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HQ-DSP
3901 A Avenue
Fort Lee, VA 23801
Fax: (804) 734-0109
Email: DCMA.FOIA@dcma.mil

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DEFENSE CONTRACT MANAGEMENT AGENCY

3901 A AVENUE, BUILDING 10500
FORT LEE, VA 23801-1809

AUG 29 2014

This is in response to your request, dated July 11, 2014, under the Freedom of Information Act (FOIA), seeking the most recent ten (10) issues of the Defense Contract Management Agency ("DCMA") *Communicator* and the *Focus on Fraud* newsletters. DCMA assigned control number 14-174 to your request for administrative purposes.

Pursuant to an e-mail message from Ms. Kimberly Turner, DCMA FOIA Analyst, dated July 14, 2014, you were provided a public web site in order to access all issues of the *Communicator* newsletter; therefore, that portion of your request has been granted in full.

As for the most recent ten (10) editions of the *Focus on Fraud* newsletter, responsive records are enclosed. Please understand, however, that certain information set forth in those records was subject to redaction under the FOIA.

First of all, the names and other personally identifiable information (PII) of certain Department of Defense (DoD) employees identified in the newsletters have been redacted under Title 5, United States Code, Section 552, Exemptions (b)(6) of the FOIA. Disclosure of such information could reasonably be expected to constitute an unwarranted invasion of personal privacy. With heightened security interests for DoD employees and the emphasis on protecting the PII of DoD employees, the privacy interests of those persons are considered very broadly. In carefully weighing those significant privacy interests against any presumed public interest in favor of disclosure, the names and PII of specific DoD employees appearing in the newsletters are exempt from disclosure under Exemption (b)(6) of the FOIA. See Long v. Office of Personnel Management, 692 F.3d 185, 192-193 (2nd Cir. 2012).

Secondly, a portion of the information in the enclosed records is exempt from release pursuant to Title 5, United States Code, Section 552, Exemption (b)(5). This exemption encompasses the deliberative process privilege, which protects from release information that reflects advisory opinions, recommendations and deliberations comprising part of a process by which governmental decisions and policies are formulated. More specifically, certain opinions, preliminary assessments and recommendations relating to specific investigations or litigation matters were withheld pursuant to the deliberative process privilege. See Rockwell International Corp. v. Department of Justice, 235 F.3d 598, 602-603 (D.C. Cir. 2001); Pfeiffer v. Central Intelligence Agency, 721 F. Supp. 337, 340 (D.D.C. 1989).

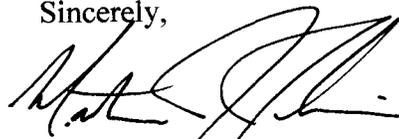
To maximize the amount of information released to you, DCMA decided, however, to make discretionary disclosures pertaining to certain information. In this regard, the enclosed records provide assessments of litigation matters and related advice pertaining to fraud detection. This information could have been withheld under the deliberative process privilege pursuant to Exemption (b)(5) of the FOIA. Further, the responsive records identify the names of various Federal Government employees who contributed to various investigations and litigation matters. These names were not withheld under Exemption (b)(6) of the FOIA because those employees had previously agreed to possible release of their identities as part of coordinating, compiling and preparing the specific articles in the responsive records. Consistent with the U.S. Attorney General's policy of a "fundamental commitment to open government," this information was not withheld and provided to you.

Finally, despite a search for these records being undertaken, no fees have been assessed for the processing of this request.

Because information has been withheld, this is considered a partial denial to your request. You are hereby advised of your right to appeal this determination under DoD Directive 5400.7-R. Your appeal must be in writing and must be made within 60 calendar days of the date of this letter. Your appeal should reference the control number above and should include your reasons for requesting a reconsideration of this decision. Your appeal should be forwarded to the Department of Defense, Defense Contract Management Agency, Appellate Authority, c/o Freedom of Information Office, 3901 A Avenue, Bldg. 10500, Fort Lee, Virginia 23801-1809. Both your letter and the envelope should be clearly marked "Freedom of Information Act Appeal."

If you have questions about DCMA's action on your request, contact Ms. Donna V. Williamson, DCMA FOIA/Privacy Act Officer, at the address above or via e-mail message, donna.williamson@dcma.mil.

Sincerely,



MARTIN J. JAKIM
Executive Director
Corporate Support

Enclosures: As stated

*Focus On Fraud**DCMA Contract Integrity Center Initiative*

<u>CIC HOM E</u>	<u>CIC DIRECTOR Y</u>	<u>FRAUDNE T</u>	<u>DCMA INSTRUCTI ON - FRAUD</u>	<u>PRIOR FOF ISSUES</u>	<u>RED FLAG S</u>	<u>DEBARRED LIST</u>
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The CIC "pipes aboard" a new attorney, (b) (6) in Manassas, VA; (b) (6) comes to us courtesy of the Navy's Acquisition Integrity Office in Washington, D.C. where for three years she worked fraud cases and supported the Navy's suspension and debarment program. (b) (6) will be responsible for DCMA's overseas cases, as well as those developed out of the States of Virginia, North Carolina, and Maryland. You'll find her contact information at the [Fraud Counsel \(Geographic\)](#) link on our webpage. Welcome Aboard (b) (6) (Final Navy reference - you're DCMA now!). (b) (6)

DCMA QAs 'STRUT THEIR STUFF'

Contract SP0405-05-M-FG75 (\$38,750.00) required Yeager Manufacturing Corporation, DBA Cummins Aerospace (Cummins), to supply the AF with support orifice shock struts for the F-16 hydraulic landing gear system. Applicable contract specifications included certain critical thread attributes. Suspiciously, the contractor submitted a four-page dimensional report that was an exact photocopy of the report for a prior submission (the major differences being the date and inspector name and stamp). Cummins also presented Support Fittings (along with CoCs) that were nonconforming, largely due to undersize thread diameters. The F-16 Chief Engineer at Hill AFB recognized these 'irregularities' and the matter was referred for investigation. Evidence revealed that, despite knowing of problems with the gauges used to test thread diameters, Cummins apparently had not checked the calibration of the gauges. In settling the Civil matter, the company agreed to: (1) re-tap, at its expense, the holes in the Support Fittings; and (2) pay the U.S. \$20,000. (b) (5)

DCMA had not been delegated contract administration on this specific contract but does administer other contracts at Cummins. A DCMA quality audit of the Cummins facility (AF requested) resulted in the identification of a number of concerns and responsive corrective action has apparently included replacing certain key Cummins personnel. QAS efforts to 'best protect Government interests and prevent similar incidents' were coordinated with the CIC. (b) (5)

(b) (5)

Former QAR, David Lenard, Mechanical Engineer, DCMA Lathrop, and current DCMA Santa Ana QAS Art Espinoza should be commended for their efforts at developing and implementing an appropriate surveillance plan.

Lessons Learned in this Matter: Where we learn that nonconforming parts are provided -- even where DCMA does not administer the particular contract -- QASs may take additional steps (performing a full quality audit and increasing surveillance) to protect the Government on current/future contracts. (b) (6)

THE MILLION DOLLAR QUESTION – WHO IS RESPONSIBLE FOR DOD SUBCONTRACTORS?

For an aircraft company in Fort Worth, TX this turned out to be a \$15,850,000 question, and **the answer, of course, is - the prime contractor, Lockheed Martin Corporation (LM)**. That amount (plus Relator's attorney's fees and costs) is how much LM agreed to pay to settle (w/o admission of wrongdoing) a False Claims Act case against them. The Civil case, initially filed in 2005, stemmed from a subcontract for perishable tooling (an indirect cost effort supporting all contracts). The U.S. alleged, among other things, that LM awarded the subcontract as a *Cost Plus Percentage of Cost* (CPPC) subcontract, failed to properly administer the subcontract and also failed to properly respond when notified there was a problem. A CPPC system of contracting contracts is prohibited (see [FAR 16.102\(c\)](#)), in general, as it tends to incentivize contractors to increase or inflate costs, thereby increasing profit; exactly what Tools and Metals, Inc. (TMI) did! Along the way, TMI falsely inflated its costs to LM (LM passed the costs on to the U.S.).

In part, TMI was able to continue its scheme unnoticed because LM "audits" were conducted by a buyer, untrained in audit or review practices, who relied heavily on documentation selected/provided by TMI. The U.S. further contended that LM failed to take proper action when the mischarging was first brought to their attention. The owner of TMI, Todd Loftis was convicted in 2005, sentenced to prison for 87 months (followed by 3 years supervised release) and ordered to pay restitution of \$20,000,000 (see [Focus on Fraud, Issue No. 27](#) and [Issue No. 28](#)). The case was an extremely complicated matter that involved years of litigation and discovery prior to its mediated settlement. DCIS, AFOSI, DCAA, DCMA and DoJ involvement was substantial.

Extensive and thorough investigative support was provided by **DCIS Special Agent John Zuniga** and **AFOSI Special Agent Neil King**. **DoJ Trial Attorney Russell Kinner** and **AUSA Scott Hogan (N.D. TX)**, along with **DoJ Auditor, Leighton Eaves** transformed the

investigative effort into a successful Civil prosecution. The expertise of **DCMA Divisional Administrative Contracting Officer Dolores ‘Jeanne’ King** was an instrumental, integral part of the case. Thanks to all.

