

Figureheads and Shells: Set Aside Contracting Fraud and Kickback Schemes End in \$52 Million Settlement

Article By:

Tycko & Zavareei Whistleblower Practice Group

You really can't make this up. Merriam-Webster defines "paragon" as "noun: a model of excellence or perfection." The government contractor [Paragon Systems Inc.](#) has agreed to pay \$52 million to resolve allegations of violating the False Claims Act and Anti-Kickback Statute (AKS). Additionally, a related entity and its owner, a purported small business involved in the alleged government contracting fraud scheme, will pay an approximately \$1.6 million settlement. The whistleblower or relator in these qui tam lawsuits will receive approximately 17.5% of the settlements or more than \$9,280,000.

Understanding the Case

Paragon Systems, a government contractor providing specialized security and mission support services, faced allegations of improperly securing Department of Homeland Security (DHS) contracts. These contracts were meant for Woman-Owned Small Businesses (WOSBs), Service-Disabled Veteran Owned Small Businesses (SDVOSBs), and other entities eligible for set-aside contracts. The crux of the scheme was that Paragon, under the direction of former high-ranking executives, allegedly manipulated the process by using figurehead owners who nominally met the requirements for WOSBs or SDVOSBs to acquire these set-aside contracts.

Central Allegations

Small Business Contracting Fraud: Former Paragon executives allegedly placed female relatives and friends as figurehead owners to secure DHS set-aside contracts, which were subsequently subcontracted back to Paragon.

Unlawful Kickbacks: These purported small businesses allegedly paid over \$11 million to Paragon executives in disguised "consulting payments." Such payments were made through shell companies, breaching the Anti-Kickback Statute.

Additional Settlement with Athena Services

Athena Services International LLC (ASI), its joint venture with Paragon, and owner Alisa Silverman also reached a settlement. They agreed to pay over \$1.6 million to resolve their liability in the small

business contracting fraud scheme. Furthermore, they allegedly improperly received a [Paycheck Protection Program loan](#), fully forgiven based on false representations.

Role of Whistleblowers

This case underscores the importance of integrity in the procurement of small business contracts. The SBA General Counsel said about the case, “Small Business Administration (SBA) programs must be preserved for truly small businesses. Fraud on SBA’s procurement programs deprives legitimate small businesses of important procurement opportunities, and fraud on the Paycheck Protection Program unconscionably undermines critical pandemic relief.” Whistleblowers, who can be government contractor employees or competitors, are empowered to report fraud against the government when internal avenues fail via a qui tam lawsuit. The whistleblower in this case, Todd Pattison, will receive \$9 million from the Paragon settlement and \$280,000 from the Athena settlement.

Conclusion

The Paragon Systems settlement serves as a stark reminder for government contractors and small businesses about the potential consequences of fraudulent activities. The settlement is hailed as the largest civil recovery by the Department of Homeland Security Office of Inspector General (DHS-OIG) in more than a decade, per the DHS Inspector General. It emphasizes the ongoing commitment of the U.S. government to uphold fairness and integrity in small business contracting.

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