

CLIENT ALERT

DOJ Charges Individual for Using COVID-19 Paycheck Protection Program for Personal Expenses

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The Department of Justice (DOJ) on Friday reemphasized its commitment to protecting the federal programs providing COVID-related aid when it announced charges against a Beverly Hills film producer for his allegedly false statements to the Small Business Administration (SBA). Where recent Paycheck Protection Program (PPP) fraud cases focused on false statements in the applications, the recent DOJ charges focus on the inappropriate use of the PPP funds. The DOJ alleges that William Sadleir sought more than \$1.7 million dollars in forgivable PPP loans guaranteed by the SBA under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. In his application to the SBA, Sadleir certified that he would use the funds for legitimate uses. He allegedly claimed that the funds would be used for payroll expenses for his three film-production and distribution companies. The Southern District of New York United States Attorney's Office also announced charges against Sadleir relating to two additional, but separate, fraudulent schemes.

The DOJ alleges that Sadleir's certifications regarding the purported use of the funds were false. According to the DOJ, Sadleir instead immediately transferred over half the funds to his personal bank account and used the money to pay off his personal credit card debts, including a personal car loan, among other personal expenses. Sadleir allegedly failed to use PPP loans for their intended purpose of payroll costs, interest on mortgages, rent, and utilities. In its complaint, the DOJ charges Sadleir with wire fraud, bank fraud, false statements to a financial institution, and false statements to the SBA for his alleged misuse of the PPP funds for personal benefit.

The DOJ and the Federal Deposit Insurance Corporation Office of Inspector General (FDIC OIG) emphasized their commitment to protecting federal plans such as the PPP in the DOJ's press release. Special Agent in Charge Wade V. Walters of the FDIC OIG stated, "When an individual cheats the Paycheck Protection Program out of money, it deprives hard-working Americans and deserving small businesses. The FDIC OIG is committed to working with our law enforcement partners to investigate financial crimes in order to preserve the integrity of the nation's banking sector." Special Agent in Charge Weston King of the SBA OIG also said: "SBA OIG applauds due diligence by SBA's lending partners to maintain the integrity of the lending programs." These charges were publicly released shortly after similar but unrelated charges were filed by federal prosecutors against other individuals in New York and Texas. Companies and business owners can expect that use of the PPP funds they receive will be scrutinized by regulators. Care should be taken to document use of PPP and other CARES Act funds to demonstrate during an audit or investigation that the received funds were used for their intended purpose.

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