Lessons Learned in this Matter: Prime contractors are responsible for their subcontractors and can be held financially accountable for subcontractor irregularities. And - *Yes, CPPC contracting is prohibited.* (b) (6)

‘CHEAPER’ COULD BE MORE EXPENSIVE?

[Focus on Fraud, Issue No. 43](#) reported that H. Galip Dedekarginoglu’s company, New York Machinery (NYM), had been named in a six-count Indictment charging a multi-year defense procurement fraud scheme. NYM had entered into DoD contracts to provide replacement parts for automotive and ground support tractor-trailer vehicles. *The contracts required “exact products” manufactured by or under the direction of an original equipment manufacturer (OEM). NYM substituted cheaper parts that were not “exact products” and repackaged and relabeled the substitute parts to make them appear to be OEM parts.* Also some of the cheaper parts were “reverse engineered” copies of OEM parts that had been manufactured in Turkey by another company owned by Dedekarginoglu.

Dedekarginoglu, on behalf of NYM, pled guilty, was fined \$500,000 and was ordered to pay the U.S. \$163,000 in restitution. He also entered into a Civil settlement with the U.S. requiring payment of \$200,000 in connection with the substitution of non-OEM parts. The DLA debarred NYM and Dedekarginoglu.

Kudos to the **DCMA Springfield** folks who supported the investigation and trial preparation efforts, including **Chris Prendergast (Team Leader)**; **Bogdan Byniowsky (Team Leader)**; **Warner Boehm (former QAR)**; and **Margarita Porochnia (Preaward Survey Monitor)**. Especially noteworthy were the efforts of **DCIS SA Meghan Marino!**

What are the Lessons Learned? Take a moment and review the [product substitution fraud indicators](#) posted on the [DCMA CIC website](#). If you observe any of these “*Red Flags*” or **fraud indicators, contact your Fraud Counsel immediately!** (b) (6)

WHERE’S WALDO? DEALING WITH DELINQUENTS - -

As contract management delegations for non-critical items become fewer and far between, problems with non-performing contractors seem to multiply for buying commands. That is especially true when a contractor continually re-invents itself using different names and family members to create companies to keep receiving contract awards. After years of being asked the question “*Where’s Waldo?*”, or more specifically “*Where are the goods that Dennis Waldo’s*

companies were supposed to supply to DLA?” - the DCMA Kansas City contracts team had had enough.

Led by **DCMA Kansas City Team Chief John Burke**, DCMA detailed (on spreadsheets) the delinquencies of Waldo’s companies. This showed they repeatedly accepted awards without the capability to perform and had then failed to timely deliver. *Over 75% of DCMA administered contracts awarded by DLA were cancelled due to an inability to perform. Only 2% of the contracts were delivered on time and, for the remainder, the average delinquency was 145 days.*

DCMA had routinely taken action to advise buying commands of Waldo’s poor performance history, but a better remedy was needed to limit awards and ensure an effective supply chain (problem areas - the large number and variety of items from various agencies and the destination acceptance practice/no DCMA oversight on the majority of contracts). Finally, a very thorough GSA IG investigation established that *Waldo’s first company had submitted invoices and been paid on orders from GSA where goods were never received*, as well as other integrity issues. As a result, DLA debarred Dennis Waldo and his affiliates until May 8, 2014.

[FAR 9.406](#) authorizes debarment for two categories of misconduct related to the performance of government contracts: (1) willful failure to perform in accordance with contract terms; and, (2) a history of failure to perform, or unsatisfactory performance on one or more Government contracts. Debarment may be imposed based upon a finding as to either of these categories, by a preponderance of the evidence. In this case, *the debarring official “Found Waldo” and his affiliated companies lacked the present responsibility to perform on contracts*. By continuing to under-bid legitimate contractors for the same items and then failing to deliver on time, they had delayed critical supplies for our warfighters.

What were the fraud indicators that began this journey to finding Waldo and this remedy? First and foremost, were the combined contract delinquencies for all the affiliated companies. Add in complaints from competitors who were willing and able to perform but had been underbid by Waldo and the fact that some *affiliates operated out of the same residence without any manufacturing capability* for the items awarded and you find a sea of [Red Flags](#) waving. This did not go un-noticed by **DCMA Kansas City QAR Ken Coverdell**, whose keen eye and vigilance discovered Waldo’s most recent company, DRW Tools, operated out of a residence without manufacturing capability and that over 95% of the awards to DRW were destination acceptance. **DCMA Kansas City Industrial Specialist Michael Shugrue** was likewise diligent in tracking the different tentacles of affiliated companies as they cropped up.

Kudos to the DCMA Kansas City Team including Burke, Shugrue and Coverdell for their tenacious efforts to ensure an effective supply chain of critical items to the warfighter. Also special thanks to **Michele Pavlak, DLA Office of General Counsel**, and to **GSA Special Agent Wendy Rowan** for their outstanding support in this matter. **(b) (6)**

*Focus On Fraud**DCMA Contract Integrity Center Initiative*

<u>CIC HOM E</u>	<u>CIC DIRECTOR Y</u>	<u>FRAUDNE I</u>	<u>DCMA INSTRUCTI ON - FRAUD</u>	<u>PRIOR FOF ISSUES</u>	<u>RED FLAG S</u>	<u>DEBARRED LIST</u>
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The DOD FY12 Appropriations Act contains a provision stating that *none of the funds made available by the Act may be used to enter into any contract, memorandum of understanding, or cooperative agreement with, make a grant to, or provide a loan or loan guarantee to, any corporation that has been convicted of a felony criminal violation under any Federal law within the preceding 24 months unless the agency has considered suspension or debarment of the corporation and made a determination that this further action is not necessary to protect the interests of the Government.*

This means that such companies (felony conviction w/in past 24 months) are automatically debarred unless a decision is made that they shouldn't be. Honeywell recently ran into this issue when they failed to advise the Air Force of a recent conviction. This provision is also included in the markup for the FY13 Appropriations Act, making it likely that this will be a continuing requirement. If you are aware of a conviction by any contractor in your area and are concerned about their ability to continue contracting with the Government, contact your CIC Fraud Counsel. **(b) (6)**

FRAUD & OVERHEADS – QUITE A BALANCING ACT?

It was a 'DCAA Form 2000' that kicked-off an investigation into alleged cost mischarging by GenCorp, Inc., and its wholly-owned subsidiary, Aerojet General Corp. DCAA alleged they had claimed 'expressly unallowable' proxy contest costs in their FY06 incurred cost submission (GenCorp had incurred the costs in resisting an unsuccessful proxy contest takeover by a company known as Pirate Capital). During the course of the investigation it was discovered that GenCorp had also included costs in FY04 and FY05 related to proxy contest efforts by another company.

Civil AUSA Catherine Swann, US Attorney's Office, Eastern District of California, reached a settlement with GenCorp/Aerojet to resolve allegations that it knowingly included expressly unallowable costs in their indirect cost proposals (FY04–FY07) and, on November 23, 2011, *GenCorp/Aerojet agreed to pay the United States \$3.3 million to settle the allegations.* AUSA Swann did a great job in reaching this successful settlement. Agents from Army CID, AFOSI, NCIS, and NASA IG had conducted a thorough investigation; **DCAA RSI Auditor Paul DeMedeiros** provided top notch support; and, **DCMA CACO Vivian Lee, DCMA Lathrop Counsel Steve Wilson and DCMA Lathrop Associate Counsel Denise Hearne** provided

extensive support to the AUSA during the investigation and settlement of the matter. They should be commended for their efforts - especially in light of the challenges of addressing overhead rate agreement, statute of limitation and cost recovery initiative issues while also ensuring that an investigation/prosecution was not adversely impacted.

Lesson Learned: It can be difficult for a CACO or DACO to balance cost recovery efforts involving overhead rates with a fraud investigation/prosecution. Therefore, it is important for the CACO, DACO, CMO Counsel and CIC Fraud Counsel to communicate and coordinate. Contractual actions could impact an investigation/prosecution; we must ensure that all remedies (contract and fraud) are successfully pursued. (b) (6)

DO NOT ALLOW THOSE UNALLOWABLE COSTS!

Focus on Fraud, Issue No 53, detailed a \$15,850,000 False Claims Act settlement with the Lockheed Martin Corporation (LM). Subsequently, the CIC provided a copy of the settlement to the DACO along with instructions regarding costs made unallowable pursuant to the settlement and in accordance with *FAR 31.205-47, Costs related to legal and other proceedings* (a “must read” for Contracting Officers and their Counsel). During CIC discussions, *LM advised that it had no way to identify these costs prior to when it set up specific cost codes and that it intended to merely segregate those costs already identified.* Counsel for LM was informed that normal CIC practice was to notify the DACO of the settlement and request a specific review to ensure that all unallowable costs had been segregated; if such costs were to be identified at that time, penalty and interest provisions could apply. LM was strongly encouraged to do their best to gather, estimate, calculate or otherwise determine these prior costs. ***LM SUBSEQUENTLY IDENTIFIED (AND SEGREGATED) ADDITIONAL COSTS OF \$66,995.17!*** The CIC then notified the DACO to be sure that these costs are also included as part of the total costs under review for segregation as unallowable.

