



## Office of Inspector General U.S. Small Business Administration

April 2008 Update

### *Business Loan Programs*

Ongoing Investigation Results in Sentencing. In January 2007, agents from the SBA OIG and the U.S. Secret Service arrested 18 individuals sought in connection with a scheme in which a lender's former executive vice president and others not employed by the lender conspired to fraudulently qualify loan applicants for SBA-guaranteed loans. The scheme involved at least 76 fraudulent loans totaling over \$76 million. The following case is part of this ongoing investigation, which is being conducted jointly with the U.S. Secret Service.

- On March 3, 2008, the former president of a gas station and convenience store in Clio, Michigan was sentenced to 24 months in prison followed by 36 months of supervised release. He was further ordered to pay \$868,455.83 in joint and several restitution to an SBA lender. The former president, together with a former manager, previously pled guilty to conspiracy in connection with a \$944,000 loan to the gas station. The investigation determined that the two individuals conspired with others to fraudulently obtain the loan, with the former president serving as a "straw buyer." The fraud involved numerous false equity injection documents, including a phony gift affidavit signed by the former manager. The business failed within months and caused the SBA to purchase its guaranty; however, the lender repaid the guaranty during the course of the investigation.

SBIC Owner Sentenced. On March 17, 2008, a part owner of a Small Business Investment Company (SBIC) was sentenced to eight months confinement, three years supervised release, and \$158,658 in restitution. She had previously pled guilty to Interstate Transportation of Stolen or Fraudulently Obtained Property in connection with her role in stealing more

than \$1.9 million from the SBIC, which was licensed and funded by SBA to lend money to start-up technology businesses. She was also part owner of the SBIC's general partner and another firm. She and others participated in the theft of the SBIC's funds by issuing checks, wire transfers, and other payments for their own personal benefit to and through one of the partner companies. They concealed the thefts by falsifying partner company records to make it appear that the payments were for salary or shareholder distributions. Sentencing had been delayed due to her cooperation with federal authorities in other investigations relating to the SBIC and her now ex-husband, who was the former managing partner of the SBIC. The OIG is conducting this investigation jointly with the Federal Bureau of Investigation (FBI).

### *Disaster Loan Program*

Texas Business Owners Sentenced. On April 25, 2008, two co-owners of a lumber company in Sour Lake, Texas, were sentenced in U.S. District Court for the Eastern District of Texas. The first owner was sentenced to sixty days home confinement and four years probation. The other was sentenced to sixty days incarceration, sixty days home confinement, and three years supervised release. They were also ordered to collectively pay a total of \$25,184.92 in restitution. On January 16, 2008, a jury found the two defendants guilty of making false statements to SBA in connection with an Economic Injury Disaster Loan (EIDL). They purported to own several vacant lots in Sour Lake, Texas, which they knew did not belong to them, and offered these lots to SBA as collateral in order to obtain the EIDL.

Church Pastor Pleads Guilty. On April 10, 2008, a Louisiana pastor pled guilty to one count of mail fraud. He was previously charged via a criminal information with using his position as the pastor of a church to apply for an SBA physical disaster loan in

the amount of \$252,000, and for a grant in the amount of \$35,000 from the Bush-Clinton Katrina Fund, to rebuild the church. He caused the SBA to wire transfer \$10,000, which he intended to use for his own benefit, to a bank account that he controlled. He also caused the \$35,000 to be sent to his home address and used the funds for his own personal benefit. The pastor also admitted that he received \$13,000 in kickbacks from a furniture company for falsely claiming that the company delivered items to the church. This investigation is being conducted jointly with the FBI.

Florida Man Sentenced. On April 22, 2008, a Gulf Breeze, Florida man was sentenced to four months in prison, three years supervised release (with four months home detention), and restitution of \$40,414.73. He previously pled guilty to two counts of making false statements on his application for disaster assistance by claiming that he had sustained damage to his second-floor apartment located in the French Quarter of New Orleans. The apartment complex where he resided was in an area that did not flood and, therefore, his unit sustained little or no damage as a result of Hurricane Katrina. He received an SBA disaster loan of \$40,000 for personal property losses.

## ***Government Contracting and Business Development***

Five Defendants Sentenced in Texas. On April 18, 2008, five people were sentenced in the Western District of Texas after pleading guilty to committing acts of bribery, kickbacks, and disclosure of bid information in order to ensure that a certified 8(a) firm located in San Antonio, Texas received numerous multi-million dollar government contracts.

- A coordinator/project officer with the U.S. Medical Command at Fort Sam Houston, was sentenced to seven years imprisonment and three years supervised release.
- A civilian contracting officer at Fort Sam Houston was sentenced to seven years imprisonment and three years supervised release.
- A contract government employee at Fort Sam Houston was sentenced to five years imprisonment and three years supervised release.

- The owner of the certified 8(a) firm was sentenced to five years and two months imprisonment, and three years supervised release.
- A San Antonio contractor consultant was sentenced to seven years imprisonment and three years supervised release.

This case was initiated as part of an FBI task force investigating certified 8(a) firms that act as pass-through companies. The SBA OIG is conducting this investigation jointly with the FBI, Internal Revenue Service, U.S. Army Criminal Investigation Division, General Services Administration OIG, Department of Interior OIG, and the Defense Criminal Investigative Service (DCIS).

Kentucky Business Consultant Indicted. On April 8, 2008, a business consultant to a Louisville, Kentucky company was indicted on one count of making false statements to the SBA. He allegedly misrepresented the location of the company's principal office, as well as the number of employees living in a HUBZone area, in order to influence SBA to certify the company as a HUBZone business. The company subsequently received a HUBZone set-aside contract for over \$1 million for construction of a courthouse at Fort Campbell, Kentucky. The OIG is conducting this investigation jointly with the DCIS.

## ***Statutory/Regulatory/Policy Reviews***

In an effort to proactively identify and correct potential Agency inefficiency and management problems at the onset of policy and regulatory development, the OIG reviewed, cleared, and/or provided comments, as appropriate, on 6 Agency initiatives, including proposed legislation, SBA Standard Operating Procedures, and Agency notices containing directives to its employees.

This monthly update is produced by the SBA OIG,  
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