COMPTROLLER'S INVESTIGATIVE REPORT

Textile Corporation of America

June 29, 2021

Jason E. Mumpower
Comptroller of the Treasury

DIVISION OF INVESTIGATIONS

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Comptroller

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Tennessee Department of Economic and Community Development
Bob Wolfe, Commissioner
William R. Snodgrass Tennessee Tower
312 Rosa L. Parks Avenue
Nashville, TN 37243

Commissioner Wolfe:

The Office of the Comptroller of the Treasury conducted an investigation of selected records of the Textile Corporation of America, and the results are presented herein. This investigation was conducted in conjunction with the Tennessee Bureau of Investigation, Federal Bureau of Investigation, US Department of Homeland Security – Office of Inspector General, and the Tennessee Valley Authority – Office of Inspector General. The findings in this report have been reviewed with the Office of the United States Attorney for the Eastern District of Tennessee.

Copies of this report are being forwarded to Governor Bill Lee, the State Attorney General, the District Attorney General of the 12th Judicial District, certain state legislators, and various other interested parties. A copy of the report is available for public inspection in our Office and may be viewed at http://www.comptroller.tn.gov/ia/.

Sincerely,

Jason E. Mumpower
Comptroller of the Treasury

JEM/MLC

INVESTIGATIVE REPORT

TEXTILE CORPORATION OF AMERICA

The Office of the Comptroller of the Treasury, in conjunction with the Tennessee Bureau of Investigation, Federal Bureau of Investigation, US Department of Homeland Security – Office of Inspector General, and the Tennessee Valley Authority – Office of Inspector General, investigated allegations of malfeasance related to a grant awarded by the Tennessee Department of Economic and Community Development (ECD) to Textile Corporation of America. The investigation was limited to selected records for the period May 2017 through May 2019. The results of the investigation were communicated with the Office of the District Attorney General of the 12th Judicial District and the United States Attorney's Office for the Eastern District of Tennessee.

BACKGROUND

In 2017, ECD awarded a $3 million grant to Textile Corporation of America (TCA) for the purpose of purchasing, renovating and equipping a building in Pikeville, Tennessee that would allow for the manufacture of textiles and create new jobs for the community. TCA was a Tennessee corporation owned and managed by two brothers, Karim and Rahim Sadruddin. To obtain grant funds, TCA had to first spend its own funds for purchases authorized by the grant. Upon doing so, TCA would then become eligible to receive the grant funds through reimbursement requests. Within the first year, TCA requested and received reimbursements from grant funds totaling the entire $3 million, including the $850,000 cost of the building.

RESULTS OF INVESTIGATION

1. TCA OWNERS KARIM SADRUDDIN AND RAHIM SADRUDDIN MISAPPROPRIATED $3 MILLION IN GRANT FUNDS

Karim and Rahim Sadruddin engaged in a scheme to misappropriate $3 million in state grant funds. They did so by creating and submitting false documents to support their fraudulent grant application. ECD relied on these documents in deciding to award the grant, and TCA thus became eligible to receive a $3 million grant for which it did not qualify.

In their grant application, the Sadruddins stated that the grant funds would be used to reimburse TCA for the costs it was going to incur in connection with the purchase, rehabilitation, and retrofitting of a manufacturing facility in Pikeville, Tennessee. They additionally stated that TCA operations would provide 995 new jobs. The brothers admitted to investigators that they made multiple false statements to various public officials and others during the grant application and award process. They also admitted that Karim Sadruddin prepared and submitted a fraudulent grant application that included fabricated documents to support the false statements in the application. Rahim Sadruddin told investigators that he continued to participate in the fraudulent scheme after he became aware of his brother's actions.

Such statements and fictitious documents included the following:

- In the grant application, Karim Sadruddin stated that an established textile manufacturer, headquartered in Karachi, Pakistan, was the parent corporation of TCA, and that the manufacturer's Chief Executive Officer was also CEO of TCA. To support these statements, he created a letter that purported to be from the manufacturer, and which purportedly confirmed its relationship with TCA. **(Refer to Exhibit 1.)** Investigators discovered, and the Sadruddins admitted, that TCA was not affiliated with the manufacturer, that the manufacturer's CEO was not an officer of TCA, and that TCA had no business relationship with the manufacturer.