Lessons Learned in this Matter: Do not readily accept a contractor's contention that it cannot or "has no way" of identifying unallowable costs – the burden is upon the contractor to segregate these costs. (b) (5) (b) (6)

COMING TO A CMO NEAR YOU

For those of you who work for the Baltimore and Manassas CMO's, be on the lookout for a fraud update/presentation from (b) (6) at your upcoming all-hands meetings. (b) (6) is the most recent attorney to join the Contract Integrity Center and (b) (6) covers fraud related matters affecting the Baltimore and Manassas CMO's (the States of Virginia, North Carolina, and Maryland) as well as the DCMA International offices. Topics of discussion will include hot issues, fraud updates and answering any fraud related questions. In the interim, if you would like to contact (b) (6), she is only an email (b) (6) or phone call away (b) (6)

IN THIS HIGH TECH ERA...FALSE COC'S STILL AMOUNT TO FRAUD!

The U.S. Attorney's Office, Middle District of PA, Civil Division, just entered into a Settlement Agreement with Medico Industries, Inc. (Medico), Wilkes-Barre, PA. Medico agreed to pay the United States \$225,000 to resolve allegations that had been confirmed through a complex investigation.

A Product Manager at the Army's Picatinny Arsenal (NJ) had reported that several nonconforming products were identified during lot acceptance testing of aluminum components delivered to the Army's Pine Bluff Arsenal (AR). Medico had supplied approximately 44,000 Tail Fin Cone Assemblies for mortar illumination (M767) and smoke rounds (M819) under a Joint Munitions Command \$2+ million contract (*Note - the rounds involved were not high explosive rounds and failure in the mortar tube merely negated its function, resulting in the loss of the round's value which could impact mission performance but was not considered likely to cause injury*).

The investigation revealed that Medico supplied falsified Certificates of Conformance (COC) stating that all delivered items conformed to contract specifications. DCMA QARs accepted the items based on the COC's; Government testing later uncovered failures in the areas of hardness and/or conductivity. Subsequent review by the Government revealed that the conductivity and hardness specification was actually too stringent for the M767 and M819 rounds, resulting in an engineering change proposal (ECP) to lower the requirements. Pursuant to the Settlement Agreement, Medico reimbursed the Government for the testing costs related to the falsified COC's.

Extensive and thorough investigative support was provided by **DCIS Special Agents Kathleen McHale and David L. King**, as well as **NCIS Special Agent David Snyder** and **Army CID Special Agent Joseph D'Orsaneo**. The expertise demonstrated by the **DCMA Quality Assurance Representatives - George Hallas, Joseph Greech** and **Walter Milinichik** as well as the **Director, DCMA Tobyhanna, Edward Hendela**, was an instrumental, integral part of the case. Thanks to all.

Lessons Learned in the Matter: Contractors must meet the specifications listed in the contract. If the contractor is unable to meet the specifications, there are contractual options such as an ECP, to resolve an issue. Falsification of testing results is **NEVER** a legitimate option! (b) (6)

NOW THEY ARE RACKING UP JAIL TIME INSTEAD OF GUNS!

Michigan contractor Roth Fabricating, Inc. made many items for DoD, including gun racks for M16 rifles and seat assemblies for military vehicles. Roth had both destination acceptance and origin acceptance contracts. The [*Red Flags*](#) started flying with reports of defective items. Then information came in that Roth was knowingly supplying inferior parts and components and

concealing it from the QAR. All that added up to a product substitution scheme – and jail time!

Roth and its co-owners, Shane Sarnac and Simone Haas, pled guilty to a charge of *Conspiracy (18 U.S.C. 371) to commit Wire Fraud (18 U.S.C. 1343)*. Their plea agreements disclosed that they knowingly provided seat assemblies that were dimensionally defective and included substituted material (other than material required by the drawings and specifications) while performing 17 DLA Purchase Orders valued at \$3.9 million. Under the agreements, the company will pay restitution in the amount of \$825,000 as well as a \$25,000 fine and there will be prison time for Sarnac and Haas.

In May 2012, Haas was sentenced in the Southern District of Ohio to 15 months incarceration, 6 months home confinement and 3 years supervised release. Sentencing for Sarnac and the corporation is scheduled for August 2012. DLA suspended Roth Manufacturing, Sarnac and Haas from Government contracting effective in February 2012 (*Note - DLA had previously debarred the parties for poor performance/supplying non-conforming items in November 2009*).

Catching the non-conforming supplies took an outstanding team effort led by **DCIS Special Agent Mike Hampp**, **Army CID Special Agent Linda Koltuniak** and **DSCC Fraud Counsel Marsha Wright**. **DCMA Detroit QAR Richard Bush** also provided critical and substantial support to the investigation. Special thanks to all and stay tuned for further sentencing. (b) (6)

YOU CAN HANDLE HIGH \$\$\$ PROPOSALS – BUT NOT PER-DIEM?

In July 2011, the DoD IG received information from Lockheed Martin Information Systems & Global Solutions (“LM”) disclosing that a former employee (“E”) had submitted false expense reports and mischarged labor hours allocated to LM contracts with the DoD. Investigation of the matter was declined by DCIS, AFOSI and USACID and the DoD IG advised that prosecution of the matter was declined by DoJ. Following these declinations, DCMA CIC contacted LM Counsel and obtained additional information and documentation associated with the matter.

E had been a director-level contracts negotiator until his voluntary termination in February 2011. As part of his separation, he requested reimbursement for a credit balance on his corporate credit card (issued for his use in connection with expenses he incurred relating to LM business, including travel, lodging, meals and incidentals) and, pursuant to corporate policy, an audit was performed before payment authorization. The LM audit revealed that E had submitted false expense reports to LM resulting in payments (to which he was not entitled) totaling \$42,741.16. The false expense reports resulted from a variety of improper actions by E, most notably - lodging claims for higher per diem locations than his actual locations (LM IS&GS had a flat-rate lodging policy). E, a highly educated individual, familiar with Government contracting, including cost/proposal issues, claimed that an innocent mistake lead him to claim per diem for a location other than where he was lodging and reap the resulting financial windfall (*as much as \$100-\$125 per night*). However, while “mistakes” are indeed possible, LM auditors reviewed over 700 expense reports of 116 employees staying in the Metro DC area and found

only 1 other employee engaged in a similar practice (and she was a direct report to E).

Although E was no longer a LM employee, the CIC was advised that he had become an employee of another Government prime contractor, Mission Support Alliance, at the Department of Energy Hanford site in WA. As a protective measure, given E's education and continued employment involving Government contracts, the CIC (b) (5)

(b) (5)
(Note - LM revised the total cost impact to \$54,270.64; this was credited back to appropriate accounts; and, DCAA is to conduct a review to confirm these credits have been made).

By letter dated December 14, 2011, (b) (5)

Lessons Learned in this Matter: Debarment/Suspension actions are a method to protect Government interests by ensuring we only do business with responsible contractors. (b) (6)

September 2012

Issue No. 55

Focus On Fraud

DCMA Contract Integrity Center Initiative

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FRAUD](#)[PRIOR FOF ISSUES](#)[RED FLAGS](#)[DEBARRED LIST](#)

Many offices have those “contractors” that have been a drain on resources for years:

“The companies operate out of the same facility using slightly different addresses or P.O. boxes. Different family members represent each of the companies and they bid primarily on DLA solicitations. Following award, they pick and choose which contracts to perform/accept, leaving the rest hanging. The contracts they do “perform” are often delivered late or with quality issues. As a result of DCMA oversight, DCMA does not recommend the contractor, but they continue to be solicited and receive awards.”

Is there anything you can do? Agency/Service Debarment Officials have historically been uninterested in these poor performers preferring to deal with clear cut instances of fraud where indictments or convictions are present. (b) (5)

(b) (5) While these contractors may not actually be committing fraud, your CIC attorney is available to assist you in **documenting the poor performance** and **presenting debarment recommendations** to the proper Suspension & Debarment Official. A little time now could save time (and aggravation) in the future. Call your CIC attorney! (b) (6)

CHANGING OF THE GUARD – SOUTHEAST REGION

After a long and distinguished career as an attorney with DCMA, (b) (6) retired this past Spring from the CIC’s Fraud Counsel position in Atlanta, GA. (b) (6) replacement, (b) (6), came on board in July and is looking forward to his new role. (b) (6) recently completed a tour with DCMA International (he had been assigned to DCMA Southern Europe in Wiesbaden, Germany). Before that, (b) (6) spent several years as the CMO Counsel for DCMA Detroit.

(b) (6) is in the process of reaching out to clients, investigators and agency counsel as he undergoes initial training. (b) (6) recently attended the Quarterly Fraud Working Group meeting conducted by the Air Force Material Command Acquisition Integrity Office at Dobbins AFB, GA on August 16th. As a Fraud Counsel with the CIC, (b) (6) will have responsibility for the Southeast Region which covers AL, GA, FL, KY, MS, SC and TN. (b) (6) may be reached at DCMAN-Y, DCMA Atlanta, 2300 Lake Park Drive, Suite 300, Smyrna, GA 30080. You may also contact (b) (6) by email (b) (6)

THIS ROAD WAS NOT PAVED WITH GOOD INTENTIONS!

