



NATIONAL SCIENCE FOUNDATION  
OFFICE OF INSPECTOR GENERAL  
OFFICE OF INVESTIGATIONS

## CLOSEOUT MEMORANDUM

**Case Number: I12100073**

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We identified a company located at a residential address during a proactive review of SBIR companies that appeared to lack adequate facilities. We contacted the PI listed on the award documents who stated that he did not work for the company and never agreed to be PI. Subsequent investigation found a connection between the first SBIR company identified under the proactive review and a second SBIR company owned and controlled by the brother and sister-in-law of the first SBIR company owner.

Reviews of award records, publicly available information, state department of labor records, and subpoenaed financial records showed that the two SBIR companies budgeted funds for employees who did not work for the companies in the manner described in SBIR proposals and reports or did not work for the companies at all. Investment companies used by the SBIR companies to obtain supplemental awards were shell companies created by the SBIR company principals and not third-party investors as was represented to NSF.

The matter was referred to a United States Attorney's Office. We executed search and arrest warrants in 2016 and conducted interviews during and after the execution of the warrants. These interviews and a review of documents obtained from the search warrants confirmed that the SBIR companies had used the names and credentials of individuals in proposals without their knowledge; the SBIR companies altered letters of support submitted in proposals; and the second SBIR company had created sham invoices to inflate award budgets and conceal payments made to the shell companies that were ultimately used for personal expenses. At our recommendation, NSF suspended all of the relevant parties government-wide pending the conclusion of legal proceedings.

In February 2018, the principals of the second SBIR company entered plea agreements. One pled guilty to one count of 18 USC § 371 (conspiracy to defraud the United States) and was sentenced to five years of probation. The second principal pled guilty to one count of 18 USC § 1349 (conspiracy to commit wire fraud) and one count of 18 USC § 1957(a) (engaging monetary transactions in property derived from specified unlawful activity) and was sentenced to 33 months of imprisonment to be followed by three years of supervised release. Restitution of over \$5 million was ordered for the principals jointly and severally, with about \$1.7 million directed to NSF.

We recommended ten-year debarments for the principals of the second SBIR company, the SBIR company itself, and another company created by the principals. NSF ultimately debarred the entities for five years.

In March 2018, the owner of the first SBIR company entered a corporate felony plea on behalf of one of the shell companies that had submitted a falsified letter of support in an NSF proposal. The



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shell company pled guilty to one count of 18 USC § 1001 (false statements) and agreed to forfeit more than \$500,000 as part of the plea agreement.

We recommended a three-year debarment for the owner of the first SBIR company. NSF entered into an administrative agreement with the owner where he would be voluntarily excluded government-wide for about five months, bringing his time excluded including his government-wide suspension, to a total of three years. The owner agreed to an exclusion from participation in any federal SBIR programs for an additional two years.

This case is closed with no further action taken.