Exhibit 1

[redacted] | *Manufacturer and Exporter of Home Textile Products*

DATE: MAY, 17 2017

To Whom It May Concern:

This letter is written to explain the relationship of Textile Corporation of America, (TCA) and [redacted] TCA will be a TN registered corporation reporting under its parent corporation. [redacted]

Sincerely,

Karim Sadruddin

~ [redacted] Karachi, Pakistan. ~
~ [redacted] ~
[redacted]

Karim Sadruddin created and signed this letter claiming falsely that the Pakistani manufacturer was the parent corporation of TCA.

- In the grant application, Karim Sadruddin stated that TCA and the Pakistani manufacturer had 3,480 employees worldwide. He subsequently admitted to investigators that at the time he prepared and submitted the grant application, TCA in fact had no employees.

- In the grant application, Karim Sadruddin represented that the project would create 995 new jobs, and that TCA would invest $27.1 million in it. **(Refer to Exhibit 2.)** He admitted to investigators that he knew TCA would never hire and employ 995 people

in the plant and that he intentionally inflated the number of jobs to be created by the project because he believed ECD would award more money for more jobs.

Exhibit 2

4. New Job Creation and Investment Schedule

Year	* New Job Creation				** New Investment Schedule					
	Pro-duction	Main-tenance	Office	Manage-ment	Land & Building	Machinery/ Equipment	Data Equipment	Transferred Equipment	Pollution Control Equipment	Total Investment
20 17	200	10	15	10	3.50 mm	10.5 mm		3.1 mm		17.1 mm
20 18	300	20	10	10		10 mm				10 mm
20 19	200	10								0
20 20	200	10								0
20										0
Total	900	50	25	20	3.50	20.5	0	3.1		27.1

directly by the company (on company payroll).

** Please do not include working capital or inventory

Grant application filed by Karim Sadruddin.

- In the grant application, Karim Sadruddin itemized $3,098,050 of relocation expenses as a portion of TCA's proposed investment in the project. He later admitted that the stated expenses and the schedule he submitted to support it were not based upon actual information, and that the sole purpose of the schedule was to encourage ECD to award the grant to TCA.

- In the grant application, Karim Sadruddin represented that four states were in competition with Tennessee for the TCA project. However, the Sadruddins later admitted to investigators that they had only seriously considered one other state and that Karim Sadruddin falsely listed the other states on the application to induce ECD to award the grant to TCA.

- With the grant application, Karim Sadruddin submitted a copy of the 2016 audit report for the Pakistani textile manufacturer as evidence that TCA had adequate funds available to make the $27.1 million project investment required by the grant contract. Karim Sadruddin admitted to investigators that TCA had no business relationship with the manufacturer and that he submitted the audit report to make ECD officials believe falsely that TCA had enough resources to complete the project.

- Karim Sadruddin signed the application confirming the information provided was accurate. **(Refer to Exhibit 3.)** He admitted to investigators that the information in the application was all a "lie" and that he knew his claims were untrue when he signed it.

Exhibit 3

CONFIRMATION OF ACCURACY

To the best of my knowledge and belief, the information contained in this Tennessee Application for incentives is true and correct, as evidenced by my signature below.

Signature: (Authorized Representative of Applicant) Date: 5/09/17

Print Name & Title: Karim Sadruddin, Manager

Karim Sadruddin signed the application confirming falsely the accuracy of the information in the application.

2. TCA OWNERS KARIM SADRUDDIN AND RAHIM SADRUDDIN CREATED AND SUBMITTED FRAUDULENT DOCUMENTATION TO RECEIVE GRANT REIMBURSEMENT PAYMENTS

First Fraudulent Request for Reimbursement

In furtherance of the fraudulent scheme, Karim Sadruddin created a false invoice, dated August 26, 2017, purportedly for rehabilitation and retrofitting work completed on the building and paid for by TCA. **(Refer to Exhibits 4. For illustrative purposes only the top and bottom portions of the invoice are shown.)** Karim Sadruddin placed the contractor's name, address, and other identifying information on the invoice, stamped the invoice "paid," and dated and signed it to indicate TCA had paid the contractor. He also provided a fictitious schedule of work purportedly completed and a fraudulent wire transfer document that represented falsely that TCA had paid the contractor $1,406,900 for this work. In fact, invoices provided by the contractor to investigators showed only $159,364.32 of work on the building had been completed and billed at the time of the reimbursement. Moreover, bank records revealed the Sadruddins had paid only $25,000 to the contractor for this work by the reimbursement date.