Sheppard AFB, TX is not one of the largest in the US Air Force, covering approximately 5,700 acres and with an average daily population of about 24,000. But, it is home to the 82nd Training Wing, the 82nd Contracting Squadron (82nd CS) and the 82nd Civil Engineering Squadron (82nd CES). The 82nd CS supervises a wide variety of construction contracts (including construction/repair of asphalt or concrete roads, sidewalks, parking lots, runways and building construction/repair) and

receives technical engineering advice (pre-proposal, proposal and performance stages) from the 82nd CES. John Gilmore III served as the 82nd CES Lead Civil Engineer and Larry Ballard was one of the engineers under his supervision.

On July 18, 2012, Gilmore and Ballard were charged by Indictment with violations of [18 USC 371](#) (Conspiracy to Defraud the United States) and [41 USC 423](#) (Conspiracy to Unlawfully Disclose and Obtain Sensitive Source Selection Information – note, this Section is being reclassified as [41 USC 2102](#)) in connection with an alleged scheme to provide preferential treatment (in exchange for bribes and gratuities) on base construction projects. The owners of 2 local construction firms, James Freeman of Freeman Construction and Miguel Hughes of Hughes & Guzman Construction d/b/a Hughes Building Services, were also charged in the Indictment. Allegedly, in exchange for thousands of dollars and other “gifts”, Gilmore and Ballard provided specifications, quantities, pricing estimates, bidding information and other sensitive procurement data to Freeman and Hughes. The Indictment even alleges that Gilmore harassed another contractor to encourage termination of his contract and replacement by Freeman.

DCIS sought DCMA CIC assistance with Debarment/Suspension action. The CIC has now recommended (b) (5)

We extend our thanks to DCIS Special Agent Jody Fletcher for his efforts to protect Government interests.

Lessons Learned: Some less than honorable Government employees cannot resist the temptation to make a fast buck – should you have suspicions regarding similar behavior, whether on a DCMA administered effort or otherwise, contact your Fraud Counsel. Debarment/Suspension action may be warranted. (b) (6)

DOD CONTRACTOR VIOLATED ARMS EXPORT CONTROL ACT

Swiss Technology, Inc. pleaded guilty to a Criminal Information charging them with one count of Conspiracy to violate the Arms Export Control Act by exporting U.S. DoD drawings and specifications to the People’s Republic of China (PRC). As part of the elaborate scheme, Swiss Technology received DoD contracts, and then, rather than manufacture the parts, it exported DoD drawings, specifications, and sample parts to the PRC without first obtaining a license from the U.S. State Department. A company in the PRC manufactured the items at a much cheaper price per unit than it would have cost for a company to make them in the United States using domestic product. **The items included parts for use with M4 and M16 rifles and M249 machine guns.** Swiss Technology admitted that it entered into the agreement with the company in the PRC for the financial benefit of Swiss Technology. U.S. District Judge Jose Linares sentenced Swiss Technology to probation for 3 years and ordered it to pay restitution in the amount of \$1,148,051 to the DoD. Swiss Technology and its affiliates have been debarred by DLA for delivering nonconforming products that failed functional testing.

Excellent investigative efforts were provided by **DCIS Special Agents Richard Monticello and Michael Hampp; Army CID Special Agent Veronica Haley; AF OSI Special Agent Sarah Horn; and U.S. Department of Homeland Security Immigration and Customs Enforcement, Homeland Security Investigations Special Agent Lawrence Martino. Assistant U.S. Attorney Zahid Quraishi** of the U.S. Attorney’s Office in Newark, NJ, transformed the extensive investigative efforts into a successful criminal prosecution. Also, the expertise and participation of **DCMA ACO Kelly Bavaro, DCMA QAR Mario Muttis, DCMA Team Leader Bogdan Byniowsky; and, DCMA**

Group Chief, Pamela Gould, was well-received. Our special thanks to all of them for working to make this a success story.

Lessons Learned: Products manufactured outside of the United States may be nonconforming due to inferior quality in material and workmanship and may also represent a violation of Arms Export Control laws. If you have any suspicions about the quality of parts, contact your local Fraud Counsel. This might also be a good time to review the [Red Flags on the CIC website](#). (b) (6)

THIS MVP IS A FAKE!

An eleven-count Indictment charged Mustafa Abdul Aljaff, Marwah Felahy and Neil Felahy, all of Newport Coast, CA, with violations of [18 USC 371](#) (Conspiracy to Traffic in Counterfeit Goods and to Defraud the United States) and [18 USC 2320](#) (Trafficking in Counterfeit Goods) in connection with a scheme to sell counterfeit integrated circuits to the US Navy. They were alleged to have operated the conspiracy, in a variety of methods and through a number of California companies (including MVP Micro, Inc., Red Hat Distributors, Inc., and Labra Electronics, Inc.). In some instances, they acquired counterfeit integrated circuits from supply sources in China, imported them into the United States and then sold them to the public via the Internet. In other instances, they obtained trademark-branded integrated circuits then scraped, sanded, or ground off the original markings and had the devices remarked with another trademark and other markings (fraudulently indicating that the devices were of a certain brand, newer, of higher quality or of a certain grade – including military grade). A third “trick” was to merely repackage integrated circuits to appear new.

Operating through the CA companies, they entered into contracts for the sale of integrated circuits with various Government entities and then shipped the circuits bearing false, counterfeit trademarks to the US Navy. (b) (5)

Those counterfeit integrated circuits bore the purported trademarks of a number of legitimate companies including Fujitsu, Analog Devices, Inc., Intel Corp., and National Semiconductor, Inc.

As part of a plea agreement, Aljaff agreed to forfeit industrial machinery which is designed to be used in the examination, testing, packaging, de-marking, and marking of integrated circuits, computer network servers, and his integrated circuit inventory. On February 15, 2012, Aljaff was sentenced to 30 months in prison, to be followed by three years of supervised release. In addition, he was ordered to perform 250 hours of community service. Felahy also pled guilty and on February 22, 2012, he was sentenced to 20 months in prison, to be followed by three years of supervised release. He was also ordered to perform 500 hours of community service. Felahy and Aljaff agreed to pay (jointly and severally) \$184,612 in restitution to the semiconductor companies whose trademarks were infringed as a result of their criminal acts.

Although the MVP contracts administered by DCMA Santa Ana called for Inspection and Acceptance (I & A) at destination, DCMA was able to support the prosecution from a payment and contract closeout standpoint. **NCIS Special Agents Erin Michaels, Steve Demasi, and Stewart Thompson** should be commended for their fine investigative efforts.

Lesson Learned: Electronic components and semiconductor devices are very susceptible to counterfeiting by unscrupulous and dishonest suppliers. Where I & A has been delegated to DCMA, QAs should be especially careful in inspecting integrated circuits. (b) (6)

AVOID THAT DELAY, JUST USE INVENTORY THAT 'FITS'? – WRONG!

Production stoppages are really no excuse for providing nonconforming parts but, that is what allegedly caused a Kaman Dayron Inc. (KDI) materials manager to change part numbers for the bellows motor (EB 401-3) for the FMU 152 bomb fuse. His change, from EB 401-3 to EB 401-2 (the bellows motor for the FMU 143 fuse), was an unapproved product substitution. Although he had ordered the EB 401-2 motors for the FMU 143 bomb fuse in January 2003, by March 2003 KDI had not yet received the motors. Since he was aware of a current surplus of motors for the FMU 152 bomb fuse (and in an effort to prevent a production stoppage on the FMU 143 bomb fuse), *he manipulated KDI's inventory database and changed the part numbers; he then physically moved EB 401-3 motors from the FMU 152 area to the FMU 143 area; and, as a result of his actions, KDI assembled and shipped 1081 of the FMU 143 bomb fuses containing nonconforming bellows motors.* In August 2004, DCMA QAS, Paul Harrison discovered that KDI had substituted the EB 401-3 bellows motors into the FMU 143.

The contract was later terminated for default based on KDI's inability to provide the correct bellows as required by the contract and, subsequently, **Civil AUSA Bradley Bole**, Middle District of Florida, negotiated a \$4.75 million settlement with Kaman Precision Products (formerly KDI) resolving allegations that the contractor had supplied nonconforming bomb fuses to the US Army Support Command, Rock Island, IL.

The investigation, which had been initiated following the thorough work of **DCMA Orlando QAS Paul Harrison**, was led by **DCIS Special Agent Jeffrey Lysaght** with contributions from **CID Special Agent James "Mick" Hipsher** and **AFOSI Special Agent Tim Bostick** (b) (6) recently won a 2012 *Council of the Inspectors General on Integrity and Efficiency Award*.

Lessons Learned: Attempting to prevent production stoppage by providing nonconforming parts can cost a contractor more than they bargained for...thanks to an attentive QAS. (b) (6)

RECOGNIZING OUR OWN

A thrust of our *Focus on Fraud* newsletter is not only to highlight real-life cases, but to also recognize outstanding contributions to the fraud program by the DCMA workforce: you. We would be remiss, however, if we did not point out the recent recognition received by our own **CIC Director**, (b) (6), for (b) (6) outstanding contributions to fighting fraud relating to Government procurements.

