



Office of Inspector General U.S. Small Business Administration

June 2009 Update

Business Loan Programs

Maryland Cycle Shop Owner Sentenced. On June 5, 2009, the owner of a custom cycle shop in Glen Burnie, Maryland, was sentenced to serve 5 years probation and ordered to pay restitution of \$145,000 to the Anne Arundel Economic Development Center (AAEDC), Annapolis, Maryland, and a \$100 special assessment fee. He pled guilty on March 10, 2009, to one count of making false statements to the SBA. He obtained a \$120,000 SBA-guaranteed loan for the cycle shop through the AAEDC. In support of the loan application, he submitted false documentation that showed he had provided a cash injection of \$30,000 into the business when he actually had not.

Chicago Entrepreneur Sentenced. On June 12, 2009, a Chicago-area entrepreneur was sentenced to 18 months imprisonment, 3 years probation, and full restitution totaling \$708,674.20. He pled guilty on March 20, 2009, to one count of wire fraud in connection with schemes to defraud the SBA and two participating lenders. The schemes involved two SBA-guaranteed loans: a \$660,000 loan to purchase a sealant company and a \$200,000 loan to purchase an equipment rental company. An OIG investigation revealed that, at the time of his loan applications, he had been arrested and faced theft/fraud charges related to a third business that he owned. In order to obtain the two loan approvals, he concealed the felony arrest and pending charges from the SBA lenders and certified that he had never been arrested or charged with any offense. In addition, the investigation revealed that the required equity injections for both loans were falsified.

Construction Company Owner Indicted. On March 24, 2009, a part owner of a Colorado construction company was indicted and charged with two counts of submitting a false loan application. The investigation revealed that he received two SBA-guaranteed loans

totaling \$1.35 million. In order to obtain the SBA loans, he allegedly hid his criminal history, which would have precluded him from receiving the loans. Criminal history records showed that he pled guilty to embezzling over \$115,000 from an organization for which he was the executive director. He had also pled guilty to a 3rd degree assault charge. The loans subsequently defaulted, resulting in estimated losses of \$970,000. This case was initiated based on a referral from the Federal Bureau of Investigation (FBI). The OIG is conducting this investigation jointly with the FBI.

Government Contracting and Business Development

Illinois Couple Charged with Conspiracy. On March 23, 2009, an Illinois couple and their company were charged with conspiracy to defraud the government. In addition, the husband was charged with one count of wire fraud. He was the former associate director, U.S. Department of Veterans Affairs (VA), Consolidated Mail Outpatient Pharmacy, Hines, Illinois, (Hines CMOP). The couple and the company allegedly conspired with others to commit wire fraud in a scheme to fraudulently allow the company to provide temporary pharmacists to the Hines CMOP. The company was created by the couple to provide pharmacists to the Hines CMOP, and later sought SBA certification as a woman-owned, minority-owned, small disadvantaged business and SBA 8(a) Program participant. As part of the conspiracy, the couple agreed to allow another company to fraudulently masquerade as the couple's company and qualify for contracts set aside for SBA program participants. The husband claimed that the company was solely managed by his wife in order to avoid conflict of interest laws governing federal employees. During the course of the scheme, the company secretly agreed that the billing rates charged to the VA for certain

pharmacists provided by the company should be increased. Between 2000 and 2007, the couple and other unindicted co-conspirators used the company to bill the VA for more than \$8 million in services. This continuing investigation is being conducted jointly by the Department of Justice (DOJ) Antitrust Division and the VA OIG, with assistance from the SBA OIG, Defense Criminal Investigative Service (DCIS), and the U.S. Secret Service (USSS).

Disaster Loan Program

Louisiana Man Indicted. On June 18, 2009, a three count indictment was filed against a Louisiana man, charging him with two counts of theft of government funds and one count of wire fraud. According to the indictment, he falsified the address of his primary residence at the time of Hurricane Katrina when applying for an SBA disaster loan in the amount of \$110,900. He also applied for a grant from the Louisiana Road Home Program (LRHP) in the amount of \$150,000, using the same falsified address. He received both the SBA loan and the LRHP grant. The OIG is conducting this investigation jointly with the FBI and the Housing and Urban Development (HUD) OIG.

Florida Woman Sentenced. On March 27, 2009, the owner of a benefits and consulting firm in Florida was sentenced to 1 month home detention, 3 years probation, \$95,000 in restitution, and a \$100 special assessment fee. She previously pled guilty to one count of making a false statement to the SBA. The investigation revealed that she falsely stated to the SBA that her business suffered physical and economic injury as a result of Hurricane Wilma in order to get an SBA disaster loan. In addition, she used a substantial portion of the loan funds for gambling and personal expenses rather than using the funds for working capital to alleviate economic injury. This case was initiated based on a referral from SBA's Office of Disaster Assistance, Quality Assurance Team.

Louisiana Woman Sentenced. On March 24, 2009, a Louisiana woman was sentenced to 5 years probation, 200 hours of community service, and a fine of \$15,000. She was also ordered to pay full restitution to the SBA of \$59,960 and an additional \$2,000 in restitution to the Federal Emergency Management Administration (FEMA). She previously pled guilty to one count of theft of government funds. She was approved for an SBA Disaster Home Loan in the

amount of \$125,600, of which \$50,000 was disbursed, and an SBA Disaster Business Loan in the amount of \$291,600, of which \$10,000 was disbursed. The investigation revealed that, in submitting the loan applications, she falsely claimed an address in the area damaged by Hurricane Katrina as her primary residence and fraudulently represented that a building permit authorized repairs. She also submitted two fictitious repair receipts and two fraudulent residential leases. The OIG is conducting this investigation jointly with the Department of Homeland Security (DHS) OIG.

This monthly update is produced by the SBA OIG, Peter L. McClintock, Acting Inspector General.

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