Karim Sadruddin submitted the fake invoice, wire transfer document and confirmation, and the schedule of completed work via email as documentation for the reimbursement request. ECD relied on the documents and disbursed $1,406,900 of grant funds to reimburse TCA.

Karim Sadruddin admitted to investigators that at the time he created and submitted the fraudulent invoice, wire transfer, and other documents, he knew most of the work described in the invoice had not been completed and that TCA had not paid the contractor. Rahim Sadruddin admitted to investigators that he became aware that his brother submitted the false documents, and that he continued to participate in the misappropriation scheme.

Exhibit 4

[redacted], LLC
[redacted], CHATTANOOGA, TN 37416
~ OFFICE: [redacted] ~ FAX: [redacted] ~ EMAIL: [redacted].COM ~

INVOICE 7491[illegible]

26 August 2017

PAYMENT DUE BY: 16 Sep-17

$ 1,406,900.00

Work Site:
TEXTILE CORPORATION OF AMERICA
KARIM SADRUDDIN
[illegible] STREET
PIKEVILLE, GA 37367

Invoice contained errors

Pay To:
[redacted]
CHATTANOOGA, TN 37416

walls, and paint to bring up to standard and as per plans.
Order new parts to bring HVAC up to compliance and in working condition
Ordered, repaired and installed new [illegible] and glass [illegible] per plans in the admin office area

19	$ 15,000 00	$	15,000 00
21	$ 56 000 00	$	56,000 00
		$	

PAID
DATE 09-14-17 CK# VOICE Conf attached

USD TOTAL $1,406,900.00

PAYMENT DETAILS
Name of Beneficiary [redacted]
Name of Bank S[illegible]NTRUST BANK
Address of Bank [redacted] CHATTANOOGA, TN 37416
Account Number [redacted]
Routing Number [redacted]
Payment Reference 74916

OTHER INFORMATION
Phone: [illegible] [redacted]
Facsimile (423) [redacted]
[redacted]

Paid
09-14-17
KARIM SADRUDDIN

PAYMENT SHOULD BE MADE BY BANK TRANSFER OR CHECK MADE PAYABLE TO [redacted]

Karim Sadruddin created and submitted this invoice to make ECD officials believe TCA had paid the contractor for the work listed as performed.

Second Fraudulent Request for Reimbursement

In furtherance of the fraudulent scheme, Karim Sadruddin created an invoice, dated November 3, 2017, purportedly for rehabilitation and retrofitting work done on the building and paid for by TCA. He placed the contractor's name, address, and other identifying information on the invoice, stamped the invoice "paid" and dated and signed it, to represent falsely that TCA had paid the contractor**. (Refer to Exhibit 5. For illustrative purposes only the top and bottom portions of the invoice are shown.)** Sadruddin also created a fraudulent schedule of work, along with a wire transfer document to lead ECD to believe the work had been performed, and that TCA had paid $806,100 for additional rehabilitation work. ECD relied on the documents Sadruddin emailed and reimbursed TCA the remaining funds that were available under the grant. According to invoices provided by the contractor, only $65,276 additional work on the building had been actually completed and billed and TCA had paid nothing additional to the contractor.

Karim Sadruddin admitted to investigators that at the time he prepared the false invoice, he knew most of the work had neither been paid for nor performed, and that he submitted it

anyway to obtain the grant payment from ECD. Rahim Sadruddin admitted that he continued to participate in the fraudulent scheme despite being aware of his brother's submission of false documents to obtain grant payments.

Exhibit 5

[redacted] LLC
[redacted], TN 37416
~ OFFICE: [redacted] ~ FAX: [redacted] ~ EMAIL: [redacted] ~

INVOICE 74917

03 November 2017

PAYMENT DUE BY: 16-Nov-17 $ 806,100.00

Work Site:
TEXTILE CORPORATION OF AMERICA
KARIM SADRUDDIN
132 FERRO STREET
PIKEVILLE, GA 37367

Invoice contained errors

Pay To:
[redacted]
CAHATANOOGA, TN 37416

PAYMENT DETAILS
Name of Beneficiary. [redacted] LLC
Name of Bank SUNTRUST BANK
Address of Bank. [redacted], CHATTANOOGA, TN 37416
Account Number [redacted]
Routing Number [redacted]
Payment Reference: 74917

Paid
11/15/17
Karim Sadruddin

OTHER INFORMATION
Phone: (423) [redacted]
Facsimile. (423) [redacted]
[redacted]

PAYMENT SHOULD BE MADE BY BANK TRANSFER OR CHECK MADE PAYABLE TO [redacted]

False invoice fabricated by Karim Sadruddin to make ECD officials believe TCA had paid the contractor for the work listed as performed.