The DoD IG honored (b) (6) by presenting him with the *Joseph H. Sherick Award* on May 8, 2012. The award is the highest honor bestowed on non-DoD IG employees and is granted annually to an individual who distinguishes themselves by exceptional service or contributions. *The DoD IG recognized (b) (6) for (b) (6) excellent work as Chairman of the DoD Procurement Fraud Working Group Steering Committee from 2005 to this year which involved bringing together experienced supervisory fraud agents, attorneys and auditors within the federal enforcement community, as well as acquisition and contract policy personnel, to enhance the DoD's fraud-fighting program.* The DoD IG pointed out that (b) (6) efforts helped ensure that all stakeholder agencies and participants, no matter their size or position in the procurement process, had an equal opportunity to bring forward topics or issues for discussion and solutions. Specifically, (b) (6) **demonstrates the significant impact one individual can have on improving the effectiveness of DoD**

procurement fraud related activities.”

That same lesson holds true for every DCMA employee. You can make a difference in our fight against fraud by bringing issues to our attention, no matter their size or complexity. Congratulations to (b) (6) and thanks – (b) (6) “leads by example”! (b) (6)

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November 2012

Issue No. 56

Focus On Fraud

DCMA Contract Integrity Center Initiative

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In *Focus on Fraud*, Issue No. 55, we encouraged all of you (b) (5)

. The CIC has already prepared several debarment recommendations to ensure that the Government is only doing business with responsible contractors.

Here are a couple of generic examples you should consider:

A contractor bypasses source inspection requirements in the contracts by inputting destination into WAWF and getting paid with no source inspection even though clearly called out in the contracts.

A contractor is the awardee on numerous small dollar value contracts from DLA, often bidding low, only to come back requesting price increases and waivers for material change from specifications. And, when such is not forthcoming, requesting cancellation, or simply not performing. This practice inhibits legitimate offers and reduces the chance of successful completion and delivery for the items required. It also results in a loss of DCMA time and resources for quality assurance and contract/modification review. There's also disruption to the supply system by quoting and receiving awards and then not delivering, and damage suffered by military customers who do not receive the parts on time.

If these fact situations seem familiar to you, contact your CIC counsel. (b) (6)

PROGRESS PAYMENTS AND NO COMPLETIONS OR DELIVERIES = T FOR D AND A RECOMMENDATION FOR DEBARMENT

Electronic Combat Test & Evaluation Company, Inc. (ECTEC) entered into a FFP Army contract to provide supplies/services in conjunction with Radio Frequency Monitoring and Data Analysis Systems (RFMDAS). The contract provided for delivery of 4 complete systems, consisting of a First Article RFMDAS unit and 3 production units. Delivery was not made and a modification to the contract was issued extending delivery date. ECTEC subsequently informed the PCO that he did not have the financial resources to complete the contract even though he had already billed & received \$1,245,751 of the \$1,311,712 contract price in the form of progress payments. None of contracted items were ever completed or delivered to Army in accordance with terms of contract. On March 11, 2011, the PCO sent a letter notifying ECTEC of her "decision to terminate Contract in its entirety for default for failure to make delivery & failure to make adequate progress." Subsequently, the DCMA ACO sent a demand letter to ECTEC for \$1,245,751. The DCMA CIC, following coordination with investigators and the ACO, has now prepared and submitted a

(b) (5)

(b) (6)

DIAMONDS ARE FOREVER: CARATS FOR BAD PARTS!

It took a James Bond style investigation to find it and then a two week jury trial to reach a

determination, but in the end, a judge in Southern Ohio ordered it forfeited to the United States. *What was IT and why was it forfeited? IT was a 5.29 carat diamond ring and it was considered the "proceeds" of a parts substitution scheme.* **Criminal forfeiture** is an action that can be brought as a part of the criminal prosecution of a defendant.

The diamond took center stage after the jury found Jerome Rabinowitz, of Great Neck, New York, guilty of mail and wire fraud, false claims and money laundering for selling nonconforming parts to the DoD under a contract to supply electronic components used in the Navy Nuclear Reactors Program, on military aircraft and on weapons systems for submarines. Rabinowitz owned J&W Technologies, LLC, and did business under the name of Jerry Roth. The company had contracts (prime and sub) awarded from 2006 through 2009 for semiconductors, microcircuits, and transistors.

The parts were considered critical application items, meaning they were essential to weapon system performance or operation, or the preservation of life or safety of operating personnel. They were required to be produced by approved QPL/QML manufacturers. Instead, Rabinowitz supplied non-conforming parts, including military surplus parts, parts from unapproved manufacturers, and some parts manufactured as long ago as 1967. He also forged documents to make it appear as though he bought them from QPL/QML manufacturers.

A jury determined that Rabinowitz should forfeit \$354,877, representing some of the loss to DoD from the wire fraud and the mail fraud, *as well as the 5.29 carat diamond ring he bought with some of the proceed.* He also faces up to 20 years in prison for each of the mail and wire fraud convictions, up to 10 years money laundering and up to 5 years for each of the false claims counts and a maximum fine of \$250,000 per claim. His sentence won't last forever, but he did lose the diamond forever!

Stay tuned for the actual sentencing information and for lessons learned. Kudos to **DCIS Special Agent Mike Hampp** for his outstanding work in this matter. (b) (6)

DID HER PAYOFF REALLY "PAY OFF"?

On October 24, 2012, former Kellogg Brown and Root (KBR) employee, Diyana Montes, pled guilty to accepting approximately \$50,000 in bribes from an Afghan trucking company, Afghanistan Trade Transportation (ATT). In 2008, Montes had participated in a scheme where she would receive, review, and then knowingly approve, or forward for approval, ATT invoices which fraudulently represented that ATT provided trucking services which had not actually been provided. In exchange for her actions, Montes received approximately \$35,000 wired to her personal bank account in the US and \$15,000 in cash. As a result, Montes could be sentenced to up to 15 years in prison, fined up to \$250,000, and ordered to pay restitution in the amount of \$50,000 (the amount she accepted in bribes).

Lesson learned: Individuals taking advantage of their employer and using their position for personal gain (fraud) may get more than they bargained for – where that employer is a DoD contractor, it's a "Federal Offense". (b) (6)

1 PERSON, 3 NAMES, 3 COMPANIES, 3 CAGE CODES = 1 CELL

Vernon Lee Phillips, aka Lee Phillips, aka Mike Turner operated 3 businesses (MTA Group, Inc., Phillips Two, Inc. and Maltech, Inc.). During a proactive effort at DLA's Defense Supply Center Columbus (DSCC), the Defense Criminal Investigative Service (DCIS) identified Phillips Two as a supplier of non-conforming parts. Purchase Orders examined required OEM parts (a variety of electronic microcircuits) for use in various military aircraft (the F-14, F-16, F-18 and the C-130) as well as certain ships (Nimitz, Trident and Poseidon Class) and in USN nuclear reactors. However, the parts supplied were actually unapproved substitutions and were unacceptable for use.

The DCIS investigation was able to identify the other persona and the other companies and eventually knocked on Phillips' door (it was really was not "his" door, he had become unemployed and then moved in with a girlfriend). Phillips admitted that he knew the contracts required 'exact product listed'. He also admitted buying product from Asia (he thought it was normal that the items cost less and that he was just getting a "good deal" – after all many of the Asian sellers displayed online certifications that made it seem their products were genuine).

Phillips was eventually prosecuted and in July 2012 he was sentenced to 5 months in jail, 5 months of home detention, and 3 years of supervision and ordered to make restitution of \$81,162 for the benefit of DLA. During the course of the investigation, Phillips and his companies were debarred for 3 years and GIDEP notices were also issued by DLA. Following the prosecution, DLA extended the debarments for an additional 3 years.

Excellent investigative effort by **DCIS Special Agent Wendell Cheers**, Denver RA and 'spot-on' support from **DLA's Land and Maritime Fraud Counsel, Marsha Wright**.

Lessons Learned: These were destination acceptance contracts but, DCMA QAs should also recognize that verification of traceability back to the OEM is vital! (b) (6)

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(b) (6)

December 2012

Issue No. 57

Focus On Fraud

DCMA Contract Integrity Center Initiative

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We split the last issue in two so it would be easier to digest - here's the second half. As we wrap-up the year and head into the Holiday Season, be sure to enjoy yourselves, stay safe, and remember: ***Fraud doesn't take a holiday!*** (b) (6)

MISCHARGING IS 'COSTLY TO THE CONTRACTOR'!

The U.S. Attorney for Vermont settled a False Claims Act matter involving billings by Applied Research Associates, Inc. (ARA). ARA had been awarded an Army contract for research and development of a landmine and unexploded ordnance platform called the Nemesis SCOUT ("Nemesis" contract). During the course of a DCAA audit, several ARA employees complained that labor and materials unrelated to the research and development contract were being improperly billed to that contract. An ARA engineer also filed a *Qui Tam* alleging that ARA fraudulently billed the Army for work performed by its employees that was unrelated to the Nemesis contract.

