



NEWS

**Edgewater, Maryland Man Pleads Guilty To Defrauding SBA Disadvantaged Small Business Program And IRS**

Fraudulently Obtained Over \$52 Million in Government Contracts, Concealed Income by Transferring Millions from Corporate Accounts to Casinos and to Pay Other Personal Expenses, and Filed False Tax Returns

FOR IMMEDIATE RELEASE

March 28 , 2014

Greenbelt, Maryland - Vernon J. Smith III, age 61, of Edgewater, Maryland, pleaded guilty today to conspiring to defraud the United States in connection with schemes to fraudulently seek federal contracts under a Small Business Administration program to assist socially and economically disadvantaged small businesses; and to defraud the IRS.

The guilty plea was announced by United States Attorney for the District of Maryland Rod J. Rosenstein; Small Business Administration Inspector General Peggy E. Gustafson; Special Agent in Charge Robert Craig of the Defense Criminal Investigative Service - Mid-Atlantic Field Office; Special Agent in Charge Thomas J. Kelly of the Internal Revenue Service - Criminal Investigation, Washington, D.C. Field Office; and General Services Administration Inspector General Brian D. Miller.

"Today's guilty plea sends a strong message to those who lie to obtain preferences for federal contract awards," said Inspector General Peggy E. Gustafson of the Small Business Administration. "With our interagency partners, SBA OIG will continue to pursue those who defraud the government by lying to gain access to federal set-aside contracts. We would like to thank the U.S. Attorney's Office for its leadership and professionalism throughout this investigation."

"Corruption of the nature uncovered throughout the course of this investigation destroys confidence in the Government's ability to act as a fair and effective steward of taxpayer dollars. This plea today, demonstrates the commitment of the Defense Criminal Investigative Service and its law enforcement partners to prosecute fraud to the fullest extent of the law," said Robert E. Craig, Special Agent in Charge, Mid Atlantic Field Office, Defense Criminal Investigative Service.

"Conspiring to defraud the government in a decade long scheme and filing false tax returns is unlawful," said Thomas J. Kelly, Special Agent in Charge, IRS Criminal Investigation, Washington DC Field Office. "Bringing individuals to justice, such as Vernon Smith, who intentionally engage in this type of activity in order to defraud the IRS, ranks high on the list of IRS- CI's enforcement priorities."

"This complicated scheme boils down to lying and cheating to obtain government contracts," said GSA Inspector General Brian D. Miller. "I appreciate the hard work of our special agents, law enforcement partners, and U.S. Attorney's Office."

According to his plea agreement, Vernon Smith was an owner and officer of Capitol Contractors, which provided roofing and construction services, primarily to U.S. government agencies. On March 3, 1993, Capitol Contractors was certified to participate in the SBA's Section 8(a) program, which provides assistance to socially and economically disadvantaged small businesses. The majority owner of Capitol Contractors was a Native American. A small business can only participate in the Section 8(a) program for nine years before it "graduates" from the program and is no longer eligible to obtain government contracts reserved for Section 8(a) program participants. Shortly before Capitol Contractors graduated from the program in March 2002, the majority owner sold his interest in the company to Vernon Smith, who became the company's sole owner and managed the day-to-day operations of the company. Vernon Smith did not qualify as a socially and economically disadvantaged individual under the Section 8(a) Program.

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In August 1999, Vernon Smith arranged for Anthony Wright, an African-American who was a former roofer and project manager at Capitol Contractors, to form a new company to participate in the Section 8(a) program upon Capitol Contractors' graduation from the program. On August 11, 1999, Wright incorporated Platinum One Contracting in Maryland. Wright was the president and 60% owner, and Smith's son was vice president and owned the remaining 40% of the corporation. In reality, Vernon Smith exercised complete and undisclosed control over Platinum's operations, including the day-to-day management and long term decision making for the company.

Vernon Smith admits that from August 1999 to June 2013, he conspired to defraud the SBA in several ways. For example, Smith directed Wright to submit an application to the SBA for certification in the Section 8(a) program which did not reveal that Vernon Smith: exercised control over the company; had previously supervised Wright; owned more than 10% of Capitol Contractors; and was related to an owner of Platinum. From May 2004 through April 2010, Vernon Smith also caused Platinum to submit annual updates to the SBA Section 8(a) program that contained false information, including that the company was controlled by a socially and economically disadvantaged individual, and that no non-disadvantaged member of Platinum's management received compensation that exceeded that received by Wright. In fact, Vernon Smith controlled the company and Platinum's payments to Vernon Smith and other corporate officers far exceeded payments received by Wright for 2004 through 2009. Based on the fraudulent application and annual updates, Platinum One received more than \$52 million in contracts from the federal government under the Section 8(a) program, to which it was not entitled. The total loss to the government resulting from Vernon Smith's illegal conduct, regarding the illicit profit he received by defrauding the SBA, and depriving a legitimate Section 8(a) contractor of such profit, is \$6,194,828

In addition, Vernon Smith and a co-conspirator transferred millions of dollars from Platinum to bank accounts in their own names, to Capitol Contractors, to casinos on their own behalf; and to pay for personal expenses charged to Platinum One's credit cards. These expenses included: extensive dental work, veterinary visits for pets, lavish vacations, and limousine transportation to casinos in Atlantic City, New Jersey, among others.

Vernon Smith admits that he signed false corporate and personal tax returns for 2005 and 2006. Smith knew that the cost of goods sold and payments to contractors reported on the corporate returns were false because almost all of that money was paid to, and for the benefit of, Smith at casinos. He also knew that the income reported on his personal income taxes omitted hundreds of thousands of dollars that Capitol Contractors had paid to, and for his benefit. As a result, Smith owed additional personal income tax to the IRS totaling \$264,105, and Capitol Contractors owed an additional \$574,911 to the IRS for tax years 2005 and 2006. The total tax loss resulting from the conspiracy to defraud the IRS is \$839,016.

Vernon Smith faces a maximum sentence of five years in prison for the conspiracy. U.S. District Judge Paul W. Grimm has scheduled his sentencing for July 2, 2014, at 9:30 a.m.

Anthony Wright, age 42, of Bowie, Maryland, pleaded guilty on June 18, 2013, to his role in the scheme and is scheduled to be sentenced on June 23, 2014.

Today's announcement is part of efforts underway by President Obama's Financial Fraud Enforcement Task Force (FFETF) which was created in November 2009 to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. With more than 20 federal agencies, 94 U.S. attorneys' offices and state and local partners, it's the broadest coalition of law enforcement, investigatory and regulatory agencies ever assembled to combat fraud. Since its formation, the task force has made great strides in facilitating increased investigation and prosecution of financial crimes; enhancing coordination and cooperation among federal, state and local authorities; addressing discrimination in the lending and financial markets and conducting outreach to the public, victims, financial institutions and other organizations. Over the past three fiscal years, the Justice Department has filed more than 10,000 financial fraud cases against nearly 15,000 defendants including more than 2,700 mortgage fraud defendants. For more information on the task force, visit www.stopfraud.gov.

United States Attorney Rod J. Rosenstein praised the SBA Office of Inspector General; Defense Criminal Investigative Service; IRS Criminal Investigation; and the GSA Office of Inspector General for their work in the investigation. Mr. Rosenstein thanked Assistant United States Attorney Gregory R. Bockin and Trial Attorney Kenneth C. Vert of the U.S. Department of Justice Tax Division, who are prosecuting the case.

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