Summary of Grant Reimbursements

Source	Grant Reimbursements	Misappropriation Amount
ECD grant awarded based on fraudulent statements and documentation		$3,000,000
Grant reimbursements received:		
Reimbursement for purchase of building	$850,000	
Reimbursement based on first fraudulent invoice for building renovation work	$1,406,900	
Reimbursement based on second fraudulent invoice for building renovation work (fraudulent invoice and reimbursement request was $806,100, which was more than the remaining grant funds)	$743,100	
Total grant funds awarded, received and misappropriated by Sadruddins		$3,000,000

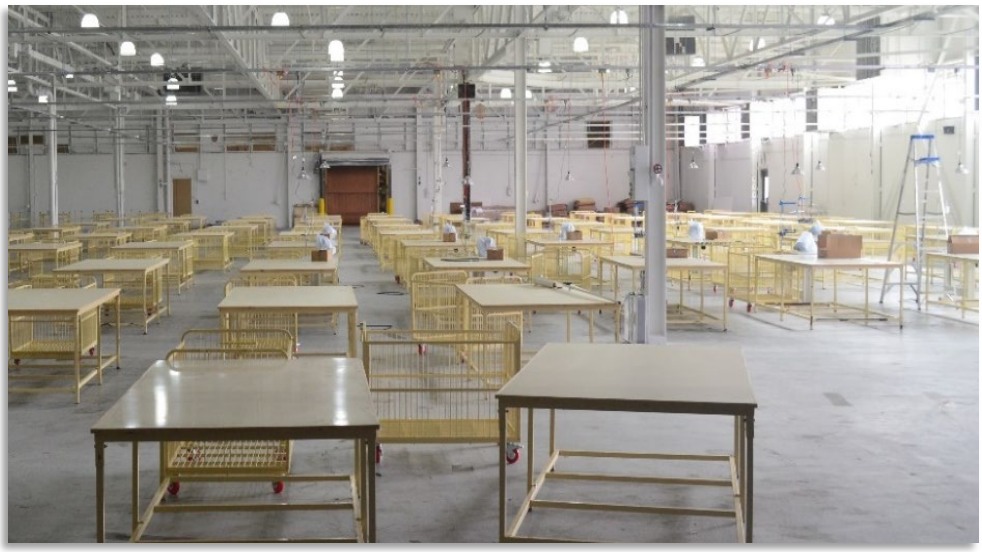
Actual Work Completed

As of January 8, 2019, TCA had completed only a minor portion of the building retrofit, and most of that work was completed in the office area. The manufacturing area of the building was not completed and only 10 sewing machines had been temporarily installed, although 300 machines were promised by the Sadruddins. No manufacturing jobs had been created. **(Refer to Exhibits 6 and 7.)**

Exhibit 6

The manufacturing area of the building was not set up for manufacturing and was used primarily for storage.

Exhibit 7



A total of 10 sewing machines were installed out of 300 promised sewing machines.

3. OWNERS KARIM AND RAHIM SADRUDDIN USED GRANT FUNDS TO INVEST IN AN UNRELATED BUSINESS VENTURE, MAKE A CAMPAIGN CONTRIBUTION, AND PAY OTHER PERSONAL EXPENSES

The Sadruddins spent most of the fraudulently obtained funds for various purposes unrelated to the grant, including the following:

Grant funds of $1.2 million used on unrelated federal contract

Karim and Rahim Sadruddin used $1,227,202 of the fraudulently obtained funds to facilitate a federal contract to provide aid to hurricane victims in Puerto Rico. The Sadruddins admitted to investigators that they used such funds to purchase and ship tarps under a FEMA disaster relief contract. The FEMA contract stipulated that the tarps could be supplied only from approved sources. The Sadruddins obtained the tarps from an unapproved source and then submitted invoices to FEMA that falsely represented they had obtained them from an approved source. FEMA initially accepted shipment of some of the tarps, but subsequently terminated the contract after discovering the Sadruddins' misrepresentation. The Sadruddins stored the remainder of the rejected tarps at the TCA building in Pikeville, Tennessee. **(Refer to Exhibit 8.)**

Exhibit 8

Pallets of stacked tarps that were purchased with ECD grant funds for the canceled FEMA contract were stored in the manufacturing area of the building.

