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Department of Justice

U.S. Attorney's Office

Central District of California

FOR IMMEDIATE RELEASE

Tuesday, April 20, 2021

Construction Firm Pays \$2.5 Million to Settle Allegations of Exploiting Service-Disabled Veteran-Owned Small Business Program

RIVERSIDE, California – Stronghold Engineering, Inc. (SEI) and its owners have paid the United States \$2.5 million to resolve criminal and civil investigations into allegations the firm violated federal law through its involvement in federal government construction contracts obtained by a related company under a government program designated for small businesses owned by service-disabled veterans.

The United States today received the \$2.5 million payment pursuant to a civil settlement and a non-prosecution agreement (NPA) with SEI.

SEI is a Perris-based construction company that at one time qualified as a disadvantaged small business in the Small Business Administration's 8(a) program, but the company left the program in early 2004. SEI is owned by Beverly Bailey and her husband, Scott Bailey.

The contracts at issue in the investigation were awarded to Kadena Pacific, Inc. (KPI), a now-defunct Riverside-based construction company, which was majority owned by Fred Neff, who was Beverly Bailey's father and a service-disabled veteran.

The civil settlement and NPA resolved allegations that, from August 2007 to October 2013, KPI certified to the U.S. Department of Veteran's Affairs that it qualified for service-disabled, veteran-owned small business (SDVOSB) government set-aside and sole source contracts. KPI received, and submitted invoices for, 14 SDVOSB contracts from the VA even though it was ineligible for SDVOSB status because Neff did not control KPI on a day-to-day basis. SEI was closely affiliated with KPI, with an SEI executive handling day-to-day management of KPI. Furthermore, SEI employees worked on SDVOSB contracts awarded to KPI. KPI was formally dissolved in September 2019 and Neff died in October 2020.

Under the NPA, SEI has agreed to maintain an ethics and compliance program for the two-year period of the agreement.

The claims resolved by the civil settlement are allegations only and there has been no determination of liability.

The investigations into SEI and KPI were conducted by the VA's Office of Inspector General and the Small Business Administration's Office of Inspector General.

The investigations were handled by Assistant United States Attorneys Kent A. Kawakami of the Civil Fraud Section and Sean D. Peterson of the Riverside Branch Office.

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