

THE UNITED STATES ATTORNEY'S OFFICE  
DISTRICT *of* MARYLAND

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**Edgewater, Maryland Man Sentenced To 42 Months In Prison For Defrauding SBA And IRS Of More Than \$7 Million**

**Greenbelt, Maryland** - U.S. District Judge Paul W. Grimm sentenced Vernon J. Smith III, age 61, of Edgewater, Maryland, today to 42 months in prison, followed by three years of supervised release, for conspiring to defraud the United States in connection with schemes to fraudulently seek federal contracts under a Small Business Administration (SBA) program to assist disadvantaged small businesses; and to defraud the IRS. Judge Grimm found that the actual loss to the government as a result of Smith's offenses was \$7,033,844, and entered an order requiring Smith to pay that amount in restitution and forfeiture.

The sentence 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 Acting Inspector General Robert C. Erickson.

"When individuals defraud the government by falsely claiming eligibility for SBA's 8(a) Business Development Program, the biggest victims are the taxpayers and legitimate small businesses," said Inspector General Peggy E. Gustafson of the Small Business Administration. "We are committed to helping ensure that only eligible disadvantaged small businesses benefit from the Section 8(a) program. I want to thank the U.S. Attorney's Office for its dedicated leadership and professionalism in pursuit of justice served today."

"Americans were victimized twice by the greed of Vernon Smith. Not only did Smith decide not to pay his fair share of federal taxes and ultimately defraud the IRS out of \$839,016, his actions also denied legitimate business owners of socially and disadvantaged groups the opportunity to receive government contracts to which they were entitled," said Thomas J. Kelly, Special Agent in Charge, IRS Criminal Investigation, Washington D.C. Field Office. "Today's sentencing should put corrupt business owners, like Vernon Smith, on notice that the government will get to the truth no matter how they may try to conceal their involvement and income."

"Contractors that defraud the United States to get GSA contracts will be held accountable," said General Services Administration Acting Inspector General Robert C. Erickson.

Vernon Smith was the president and sole owner of Capitol Contractors since 2002. Capitol Contractors was a Maryland corporation with its headquarters in Capitol Heights, Maryland and later Edgewater, Maryland. Capitol Contractors had provided roofing and construction services but was largely dormant after 2002.

In 1999, Vernon Smith caused a new roofing and construction company, Platinum One Contracting, Inc. ("Platinum") to be incorporated in Maryland. Although Vernon Smith installed Anthony Wright, an African-American who was a former roofer and project manager at Capitol Contractors, to be the president and 60% owner, and Smith's son was vice president and owned the remaining 40% of Platinum, Vernon Smith exercised complete and undisclosed control over Platinum's business operations. Vernon Smith's wife, Georgia Smith was in charge of Platinum's accounting, and acted as the de facto Controller 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.

Vernon Smith and his wife, Georgia Smith also transferred millions of dollars from Platinum to bank accounts in their own names, to casinos on their own behalf, to Capitol Contracting and another company owned by Vernon Smith, and to credit card companies to pay for personal expenses that Vernon and Georgia Smith charged to Platinum's corporate credit cards, including extensive dental work, veterinary visits for personal pets, lavish vacations, a Royal Caribbean cruise, limousine transportation to casinos in Atlantic City, N.J., funeral expenses for a family relative, fencing for their personal residence, among others. Georgia Smith also mischaracterized numerous payments to casinos as subcontractor expenses.

In addition, Vernon and Georgia Smith signed false corporate and personal tax returns for 2005 and 2006. The Smiths 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, Georgia and Vernon Smith at casinos. They also knew that the income reported on their personal income taxes omitted hundreds of thousands of dollars that Capitol Contractors had paid to, and for their benefit. As a result, the Smith's 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 Georgia and Vernon Smith's conspiracy to defraud the IRS is \$839,016.

Georgia Smith, age 52, of Edgewater, Maryland, pleaded guilty to conspiring to defraud the United States by filing false tax returns and is scheduled to be sentenced on July 21, 2014 at 11:00 a.m. Anthony Wright, age 42, of Bowie, Maryland, pleaded guilty to his role in the scheme and was sentenced on September 15, 2014, at 9:30 a.m.

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](http://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.