Office of Inspector General

October & November 2015

Business Loans

California Attorney Sentenced to Pay $1.62 Million in Restitution in Addition to Serving 2 Years in Federal Prison

On October 26, 2015, a California attorney was sentenced in Federal court to pay $1.62 million in restitution for his involvement in fraudulently obtaining guaranteed business loans from the U.S. Small Business Administration (SBA), under the Section 7(a) Program. The individual had previously been sentenced in Federal court to 2 years in Federal prison and 36 months of supervised release. He previously had pled guilty to wire fraud for his participation in a scheme in which a father, his stepdaughter, and a former attorney defrauded a small business lending firm of proceeds from loans to purchase two California gas station businesses. SBA loans totaled approximately $4.5 million.

The attorney had represented the father in Federal court for defrauding SBA and financial institutions to obtain approximately $5 million in business loans to purchase a gas station and car wash business. During this time, the attorney and father formed a petroleum company. To conceal the father's poor credit and pending litigation, he, his stepdaughter, and the attorney recruited a former attorney with a good credit history to pose as the petroleum company's owner. After the loans to purchase the gas stations were completed, ownership would transfer to the father without the lender being informed. In addition, the attorney, former attorney, father, and others represented to the lending firm that the former attorney and the petroleum company were making a $2.1 million down payment, when in fact no such payment was made. After the loans were funded, the attorney received $250,000. His restitution hearing is forthcoming, with the loss to the lender being approximately $3.6 million. This investigation was conducted jointly with the Federal Bureau of Investigation (FBI).

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Iowa Woman and Man Sentenced for Roles in $1.4 Million Fraud Scheme

On October 23, 2015, an Iowa woman was sentenced in Federal court to 3 years of probation and ordered to forfeit $10,000. She was previously charged by criminal information for false entry in a bank record. On November 9, 2015, a commercial account customer of an Iowa bank was sentenced in Federal court to 13 months in prison and 5 years of probation, and was ordered to pay $121,700 in restitution for bank fraud.

With the assistance of a former senior bank vice president, both individuals acquired loans by filling out applications without the knowledge or consent of the borrowers and forging their signatures. The woman received a $28,050 loan, which was used for personal expenses. The man received loans worth nearly $365,300 and used the proceeds for personal expenses, business operating expenses, and to make payments for his delinquent loans.

The investigation revealed that the senior vice president assisted bank customers with fraudulently acquiring 20 nominee loans totaling approximately $1.4 million—one of which was a $900,000 SBA loan. To date, three other individuals have pled guilty concerning this commercial loan fraud scheme. This ongoing investigation is being conducted in conjunction with the Federal Deposit Insurance Corporation Office of Inspector General (OIG), Iowa Department of Criminal Investigation, and FBI.

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Philadelphia Business Owner Found Guilty in Fraud Scheme

On November 5, 2015, the owner of a Philadelphia business was found guilty in Federal court 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 verdict resulted from his scheme to defraud banks, the Internal Revenue Service (IRS), SBA, and the Philadelphia School District of hundreds of thousands of dollars. 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. His company had received three SBA-guaranteed loans totaling $50,000. The loans defaulted and were charged off. During collection proceedings, he made false statements regarding repayment ability pertaining to two of the loans. The investigation was conducted jointly with the FBI, IRS Criminal Investigation, and the U.S. Department of Education, with the cooperation of the Philadelphia School District's OIG.

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Chicago Loan Officer Pleads Guilty for Involvement in Obtaining $2.1 Million in Fraudulent Mortgage Loans

On November 12, 2015, a Chicago loan officer pled guilty in Federal court to making false statements on loan and credit applications. The investigation found that, between 2006 and 2011, she and 2 owners of a property management firm took part in a mortgage fraud scheme to obtain more than $2.1 million in mortgage loans for 14 properties. The three persons submitted false documents and made false statements to lenders.

In addition, between 2006 and 2008, the two owners obtained individuals' personal identifying information and made false statements in applications for lines of credit and credit card accounts without the consent of the purported applicants. During the same time, they fraudulently obtained a $35,000 bank loan guaranteed by SBA. They used the personal identifying information of a mentally disabled man and caused him to sign personal guarantees for mortgages, bank loans, and the SBA loan. The two owners did this despite knowing that the man did not have the financial means to repay the loans. Finally, the investigation showed that loan proceeds were used for purposes unrelated to their business. This is an ongoing joint investigation with the U.S. Department of Education OIG, the Federal Housing Finance Agency OIG, the U.S. Department of Housing and Urban Development (HUD) OIG, and the FBI.

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Maryland Man Sentenced to 4 Years in Prison for Bank Fraud

On November 24, 2015, a Maryland man was sentenced in Federal court to 4 years in prison and 5 years of supervised release for bank fraud, conspiring to commit bank fraud, and destroying records in a Federal investigation. He was also ordered to forfeit $2.27 million.