An investigation confirmed that ARA had billed costs to the Nemesis contract that were, in fact, related to other projects and the parties then entered into a civil settlement agreement with **ARA agreeing to pay the amount of \$1,100,000**. The U.S. Attorney for Vermont commended the ARA engineer, stating "*His efforts led to a federal investigation that we believe furthered the integrity and accountability in federal contract programs, and his cooperation and assistance was tremendously helpful to our work.*"

Kudos to **Carol Shea, Civil Chief, U.S. Attorney's Office**, and the investigative support of **DCIS Special Agent Richard Cannon**. **DCMA employees, Eric Brown, (Administrative Contracting Officer)** and **Travis Lincoln (Contract Administrator)** also contributed to the success of this investigation.

Lessons Learned in the Matter: Contractor employees have valuable insight into the inner workings of a contractor's business. If you, as a DCMA employee, are approached by a contractor employee with complaints of possible wrongdoing, listen and contact your CIC attorney as soon as possible. (b) (6)

SOME CASES TAKE TIME TO RESOLVE

In 2004 and 2005, Lucent Technologies World Services Inc. (LTWSI) was awarded 2 cost plus award fee contracts for the design, construction, repair, and modernization of Iraq's emergency communications system (they constituted a project referred to as the Advanced First Responder Network or AFRN). The AFRN was planned as an emergency communications system to help coordinate police, fire, military, medical and security response. In December 2008, a *Qui Tam* complaint was filed in the Western District of WA alleging that Alcatel-Lucent World Services Inc. submitted false or fraudulent claims to the DoD relating to the production of the AFRN.

A joint investigation was conducted by DCIS and Army CID and on September 21, 2012, Alcatel-Lucent subsidiary, **Lucent Technologies World Services Inc., agreed to pay the U.S. \$4,211,314.27** to settle allegations that it had submitted misleading testing certifications in 2005 to the Army in connection with the design, construction and modernization of Iraq's emergency communications system. The individual who filed the complaint on behalf of the U.S. Government was paid \$758,036.57 as his share of the settlement amount (and Alcatel-Lucent also agreed to pay his attorney's fees and costs in the collective amount of \$35,000).

DCIS Special Agent Andreas Kaltsounis conducted a painstakingly thorough investigation involving logistical challenges as he tried to piece together what happened in a war zone seven years ago with records and witnesses scattered throughout the world. He should be highly commended for his efforts. **DCMA International ACO Louis Botello** provided top notch assistance by ensuring current contractual issues did not adversely impact the investigation and by addressing numerous investigative queries about the contracts (and helping to track down contract files at Rock Island).

Lessons Learned: Many procurement fraud investigations take longer than anyone anticipates. Agents ask for contractual documents or technical information and nothing seems to ever come out of it; you may have thought the issue died and the investigation has ended; when, in reality, the investigation is chugging along. Please do not hesitate to reach out to your CIC Counsel if you wonder whether anything happened in a particular investigative matter. Remember - you should reach out to your CIC Counsel and coordinate efforts *prior* to taking a contractual action when there may be an on-going investigation. **(b) (6)**

MARRIED COUPLE PLEAD GUILTY AFTER DECADE OF FRAUD

Tommy L. Hudgens and Anna R. Hudgens, (husband and wife) sold and supplied non-conforming parts to the DoD through 10 different companies over ten years. The Hudgens' registered their companies as contractors using fictitious names and identities and used addresses located throughout the United States. Upon detection that the parts they supplied were non-conforming, they would shut down that company and register a new company under another name and fictitious ownership. On March 28, 2012, a Criminal Information was filed in U.S. District Court charging them with four counts of wire fraud in violation of [18 USC 1343](#). They entered a plea of guilty and are currently awaiting sentencing.

From 2005 through 2009, DLA Land & Maritime issued purchase orders to four companies (Federal Support LLC, Gulfport, MS; Government Support Services, Katy, TX; Prime Procurement LLC, Jacksonville, FL; and, Mechanical Supply Solutions LLC, Katy, TX) for a variety of parts to be used by the DoD on vehicles, aircraft, ships, missile launchers and nuclear reactor programs. Some parts supplied under these orders were classified as Critical Application Items and were required to have been manufactured by a specific Original Equipment Manufacturer (OEM). The Hudgens' were fully aware that the purchase orders required specific approved OEM parts but, knowingly and intentionally supplied nonconforming parts through these companies. They submitted quotes indicating they would be supplying the required OEM parts and prepared the invoices submitted to DFAS indicating they had supplied the required OEM parts. Yet, they admitted knowing that the parts they supplied were not the required OEM parts, but unauthorized substitutions. Through these four companies, **the Hudgens supplied non-conforming parts to DLA valued at \$983,782.94.**

The investigation was conducted jointly by the **DCIS, Jacksonville Post of Duty and Columbus Resident Agency** and the **U.S. Army CID, Major Procurement Fraud Unit, Vicksburg, MS**, with assistance from the **DCAA**. This matter was prosecuted by the **U.S. Attorney's Office, Columbus, OH** (Note - the Hudgens were previously investigated for operation of one of their companies in 2003 and a civil complaint was filed in U.S. District Court in OK in 2007; most of the companies have been debarred by the DOD over the years).

Lessons Learned: This married couple carried out their scheme for a long time using fictitious names and identities. We should be on the lookout for any indication that a particular individual or company is not who they say they are. (b) (6)

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*Focus On Fraud**DCMA Contract Integrity Center Initiative*

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So far this year there have been some distractions (budgetary) for DoD and DCMA personnel but, we must stay focused and get the job done. Combating fraud, waste and abuse is part of that job and your role is a vital one. Perhaps now is a good time to review the [Red Flags](#) on our CIC web page.

In *Focus on Fraud*, Issue No. 55 and *Focus on Fraud*, Issue No. 56, (b) (5)

we now have some results to share. Other topics include counterfeit electronic parts, product substitution (nonconforming parts) and a staunch reminder on ethics. If these articles spur questions in your area - contact your local CIC Counsel or report your concerns on our CIC [FraudNet](#) page. (b) (6)

POOR PERFORMERS WASTE CRITICAL TIME AND ASSETS

Following our articles on poor performers, it did not take any encouragement for **DCMA Dallas QAS Donna Price** to call the CIC about Sam Daniel, Jr. This Dallas area company (named after its owner) routinely requested contract cancellation when it appeared that performance would not be profitable. Research disclosed that Daniel operated 3 businesses out of residences, had no manufacturing capability, no quality control and that 18 of the 27 awards made to these companies were cancelled by DLA due to nonperformance. Further research found another 10 companies he had operated (also from residences) where 158 of 356 awards were cancelled for nonperformance. Government damages included costs of processing the numerous awards and cancellations (as well as delivery extensions), costs of re-procurement, costs related to contract administration activities, costs relating to the impact of delivery delays and nonfinancial damages suffered by the end users due to non-availability of product required to support their mission. (b) (5), DLA debarred Daniel and his 13 companies through January 1, 2016.

Not to rest on these laurels, QAS Price then advised of another Dallas area contractor, (b) (5)

Lesson Learned: There is actually something that can be done with these poor performers who are wasting precious DoD time and assets. (b) (6)

DID YOU SAY “COUNTERFEIT”?

An investigation was initiated after receiving allegations that a company, Penta Financial Inc., d/b/a Penta Labs (“Penta”), imported electron tubes from China, stamped the tubes to appear as if they were made in the U.S. and then sold them to DoD contractors for use in military electronic systems. Additionally, it was alleged Penta’s Director of New Business Development and OEM (Original Equipment Manufacturer) Sales, Steven Sanett, taught at least one other person how to refurbish, alter and rebrand used, old, and surplus electron tubes to appear new and unused.

Documents obtained by investigators disclosed that Sanett made misrepresentations regarding parts sold and mailed to a DoD contractor. Testing of the tubes supplied by Penta proved that they were used (they had been cleaned-up and re-labeled with new date codes). Four of the five tubes tested did not meet specifications and all tubes showed signs that original labels had been removed and new labels/date codes applied. The investigation also revealed that Sanett and Jeremy Madvin, owner of American Business Alliance, d/b/a Omni-Wave Electronics (“ABA”), worked together to deliver surplus electron tubes on DoD contracts. Source inspection was not delegated to DCMA for most of the contracts, but the parties went to great lengths to hide evidence and they expertly altered certifications, so it would have been difficult for a QAR to discover the misrepresentations.

A Criminal Information was filed in the Central District of California charging Sanett with one count of Mail Fraud ([18 USC 1341](#)) and one count of Fraud Involving Aircraft Parts in Interstate and Foreign Commerce ([18 USC 38](#)). Sanett was convicted and sentenced to 12 months and 1 day in prison, 3 years supervised probation and fined \$70,000. Madvin was also charged, with one count of Wire Fraud ([18 USC 1343](#)). He was convicted and sentenced to 4 months home detention, followed by 3 years supervised probation and was ordered to pay \$36,550 in restitution and a \$10,000 fine. DLA debarred Penta, ABA, Sanett and Madvin.

DCIS Special Agent Sunny Lim should be commended for her tenacious pursuit of the allegations and for providing strong support to **Criminal AUSA Eric Vandavelde**. **DCMA Los Angeles QAR Angela Merritt** also provided critical and active support thru her review of documentation and parts as well as her knowledge of the contractor.