Grant Funds of $10,000 Used for Campaign Contribution

The Sadruddins used at least $10,000 of the misappropriated grant funds to contribute to the political campaign of TCA's attorney. **(Refer to Exhibit 9.)**

Exhibit 9

Regions Wire Report 7/24/2018

From Date : 6/1/2017 To Date : 7/12/2018 For Account : [redacted]

TRN Date : 1/8/2018 TRN Number : 5782
Amount : $10,000.00 Currency : USD Rate : 0
Imad : [redacted] Adv : FED Source : BPE

DBT : D [redacted]
DEBIT VAL : 1/8/2018
GL RECON : 060
TEXTILE CORPORATION OF AMERICA LLC
303 PERIMETER CTR N STE 300 # 373
ATLANTA GA 30346-3401

CDT : * A [redacted]
CREDIT VAL : 1/8/2018
GL RECON : 001
BB&T ALABAMA
OXFORD, AL

SEND : B 103548
MID TOWN
BRANCH
ATLANTA

INTER BK :

SNDR REF NUM :
ORDERING BK :

BNF BK :

ORIG :

BNF : [redacted]
FRIENDS OF [redacted]
[redacted]
ORIG TO BNF INFO :
CAMPAIGN FUNDS

REF NUM :
BANK TO BANK INFO :

Grant funds used for political campaign contribution.

Grant Funds Used for Personal Purchases Totaling Over $93,000

The Sadruddins used at least $93,829 of the misappropriated grant funds for personal living expenses, including payments on a residential building lot and purchases of a motor vehicle and groceries. **(Refer to Exhibits 10, 11, 12 and 13.)**

Exhibit 10

Fayette Mill Direct LLC.
303 Perimeter Center North
Suite 373
Atlanta, GA 30346

64-137/611

DATE 11/12/17

PAY TO THE ORDER OF [redacted] $ 12,500.00

Twelve Thousand five hundred dollars DOLLARS

REGIONS 03

FOR Lot 200

[redacted]

Karim Sadruddin used $6,260 of grant funds as part of this payment for a residential building lot in Georgia on which his personal residence was built.

Exhibit 11

Karim Sadruddin's personal residence.

Exhibit 12

Ford pickup which was driven by the Sadruddins.

Exhibit 13

Regions Wire Report 7/24/2018

From Date : 6/1/2017 To Date : 7/12/2018 For Account : [redacted]

TRN Date : 1/8/2018 TRN Number : 5931

Amount : $54,500.00 Currency : USD Rate : 0

Imad : [redacted] Adv : FED Source : BPE

DBT : D [redacted]
DEBIT VAL : 1/8/2018
GL RECON : 060
TEXTILE MILL DIRECT INC
4110 CRAFTSMAN ST
JOHNS CREEK GA 30097-1537

CDT : * A [redacted]
CREDIT VAL : 1/8/2018
GL RECON : 001
WELLS FARGO BANK, NA
SAN FRANCISCO, CA

SEND : B 103548
MID TOWN
BRANCH
ATLANTA

INTER BK :

SNDR REF NUM :
ORDERING BK :

BNF BK :

ORIG :

BNF : [redacted]
[redacted] LLC DBA AN FORD
[redacted] E ST
Auburn AL 36832

VIN number of Ford truck

ORIG TO BNF INFO :
VIN# 1FTEW1EG1HFB85829
STOCK# HFB85829

REF NUM :
BANK TO BANK INFO :

This $54,500 wire transfer of grant funds purchased the Ford pickup shown which was driven by the Sadruddins.

Exhibit

Pallets of linens imported by the Sadruddins and stored in the manufacturing area of the building.

