

Former Baltimore Mayor Catherine Pugh Sentenced to Three Years in Federal Prison for Fraud Conspiracy and Tax Charges

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Baltimore, Md. - February 27, 2020 – U.S. District Judge Deborah K. Chasanow today sentenced Catherine Elizabeth Pugh, age 69, of Baltimore, Maryland, to three years in federal prison, followed by three years of supervised release, on charges of conspiracy to commit wire fraud, conspiracy to defraud the United States, and two counts of tax evasion. Judge Chasanow also ordered Pugh to pay \$411,948 in restitution and to forfeit \$669,688 including property on Ellamont Road in Baltimore and \$17,800 from the Committee to Re-elect Catherine Pugh.

The sentence was announced by United States Attorney for the District of Maryland Robert K. Hur; Special Agent in Charge Jennifer C. Boone of the Federal Bureau of Investigation, Baltimore Field Office; and Special Agent in Charge Kelly R. Jackson of the Internal Revenue Service - Criminal Investigation, Washington, D.C. Field Office.

"Baltimore City faces many pressing issues, and we need our leaders to place the interests of the citizens above their own," said United States Attorney Robert K. Hur. "Catherine Pugh betrayed the public trust for her personal gain and now faces three years in federal prison, where there is no parole—ever. Law enforcement will remain vigilant to ensure that our citizens receive the honesty and professionalism they deserve from government officials and will prosecute officials who betray the public's trust."

"The defendant's scheme to cheat the taxpayers of Baltimore was as bold as it was brazen, and today's sentence shows that the punishment for those actions is swift and severe," said Alfred Watson, Assistant Special Agent in Charge of the Baltimore Division of the FBI. "The public has a right to expect and demand honesty and integrity from their public servants and the FBI stands ready with our law enforcement partners to uphold those principals in our system."

"Today, Catherine Pugh learned the consequences of her actions. When those in positions of trust conspire to defraud the government and engage in corrupt ventures, they must be held accountable," said IRS-CI Special Agent in Charge Kelly R. Jackson. "We will continue to pursue justice against those whose actions deteriorate the confidence of the citizens that they were elected to serve."

According to her plea agreement, from approximately 2007 through 2016 Pugh served in the Maryland State Senate, where she served on various legislative committees, including the Senate Health Committee. In 2011, Pugh ran an unsuccessful campaign to be mayor of Baltimore. In September 2015, Pugh again ran for mayor of Baltimore, and won, becoming Mayor on December 6, 2016. Pugh owned Healthy Holly, LLC, a company formed in Maryland on January 14, 2011, and used to publish and sell children's books she had written. Pugh also owned Catherine E. Pugh and Company, Inc., a marketing and public relations consulting company organized in Maryland in 1997. The principal address for both companies was Pugh's residence in Baltimore. Pugh was also the sole signatory on the Healthy Holly and Pugh Company bank accounts. Pugh did not maintain a personal bank account, using her business bank accounts for personal and business finances.

Between June 2011 and August 2017, four Healthy Holly books were published, with each book listing "Catherine Pugh" as author. The vast majority of books published by Healthy Holly were marketed and sold directly to non-profit organizations and foundations, many of whom did business or attempted to do business with the Maryland and Baltimore City governments.

From approximately 2011 until December 2016, Gary Brown, Jr. worked as a legislative aide to Pugh. Brown actively campaigned for Pugh's reelection to the State Senate in 2014 and served as her campaign aide during her 2016 mayoral election campaign. Following Pugh's election and inauguration as mayor of Baltimore City in December 2016, Brown was hired as the Deputy Director of Special Events in the mayor's office. In December 2016, Brown was nominated by the Maryland Democratic Central Committee to fill the vacancy in the Maryland House of Delegates created by Pugh's mayoral victory. However, the Governor withdrew Brown's nomination after he was indicted for election law violations in January 2017.

Brown was the sole owner and operator of Stricker Abstracting, LLC, and GB Abstracting, LLC, both Maryland companies that purported to be title-abstracting businesses, and GBJ Consulting, LLC, a Maryland consulting business. Brown ran all three companies from his residences in Baltimore. Brown also freelanced as a tax return preparer. Between March 2011 until March 2019, Brown helped Pugh promote and sell the Healthy Holly books. Brown oversaw the transportation and storage of the books, drafted invoices, and corresponded with purchasers. Much of Brown's work on Healthy Holly occurred during work hours while serving as Pugh's legislative aide and mayoral staff member. Brown was not an employee of Healthy Holly and received no salary or compensation until approximately mid-2016 when he started to get sales commissions. None of his companies received compensation for services purportedly provided to Healthy Holly.