The investigation revealed that the man and others encouraged prospective borrowers using the services of two loan brokerage firms to apply for business loans through SBA's Section 7(a) Guaranteed Loan Program. Small business owners are required to invest a certain amount of their own money into the business before they can qualify for such loans. The man compiled and submitted to lenders the documentation necessary to substantiate the borrowers' equity injection and ability to repay the SBA loans, as well as documents needed for other commercial loans.

From 2006 to April 2014, he and others defrauded financial institutions by submitting false copies of the borrowers' monthly bank statements to reflect more money than was actually in the borrowers' accounts. They also allegedly prepared and submitted false tax returns for the borrowers which inflated the borrowers' income. The financial institutions relied on the false information to lend funds to the borrowers, resulting in loan broker commissions being paid to the two firms.

The man was responsible for brokering 76 SBA loans to 13 different SBA lenders and 17 loans to other commercial loan lenders. The forecasted loss amount for non-SBA loans and SBA loans is $54.62 million. The investigation was worked in conjunction with the U.S. Postal Inspection Service.

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Disaster Loans

Louisiana Woman Pleads Guilty for Involvement in Disaster Loan Fraud

On October 21, 2015, a Louisiana woman pled guilty in Federal court to one count of false statements. In January 2006, SBA approved a disaster loan in the amount of $196,700 to the woman and her husband. The couple defaulted on the loan, and SBA proceeded to garnish the wages of the husband. In December 2011, SBA stopped receiving payments in connection with the garnishment. SBA was informed that the employer had stopped payments after receiving what appeared to be a letter from SBA, which stated that the obligation to SBA had been fulfilled. The investigation revealed that the wife had forged the letter and the husband delivered it to his employer, after having been told by his wife that the letter was from SBA.

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New Jersey Man Pleads Guilty After Fraudulently Receiving $201,722 in Hurricane Sandy Assistance Funds

On November 30, 2015, a New Jersey man pled guilty in State court to third-degree theft by deception in connection with filing false applications to collect Federal relief funds after Hurricane Sandy. He had received $201,722 by filing fraudulent applications for a Federal Emergency Management Agency grant and for State grants under the Homeowner Resettlement Program and the Reconstruction, Rehabilitation, Elevation, and Mitigation Program, which are funded by HUD and administered by the New Jersey Department of Community Affairs (DCA). He also received $16,487 from two rental assistance programs funded by the New Jersey Department of Human Services. Finally, the man had applied for an SBA disaster home loan that was declined. He had claimed that a storm-damaged home was his primary residence, although he allegedly was living elsewhere with his girlfriend. This case was investigated jointly by a task force comprised of SBA OIG, HUD OIG, Department of Homeland Security OIG, and the New Jersey DCA, under the direction of the New Jersey Office of the Attorney General.

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Government Contracting

New York Firm and President Agree to Pay $20 Million to Settle Qui Tam Complaint

On October 5, 2015, a New York firm and its president entered into a settlement agreement with the United States Department of Justice to resolve a False

Claim and Small Business Acts action. The defendants agreed to pay $20 million to settle the complaint. The action was initiated upon receipt of a *qui tam* complaint claiming that the firm fraudulently self-certified as a woman-owned small business (WOSB) to bid and obtain Government defense contracts when, allegedly, the husband managed the daily operations of the company. Between 2000 and 2009, the company obtained $118 million in Government contracts as a WOSB. This was a joint investigation with the Defense Criminal Investigative Service (DCIS) and Air Force Office of Special Investigations.

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Missouri Woman and Man Sentenced After Fraudulently Receiving Over $7 Million in Funding Intended for Service-Disabled Veterans

On October 20, 2015, a Missouri woman was sentenced to 20 months in prison and ordered to pay a monetary judgment of $30,000. The woman had previously pled guilty in a Federal court in Kansas to wire fraud and aiding and abetting.

On November 4, 2015, her son was sentenced in Federal court to 51 months of imprisonment and 3 years of supervised release. He was also ordered to pay a $30,000 monetary judgment. The man had previously pled guilty to conspiracy to commit fraud against the United States, major program fraud, and wire fraud.

The investigation showed that the woman, her husband, her son, and the majority owner of a different business conspired to defraud the Government to obtain service-disabled veteran-owned small business (SDVOSB) contracts. She, her husband, and her son made false statements so that their Kansas construction company could obtain SDVOSB status and bid on contracts awarded under that program. As part of his guilty plea, the husband admitted to fraudulently claiming service-disabled veteran status. The investigation showed that he was never classified as a service-disabled veteran.