4. KARIM AND RAHIM SADRUDDIN USED THE BUILDING AS A DISTRIBUTION CENTER FOR A PERSONAL TEXTILE IMPORT BUSINESS

The Sadruddins used the Pikeville, Tennessee building, for which they received grant reimbursement funds for the $850,000 purchase price, as a warehouse and distribution center for their personal textile import business. The Sadruddins repackaged and shipped imported towels and other linens to customers from the Pikeville building. **(Refer to Exhibit 14.)**

On October 23, 2019, Karim Sadruddin pled guilty to a federal Criminal Information charging him with two counts of Wire Fraud involving a Presidentially declared major disaster and emergency, and one count of Conspiracy to Commit Money Laundering in the United States District Court for the Eastern District of Tennessee, Chattanooga Division. On May 7, 2021, Karim Sadruddin was sentenced to 50 months imprisonment in the Bureau of Prisons, followed by 5 years supervised release.

On October 23, 2019, Rahim Sadruddin pled guilty to a federal Criminal Information charging him with two counts of Wire Fraud involving a Presidentially declared major disaster and emergency, and one count of Conspiracy to Commit Money Laundering in the United States District Court for the Eastern District of Tennessee, Chattanooga Division. On May 7, 2021, Rahim Sadruddin was sentenced to 50 months imprisonment in the Bureau of Prisons, followed by 5 years supervised release.

Additionally, both Karim Sadruddin and Rahim Sadruddin were jointly and severally ordered to pay restitution in the total amount of $7,005,895.76 as follows: $3,775,895.76 to the Federal Emergency Management Agency (FEMA); $3,000,000 to the State of Tennessee; and $230,000 to the Tennessee Valley Authority (TVA). Moreover, as part of their guilty pleas and plea agreements with the United States, the defendants will forfeit numerous items, including houses, a vehicle, bank accounts, and other items of personal property that were obtained with proceeds of the fraud.

On June 28, 2021, Karim Sadruddin pled guilty to a state Criminal Information charging him with one count of Theft of Property over $60,000, a Class B Felony, related to the fraudulent scheme, in the Circuit Court of Bledsoe County, Tennessee. On the same date, Karim Sadruddin was sentenced to 8 years as a Standard Offender in the Tennessee Department of Correction, to be served concurrently with the federal sentence imposed in the United States District Court for the Eastern District of Tennessee. The defendant was ordered to report to federal custody on August 16, 2021 to serve the state sentence concurrently with the federal sentence.

On June 28, 2021, Rahim Sadruddin pled guilty to a state Criminal Information charging him with one count of Theft of Property over $60,000, a Class B Felony, related to the fraudulent scheme, in the Circuit Court of Bledsoe County, Tennessee. On the same date, Rahim Sadruddin was sentenced to 8 years as a Standard Offender in the Tennessee Department of Correction, to be served concurrently with the federal sentence imposed in the United States District Court for the Eastern District of Tennessee. The defendant was ordered to report to federal custody on August 16, 2021 to serve the state sentence concurrently with the federal sentence.

Textile Corporation of America Investigative Exhibit

INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

Our investigation revealed the following deficiencies in internal control and compliance, which may have contributed to the Sadruddins' ability to successfully perpetrate their scheme to fraudulently obtain ECD grant funds and avoid prompt detection:

Deficiency 1: **ECD officials did not verify the validity of information on the grant application and supporting documentation**

ECD officials failed to verify the validity and accuracy of the information in TCA's grant application and supporting documents before it awarded the grant. ECD officials and staff thus failed to discover any of the numerous false representations set forth therein. Verification of such information would have alerted ECD to those fraudulent representations before disbursement of grant funds.

Deficiency 2: **ECD officials circumvented the requirement for a bank letter as proof that TCA or the alleged parent company had adequate resources to fund the project**

Although ECD policies and procedures required grant applicants to provide a bank letter as evidence that the applicant had sufficient and available funds to comply with the terms of the grant agreement, ECD officials permitted TCA to submit prior year audited financial statements of its alleged parent company. ECD relied on those statements as proof of TCA's financial viability when awarding the grant and only later discovered the audited financial statements were for a company unrelated to TCA.

Deficiency 3: **Grant oversight agencies failed to properly monitor and review the reimbursement process**

ECD and other grant monitoring agency officials involved in the administration of this grant failed to properly scrutinize the invoices submitted for reimbursement to ensure their validity and accuracy. As a result, ECD did not detect the fraudulent activity until after it had disbursed all the funds that were available under the grant agreement.

Department officials indicated that they have corrected or will correct these deficiencies.