Wire Fraud

Pugh admitted that from November 2011 until March 2019, she conspired with Gary Brown to defraud purchasers of Healthy Holly books in order to enrich themselves, promote Pugh's political career, and fund her campaign for mayor. Pugh and Brown admitted that they employed several methods to defraud, including: not delivering books after accepting payments for the books; accepting payments for books to be delivered to a third party on behalf of a purchaser, then converting some or all of the purchased books to their own use without the purchaser's or third party's knowledge; and by double-selling books without either purchaser's knowledge or consent. Pugh stored quantities of fraudulently obtained Healthy Holly books at various locations, including Pugh's residence, her state legislative offices, her mayoral office, the War Memorial building in Baltimore City, and a public storage locker used by Pugh's mayoral campaign.

Specifically, Pugh admitted that she sold approximately 20,000 each of Healthy Holly books one, two, and three to the University of Maryland Medical System (UMMS) for \$100,000 each. UMMS agreed to the purchase on the condition that it be on behalf of, and for distribution to, school children in the Baltimore City Public School system (BCPS), in part, to further the mission of UMMS's community outreach program. As part of the agreement Pugh was to deliver the donated books to BCPS.

As detailed in her plea agreement, Pugh did not deliver the full 20,000 Healthy Holly books one, two, and three that UMMS purchased to BCPS, instead keeping some of the books for herself. In addition, Pugh sold to unwitting purchasers copies of Healthy Holly books one, two, and three that had already been sold to UMMS and donated to BCPS. Pugh used Associated Black Charities, a Baltimore-based public charity, to facilitate the resale and distribution of the books to new purchasers. Neither the charity nor the new purchasers knew that Pugh was double-selling the books. Pugh also accepted payment for books that were never

delivered to the purchaser.

Conspiracy to Defraud the United States/Tax Evasion

Pugh further admitted that she used the proceeds of the sale of fraudulently obtained Healthy Holly books for her own purposes, including: to fund straw donations to Pugh's mayoral election campaign; and to fund the purchase and renovation of a house in Baltimore City.

Specifically, Pugh issued Healthy Holly checks payable to Brown, for the purpose of funding straw donations to the Committee to Elect Catherine Pugh. Brown cashed the checks and used the untraceable cash to fund money orders, debit cards, and personal checks in the names of straw donors totaling approximately \$35,800. The straw donations purchased with the cash were then deposited into the bank account of the Committee to Elect Catherine Pugh. Pugh wrote additional Healthy Holly checks to Brown totaling \$26,300, which he cashed and gave the cash to Pugh. In total, Brown and Pugh cashed out approximately \$62,100 of Healthy Holly checks during 2016, all of which went to straw donors or Pugh. To conceal the scheme, Brown and Pugh created the pretense of a legitimate business relationship between Brown and Healthy Holly. In furtherance of the pretense, Pugh and Brown signed an independent contractor agreement between Healthy Holly and GBJ Consulting, and Brown created a business ledger that misrepresented the Healthy Holly checks as payments for promotion services rendered by Brown's company on behalf of Healthy Holly. At Pugh's urging, Brown also created bogus GB Consulting invoices and backdated them.

On January 11, 2017, Brown was charged with, and ultimately convicted of, violating Maryland's election laws for funneling \$18,000 of the straw donations to Pugh's campaign. The Committee to Elect Catherine Pugh issued five checks in the names of three of the straw donors, with a notation in the memo line on each check stating "returned contribution." In fact, Pugh acknowledges that none of the straw donors received any of the returned money, and instead, at Pugh's direction, Brown used the money to pay for his legal defense in the state election-law prosecution, a case that had legal implications for Pugh.

Pugh also admitted that she conspired to evade taxes on the income received from the sales of Healthy Holly books. To accomplish this, Pugh concealed from the IRS the fact that she created false business expenses to offset the income she received from the sale of books by issuing Healthy Holly checks to Brown for services and/or products purportedly supplied by his company. Pugh filed false income tax returns for 2015 and 2016, in which she underreported her income. For example, for tax year 2016 Pugh claimed her taxable income was \$31,020 and the tax due was \$4,168, when in fact, Pugh's taxable income was \$322,365, with an income tax due of approximately \$102,444.

Former Baltimore City employee Gary Brown, Jr., age 38, of Baltimore, previously pleaded guilty to conspiracy to commit wire fraud, to two counts of conspiracy to defraud the United States, and to filing a false tax return. Judge Chasanow has not yet scheduled a sentencing date for Brown.

United States Attorney Robert K. Hur commended the FBI and the IRS Criminal Investigation for their work in the investigation and thanked the U.S. Department of Labor - Office of Inspector General, Office of Investigations - Labor Racketeering and Fraud, the Maryland State Prosecutor's Office, and the Baltimore City Office of Inspector General for their assistance. Mr. Hur thanked Assistant U.S. Attorneys Martin J. Clarke and Leo J. Wise, who prosecuted the case.

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