Lesson Learned: Should you notice that OEM parts you are inspecting show signs of original labels having been removed and new labels/date codes applied - that could be an indicator of fraud! *If you see OEM parts that are packaged in zip-lock bags this also could be a tip-off that the parts are nonconforming, contact your CIC Counsel.* (b) (6)

A TALE OF TWO ROTH'S

The two cases involve separate parts suppliers, but similar threads run through both: product substitution, a tireless investigator and the name Roth. Previous articles reported on indictments and pleas in these cases: “Roth Fabricating” and “Jerry Roth,” otherwise known as Jerome Rabinowitz, owner of J&W Technologies (see [Focus on Fraud, Issue No. 54](#) and [Focus on Fraud, Issue No. 56](#)).

Up in Michigan - Roth Fabricating had both destination acceptance and origin acceptance contracts. Its owners, Shane Sarnac and Simone Haas, went to an extreme to conceal nonconforming product from the government QAR. What they didn't count on was a thorough investigation that uncovered their conspiracy to substitute nonconforming seat assemblies for military vehicles and gun racks for M16 rifles. Roth and its co-owners pled guilty to Conspiracy to Commit Wire Fraud ([18 USC 1343](#)). In their plea agreements they admitted to knowingly providing seat assemblies that were dimensionally defective and included substituted material under DLA Purchase Orders valued at \$3.9 million. Sarnac was sentenced to 26 months in prison, 3 years supervised release and ordered to pay \$825,000 in restitution (joint and severally with the corporation and Haas); Roth Fabricating was sentenced to probation for 5 years and ordered to pay a \$25,000 fine; and, Haas received 15 months in jail, 6 months home confinement and 3 years supervised release. However, they will all be out of business much longer - DLA debarred Haas until 2017, Sarnac until 2018 and Roth until 2021.

Over in New York - the other Roth, “Jerry”, was busy supplying nonconforming parts and falsifying trace documents for a variety of electronic semiconductors, microcircuits and transistors used in the Nuclear Reactors program, FA-18 and C-5 aircraft. It turned out that “Jerry Roth” was really Jerome Rabinowitz who had been convicted in the late 1980's for making false statements in connection with DoD contracts. This Roth also wasn't counting on running into a government investigation, or more specifically, DCIS Columbus gumshoe Mike Hampp. After a 9 day trial, an Ohio jury convicted Rabinowitz of 25 counts of Mail Fraud ([18 USC 1341](#)), 9 counts of Wire Fraud ([18 USC 1343](#)), 3 counts of Money Laundering ([18 USC 1957](#)) and 2 counts of False Claims ([18 USC 287](#)). Court testimony established that Rabinowitz provided forged documents to DoD to make it appear as though he bought the parts from the correct manufacturers and DoD paid his company based on the false representations he made to the government. Rabinowitz was sentenced to 48 months in prison, 3 years supervised release, ordered to pay a \$25,000 fine and restitution of \$492,024.53. Additionally, he was ordered to forfeit \$354,877.80 and a Cartier 5.29 carat diamond ring that appraised at \$400,000.

The single primary thread running through both Roth cases that led to the discovery of nonconforming product to the warfighter, criminal convictions and money back to the government was the **Lead Investigative Agent, DCIS Special Agent Mike Hampp**. His dedication and outstanding work is appreciated, along with that of **Army CID Detroit Special Agent Linda Koltuniak** and **DSCC Fraud Counsel Marsha Wright and Carol Matheke**. The Michigan team also included **DCMA QAR Richard Bush** who provided critical and substantial support to the Roth Fabricating investigation.

Lessons Learned: Always report allegations you receive to your CIC Counsel and pay close attention to Quality Assurance fraud indicators: *Does the contractor regularly have “sample” parts prepared waiting for your arrival for lot acceptance? Is there limited government access to production and storage facilities or an effort to hide records? Do the certifications look suspicious, e.g., poor reproduction, illegible or incomplete documentation.* More [Red Flags](#) are located on the CIC homepage. (b) (6)

LOW TECH FRAUD...IT STILL HAPPENS!

Kendiesel, Inc., a NJ corporation, submitted bids indicating that they would supply diesel engine parts manufactured by a listed approved source. Subsequently, Kendiesel provided nonconforming parts. Some of the parts were made in China; other domestic parts were not from the DoD approved source. Kendiesel provided falsified documentation representing that the parts had been manufactured by the DoD approved source. The products were tested by the DLA Land & Maritime Product Verification Office, and failed. Product Quality Deficiency Reports were issued by the Department of the Army. Ultimately DLA Land & Maritime sent out safety alerts to the Army Tank Automotive and Armaments Command, referencing the results from the testing and the inspection conducted by the Product Verification Office.

DLA later issued a performance-based debarment for Kendiesel, several individuals and affiliated companies. Eventually, Kendiesel pled guilty to one count of criminal False Claims ([18 USC 287](#)) and was ordered to pay \$96,660 in restitution, a \$260,000 fine, and a special assessment fee of \$400, and they were placed on probation for three years. *A special condition of the three-year probation was that Kendiesel refrain from government contracting.* DLA then extended their debarment through February 2016.

Excellent investigative effort was provided by **DCIS Special Agent Darryl Williams**. Assistant U.S. Attorney **Charlton Rugg** transformed those efforts into a successful criminal prosecution. Kudos for the support received from **Richard LaPointe, DCMA Springfield Team Leader; Lawrence Huczko, DCMA Administrative Contracting Officer; and Micheline Accime, DCMA Contract Administrator.**

What is the Lessons Learned here? There is no adequate substitution for a visual inspection of the part and the packaging; often times, differences between the part required by the contract and the part that was delivered are not difficult to detect. If you suspect that parts do not meet requirements, contact your local Fraud Counsel. (b) (6)

ETHICAL “BLUNDERS” = CRIMINAL CONVICTION

On January 17, 2013, Army Officer LTC James McLinnaham, formerly assigned to DCMA Huntsville, was convicted in U.S. District Court in Huntsville, AL on charges of making False Statements ([18 USC 1001](#)) and Theft of Government Property ([18 USC 641](#)). The evidence

disclosed that McLinnaham certified his *Confidential Financial Disclosure Reports* (OGE Form 450s) and failed to disclose his outside position with a defense contractor, as well as wages and other payments he had received from that contractor; he also failed to disclose his relationship with the same business, a prior misdemeanor arrest and a prior marriage on his *Questionnaire for National Security Positions* (Standard Form 86).

McLinnaham was found guilty on three counts of making false statements on his OGE Form 450s; one count of making false statements on his SF 86; three counts of making false statements in work orders submitted to the Army print shop (he had claimed that posters, printed and mounted by the Army print shop, were for official purposes when they were actually for his outside business) and one count of theft of government property (he had improperly obtained the posters and also a conference table from Redstone Arsenal). *McLinnaham faces a maximum sentence of five years in prison and a \$250,000 fine for the false statement charges; he also faces a maximum sentence of 10 years in prison and a \$250,000 fine for the theft charge.*

DCIS Special Agent Lance Stamper led the investigation and put in many hours of hard work. Our thanks also, to **DCMA Attorneys Cleo Anderson and Bernie Namie**, key witnesses in the case. This matter may seem familiar because it appeared in the *DCMA February 2013 Blunders Blotter* article entitled: “*Don’t Ignore it and Don’t Fudge it – the OGE 450 is serious business!*”

Lessons Learned in the Matter: Government personnel could face criminal charges for falsification of ethics, security clearance or work order forms. The U.S. Attorney assigned to the case commented: “*This case is important because it demonstrates our commitment to investigating and prosecuting those who do not live up to the trust that our citizens have placed in them.*” (b) (6)

August 2013

Issue No. 59

Focus On Fraud

DCMA Contract Integrity Center Initiative

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Dedicated. Knowledgeable. Tenacious. Professional. These are all adjectives that come to mind to describe the outstanding DCMA employees described in the articles that follow in this edition of *Focus on Fraud*. From the DCMA Dallas QAR who went the extra mile to ensure that contract requirements on rescue vehicles were satisfied to the outstanding efforts of the dynamic DCMA Santa Ana quality team who dealt with untested external fuel tanks on aircraft, these adjectives continue to echo. *Dedicated. Knowledgeable. Tenacious. Professional.* Despite this summer's unique challenges posed by furlough conditions, our DCMA workforce continued to uphold its outstanding reputation for dedication to the agency's mission by contributing to its fraud fighting efforts above and beyond the call of duty, as highlighted in these summaries. These adjectives equally apply to our dedicated Contract Integrity Center (CIC) professionals whose support and tenacity is always critical to a successful conclusion to a fraud investigation. *Dedicated. Knowledgeable. Tenacious. Professional.* As I begin my new role as CIC Director, I am both humbled and honored to continue to work with and represent the highly experienced and talented CIC staff, as well as the outstanding agency employees who are the face of DCMA—the eyes and ears of the Government.