Moreover, the investigation found that the fourth individual, who was the majority owner of a construction firm, falsely claimed to have worked for the Kansas company and conspired with the others to use that company as a pass-through business for his construction firm. The Kansas company obtained more than $6.7 million in SDVOSB set-aside contracts from the U.S. Department of Veterans Affairs (VA) and approximately $748,000 in SDVOSB set-aside contracts from the U.S. Department of Defense before the scheme unraveled. This is a joint investigation with the General Services Administration OIG, VA OIG, and DCIS.

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Man Debarred from Government Contracting After Investigation Revealed Fraud Scheme

On November 9, 2015, as the result of a Federal investigation, the U.S. Air Force debarred a man and his Maryland-based Section 8(a) technology firm from Government contracting and from directly or indirectly receiving the benefits of Federal assistance programs for 57 months. The investigation disclosed that the man passed through numerous 8(a) set-aside Federal contracts to the owner of a Virginia-based perimeter security company in exchange for a 4.5 percent fee on all contracts awarded to his firm. The man was sentenced to a 21-month prison sentence. This investigation was conducted jointly with the Air Force Office of Special Investigations (AFOSI), U.S. Department of Interior OIG, DCIS, and Social Security Administration OIG.

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Maryland Man Ordered to Serve 8 Years in Prison and Pay $1.6 Million in Restitution and $30 Million in Forfeiture

On November 20, 2015, a Maryland man was sentenced in Federal court to 8 years of incarceration, to be followed by 3 years of supervised release. He was also ordered to pay $1.6 million in restitution, $492,961 in tax restitution, a $200 special assessment, and $30 million in forfeiture. The man and his wife had respectively pled guilty to conspiracy to commit wire fraud and tax evasion. They were controlling corporate officers and majority shareholders of an engineering services firm and a business support services company.

Both companies were awarded millions of dollars in Federal contracts, pursuant to small business and SDVOSB set-asides. Competitors had protested the companies' eligibility several times, based on affiliation issues and size determination matters. Each time SBA had found the firms to be small businesses. However, the investigation found that both firms submitted materially false documents to SBA in order to be awarded each contract. This investigation was conducted jointly with the IRS, DCIS, Department of Labor OIG, and AFOSI.

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Maryland Man Debarred from Government Contracting for Defrauding the Government of Over $20 Million

On October 23, 2015, in light of an OIG investigation, a Maryland man was debarred from Government contracting and directly or indirectly receiving benefits of Federal assistance programs. The investigation disclosed that the individual conspired with others to orchestrate a Federal contract scam that allegedly cost the Government more than $20 million. Specifically, he provided false information in order to secure lucrative contracts for his company. This investigation was conducted jointly with the FBI, IRS Criminal Investigation, DCIS, and the U.S.

Army Criminal Investigation Command, under the direction of the U.S Attorney's Office, District of Columbia.

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Agency Management

Report No. 16-02: Independent Auditors' Report on the SBA's FY 2015 Financial Statements

On November 16, 2016, OIG issued Report No. 16-02, *Independent Auditors' Report on the SBA's FY 2015 Financial Statements*. We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to audit SBA's consolidated financial statements for fiscal year (FY) 2015. This audit is an annual requirement of the Chief Financial Officers' Act of 1990 and was conducted in accordance with *Generally Accepted Government Auditing Standards*; the Office of Management and Budget Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*; and the U.S. Government Accountability Office's *Financial Audit Manual* and *Federal Information System Controls Audit Manual.* KPMG reported that:

- The financial statements were fairly presented in all material aspects in conformity with U.S. generally accepted accounting principles.
- There were no material weaknesses in internal control.
- There is a significant deficiency related to SBA's information technology security controls, which has been identified in the past.

There is one instance of noncompliance with laws and regulations related to the Debt Collection Improvement Act of 1996, which also has been reported in the past.

KPMG noted that SBA management identified a matter that may be reported as a violation of the Antideficiency Act. The outcome of this matter and any resulting ramifications is not presently known.

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Report 16-03: Independent Auditors' Report on the SBA's FY 2015 Special-Purpose Financial Statements

On November 17, 2015, OIG issued Audit Report 16-03, *Independent Auditors' Report on the SBA's FY 2015 Special-Purpose Financial Statements*. We contracted with the independent certified public accounting firm, KPMG, to audit SBA's reclassified balance sheet as of September 2015 and 2014, and the reclassified statements of net costs and changes in net position and Federal trading partner note (referred to as special-purpose financial statements) for FY 2015, ending September 30, 2015. The independent auditor performed the audit in accordance with the Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements,* and the *Treasury Financial Manual,* Part 2, Chapter 4700 (TFM 2-4700).

KPMG reported that the statements, including the Federal trading partner note, present SBA's financial position for FY 2014 and 2015 fairly in all material respects. Also, the results of operations and the changes in net position for the period are in accordance with U.S. generally accepted accounting principles, and the presentation is in conformance with the requirements of TFM 2-4700.

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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
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** 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.*

We welcome your comments concerning this update or other OIG publications.

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