in violation of State law. In addition, the man was charged

with unsworn falsification to authorities, also in violation of State law, for allegedly filing false applications to collect Federal relief funds after Hurricanes Irene and Sandy. The pair allegedly had obtained FEMA rental assistance grant funds in excess of \$500 by asserting that they were forced to relocate to a rental home because of hurricane damage to their primary residence from both hurricanes. In reality, the couple was never forced to relocate. Moreover, although the man did not submit a disaster loan application to SBA for Hurricane Irene, the woman had contacted SBA for assistance on applying for a Hurricane Sandy disaster loan, since the deadline for Hurricane Irene disaster applications had expired. SBA declined the SBA disaster loan application from her for Hurricane Sandy in April 2013. This investigation is being worked jointly with a task force comprised of the New Jersey DCA, DHS OIG, and HUD OIG, under the direction of the New Jersey Office of the Attorney General.

New Jersey Man Sentenced and Pays Restitution for Fraudulently Obtaining Hurricane Sandy Relief Funds

On June 19, 2015, a New Jersey man was sentenced to 18 months of probation after having previously pled guilty to theft by deception, in violation of State law. He had filed false applications to collect Federal relief funds after Hurricane Sandy. The man has made full restitution of \$116,900 in which \$31,900 was paid to FEMA and \$85,000 was paid to the State of New Jersey. He had received \$31,900 in FEMA grants, a \$10,000 grant under the Homeowner RSP, and a \$75,000 grant under the RREM Program. The latter two grants were funded by HUD and administered by the New Jersey State DCA. The man had claimed that his primary residence in one city was damaged by Hurricane Sandy. However, that house is a vaca-

tion property, and his primary residence is in a different city. The man had applied for an SBA disaster home loan and was declined in December 2013 because he had indicated the first property was not his primary residence. This investigation was worked jointly with a task force comprised of the New Jersey DCA, DHS OIG, and HUD OIG, under the direction of the New Jersey Office of the Attorney General.

Government Contracting

Four Indicted Individuals to Forfeit \$24 Million for Government Contract Fraud

On June 2, 2015, four individuals were indicted in Federal court in West Virginia for conspiracy to defraud the Government; conspiracy to commit wire fraud; wire fraud; conspiracy to defraud the Government with respect to claims; making false, fictitious, or fraudulent claims; and tampering with a witness. The indictment also assigned a judgment forfeiture of \$24 million.

A construction company and numerous affiliated entities received over \$140 million in sole-source and set-aside contracts from various Government agencies. The four individuals allegedly defrauded SBA by not disclosing the affiliates' existence.

The investigation continues in conjunction with the U.S. Attorney's Office, Defense Criminal Investigative Service (DCIS), FBI, Department of Veterans Affairs (VA) OIG, and Department of Labor (DOL) OIG.

Florida Woman Charged for HUBZone Program Fraud

On June 4, 2015, a Florida woman was

charged with making false statements, representations, and false writings and documents to a Federal agency. She then pled guilty at her initial Federal court appearance.

The investigation began based on a qui tam complaint alleging that her plumbing, heating, and air conditioning firm had submitted false statements about its principal office in order to qualify for the SBA HUBZone program. In a qui tam complaint, a private citizen can sue on behalf of the United States and share in any recovery. The firm had received approximately \$4.3 million in HUBZone set-aside contracts as a result of the certification. The investigation disclosed that, from 2010 to 2013, the company falsely certified to SBA that its principal office was located in a designated HUBZone, when in fact the address belonged to a virtual office that the company used, but did not own. Both the virtual office and actual office were located in Orlando, FL. Using this fraudulently obtained certification, the firm then received various Federal Government contracts set aside for qualified HUBZone companies and submitted claims for payment under those contracts. Thus, the evidence substantiated the citizen's claims.

The firm had used a "virtual office" in Orlando as its HUBZone address when it applied in September 2010. Under the contract with the virtual office company, the firm could use the mailing address and phone number of the virtual office, as well as office space by the hour on an as-needed basis. Account statements showed that the firm never paid for hourly office space there. At the same time, the firm used its non-HUBZone address for virtually all non-Government business, as well as its tax returns. Not only did the firm misrepresent the location of its principal office to SBA, but it also submitted to SBA a fabricated lease agreement and other fabricated documents for its purported HUBZone office. Moreover, during the Government's in-

vestigation, the defendants fabricated another version of its agreement for the virtual office and submitted that false document to the Government. This case has been worked in conjunction with the DHS OIG, U.S. Coast Guard Investigative Services, and DCIS.

California Man Sentenced to 42 Months of Imprisonment for Fraudulently Obtaining 8(a) Contracts

On June 16, 2015, in the U.S. District Court of Maryland, a California man who owned a Virginia-based firm was sentenced to 42 months in jail and 3 years of supervised release, and was ordered to forfeit \$694,893. He previously had been indicted for wire fraud, conspiracy to commit wire fraud, aggravated identity theft, witness tampering, obstruction of justice, and criminal forfeiture. The investigation disclosed that a Maryland man owned and operated an SBA Section 8(a) firm which purported to perform information technology services for Government and commercial clients. Instead, the (a) firm substantially passed through several million dollars' worth of Federal contracts to the Virginia-based firm. The investigation continues in conjunction with the Air Force Office of Special Investigations (AFOSI) and Department of Interior OIG.

In-House Counsel to Two Maryland Firms Pleads Guilty for Involvement in Multi-Million Dollar Federal Contract Fraud

On June 24, 2015, the former in-house counsel to two Maryland firms pled guilty in Federal court to conspiracy to commit wire fraud, tax fraud, and criminal forfeiture. The firms were awarded millions of dollars in Federal contracts, pursuant to small business and service-disabled veteran-owned small business

set-asides. Competitors had protested the two firms' awards several times, based on affiliation issues and size determination matters. However, each time SBA had found the firms to be small businesses. It was determined that the former counsel knowingly and intentionally caused false documents to be submitted in relation to Government contract proposals and small business size protests, while failing to pay taxes on various funds earned from the two firms. This continuing investigation is being conducted jointly with the IRS, DCIS, DOL OIG, and AFOSI.

Five Individuals and Three Businesses Suspended from Doing Business with SBA for Procurement Fraud Scheme

On June 25, 2015, SBA suspended five individuals and three businesses from doing business with SBA. The suspension is related to a previous June 2, 2015, indictment of four individuals in West Virginia for their alleged role in a procurement fraud scheme. A construction company allegedly inflated the dollar amounts that subcontractors submitted on invoices. The company then submitted these inflated invoices to the Government in a bid proposal for a Section 8(a) set-aside contract, which was subsequently awarded to the company. In October 2014, a construction manager involved in the scheme was sentenced in Federal court to 2 years of probation after pleading guilty to conspiracy to defraud the Government with respect to claims. The investigation continues in conjunction with the U.S. Attorney's Office, DCIS, FBI, Department of Veteran Affairs OIG, and DOL OIG.

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

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