Note: Former CIC Director (b) (6) retired in March of this year after 40 years of dedicated federal service and many years working tirelessly for the procurement fraud fighting mission. (b) (6) dynamic efforts established the DCMA CIC and contributed in countless ways to ensuring investigations and prosecutions are effective tools in detecting fraud, protecting the Warfighter and recovering funds. Prior to (b) (6) retirement, the DoD IG presented (b) (6) with the prestigious Joseph H. Sherrick award for his outstanding work as Chairman of the DoD Procurement Fraud Working Group Steering Committee. We are grateful to (b) (6) for (b) (6) many years of service and outstanding accomplishments. (b) (6)

AIRPORT RESCUE FIRE FIGHTING TRUCKS ARE NOT USED MUCH?

The owners of Crash Rescue Equipment Service, Inc. (Crash), Sharon and Robert Relyea, and their VP of Operations, Troy Padgett, developed a scheme to make additional profit on Crash's contracts to overhaul firefighting vehicles for the military. They recognized that these vehicles were subject to limited use – so *why re-build parts to like-new condition when they could merely "service" the part and it would function? Because the contracts required them to "re-build parts to like-new condition", that's why!* Crash routinely "serviced" transmissions, king pins, tie-rod ends, steering systems, gear boxes, brake systems and other parts but yet they invoiced the Government for complete overhaul according to the contracts – even charging some of the required effort as over and above. In July 2009, a former employee reported the fraud to DCMA Dallas and the CIC. Despite significant challenges encountered due to the customers' critical delivery needs, the recently assigned QAR diligently created a methodical process, coordinated with the CIC and investigators, to ensure contract requirements were satisfied. The QAR provided substantial documentation that corroborated the former employee claims. A lengthy investigation and subpoena process recovered subcontractor/supplier documentation – clear evidence of the fraud. Subsequently, Padgett left, the owners sold the company and the new company wanted to resolve the matter. For various reasons, criminal prosecution was declined in favor of a Civil False Claims

Action. In February 2013, Crash agreed to pay the Government \$750,000 to settle the allegations (note - the company's financial condition was a consideration in arriving at the amount). The USAF is now pursuing debarment of the prior owners and Padgett.

DCMA Dallas QAR Latanya Kelley (now a Production Supervisor) and **Contract Administrator Leah Allen** provided substantial support during the investigation of this matter. Great effort from **DCIS SA Billy Byassee** and **AFOSI Special Agent Howard James** resulted in a successful civil recovery.

Lesson Learned: Value Engineering is a joint effort where both parties agree to the new process and share in the cost savings; it is not a one-sided process where the contractor modifies the requirements, pockets the savings and never solicits the Government's approval – that is called fraud. (b) (6)

ANOTHER FOLLOW-UP ON PERFORMANCE BASED DEBARMENTS

An article in *Focus on Fraud, Issue No 56*, reported that the CIC had submitted (b) (5) regarding Electronic Combat & Test Evaluation Company, Inc. (ECTEC). ECTEC had been terminated for default on a FFP contract relating to Radio Frequency Monitoring & Data Analysis Systems; no contract items were ever completed or delivered and ECTEC had received substantial progress payments. The Army has now debarred ECTEC and its principals through March 21, 2016.

Lesson Learned: If you are tired of spending countless hours dealing with chronically poor performers who may have multiple contracts, there is a solution. (b) (5)

(b) (6)

DON'T THINK, EVEN FOR A NANOSECOND, ABOUT FALSIFYING SUBCONTRACTOR INVOICES!

Aaron Madison was the Chief Operating Officer of a Kansas small business called NanoScale Corporation. NanoScale marketed and manufactured products involving advanced chemistry for the Army and Defense Threat Reduction Agency (DTRA). When Madison's company ran into financial trouble and couldn't meet payroll, he thought he had an easy solution: Create false invoices under DoD contracts to get paid.

The investigation began when DCAA discovered irregularities during an audit of a cost-type contract and ended after discovering at least eight fictitious invoices and misrepresented costs. Madison admitted in a Plea Agreement that, when the company was in financial distress (accounts payable exceeded cash flow/meeting payroll was difficult), he had altered a subcontractor invoice. He pled guilty to one count of Wire Fraud ([18 USC 1343](#)). In January 2013, Madison was sentenced to three months' home confinement, two years' probation and ordered to pay \$17,211 in restitution and a \$23,967 money judgment. The Army debarred Madison until February 19, 2015.

Kudos to **DCIS Wichita Special Agent Scott Dyer** and **St. Louis Army CID Special Agent Scott Smails** for their outstanding investigative efforts; former **DCMA Wichita ACO Ellen Aipperspach**

provided support to the investigation.

Lessons Learned: Although a paid cost voucher audit discovered irregularities in costs claimed that led to the discovery of falsified invoices, other fraud indicators included the company's financial distress and the departure of key employees. ([Lindbeck](#))

YOU WANTED US TO TEST THE F/A-18 EXTERNAL FUEL TANKS?

General Electric Aviation Systems (GEAS) contracted to produce external fuel tanks (EFTs) for use on the Navy's F/A-18 Hornet strike fighter jet at its plant in Santa Ana, CA. In March 2008, a GEAS-manufactured EFT failed Government testing, resulting in a multi-year investigation by DCMA Santa Ana, DCAA, DCIS and NCIS. Specifically, a Lot Sample for the Product Verification Test of an EFT was in progress when -- at the completion of the slosh and vibration portion of the test -- the doors of the external fuel tank were removed for inspection and it was noted that the fuel probe bracket was broken at the welded areas, the fuel transfer tube sheared just above its welded attach point, and there was damage to the structural main frame thought to be the result of the broken fuel transfer tube. A Level III CAR was issued by DCMA Santa Ana. The CAR process disclosed that, per their prime contract with NAVAIR, GE had been required to conduct testing of fuel tanks concurrent with shipping, with test results returned approximately two months after shipment. However, tests had not been conducted on three lots. As a result of these developments, product deliveries were halted for a period of time.

Civil Assistant US Attorney (AUSA) Shana Mintz directed an investigative team which found evidence that GEAS knowingly failed to comply with contract specifications and failed to employ proper quality control procedures in connection with 641 EFTs delivered to the Navy between June 2005 and February 2008. Allegations of GEAS' misconduct were also included in a lawsuit filed by a former GEAS employee under the qui tam provisions of the False Claims Act (after the investigation of the initial allegations had begun). Eventually, **GEAS agreed to pay \$6,580,042.95 to settle allegations that it had submitted false claims.** In addition to the EFT allegations, the settlement resolved allegations that, between June 2010 and June 2011, GEAS knew that it falsely represented that it had performed a complete inspection of 228 drag beams to be used on Army UH-60 Blackhawk helicopters. Army CID assisted in the investigation of this last portion of the case.

AUSA Mintz did an outstanding job of prosecuting this matter and achieving a successful settlement. **DCIS Special Agent Eric Braun, NCIS Special Agent Shannon Rachal, and CID Special Agent Raul Alcantara** deserve praise for conducting a skillful and thorough investigation -- and most of all for their impressive persistence! **US Attorney's Office Auditor Ken Gleason**, with DCMA and DCAA assistance, was responsible for putting together a very effective "damages" model that was used to negotiate the settlement. **DCMA Santa Ana QAR Sal Franco** provided critical quality and technical support to the investigators and AUSA and should be highly commended for these efforts. Special recognition and kudos are also due to **DCMA's Joe Oddo, Mark Day, John King, Nat Reyes** and several now-retired employees that were on the DCMA Santa Ana quality team at the time. They proactively made the initial fraud referral to DCIS and drafted the initial Level III CAR which subsequently served as a basis for the investigation. They also provided technical expertise and knowledge of the contractor during the early stages of the investigation.

Lesson Learned: It is critical for quality personnel to ensure contractors are fully complying with contractual testing requirements. If you become aware of a situation where a contractor is

submitting product for acceptance but may not have been conducting the required testing, please contact your CIC Counsel for assistance. (b) (6)

DCMA ATLANTA 'UNMASKS' WAWF IMPOSTERS

Jim Thornberry, retired WAWF Group Administrator for DCMA Atlanta, was responsible for reviewing and approving applications submitted by vendors for access to WAWF. When Dale Capelouto and Glenn Favre submitted suspicious email addresses with their WAWF applications, Thornberry contacted **ACO Michael Jacobs, DCMA Atlanta**. Upon investigation, Jacobs discovered that Capelouto and Favre had at least 5 CAGE codes and had made repeated attempts over a period of several months to submit fraudulent WAWF invoices for millions of dollars; Thornberry and Jacobs also uncovered attempts by Capelouto and Favre to apply for WAWF Government user roles using false information in an attempt to approve their own invoices. They reported the matter to the CIC and continued to work with the CIC and **DCIS Special Agent Curtis Reidy** to document all of the fraudulent payment attempts. Their actions in reporting the activity and continuing to work with the CIC and DCIS are commendable. The CIC referred the information to DLA for possible debarment. Following some additional investigation, DLA debarred these two individuals and the 14 affiliated companies they used in their scheme to submit multiple false invoices exceeding several million dollars to DoD, DoE, Treasury and other Federal agencies for work that was never contracted for, nor performed by them. The debarment has the immediate effect of making Capelouto and Favre ineligible for contracts or for federal assistance programs with all Executive Branch departments and agencies.

Lesson Learned: Be on the lookout for fraudulent attempts to access WAWF and report your suspicions to the CIC. (b) (6)

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(b) (6)

November 2013

Issue No. 60

Focus On Fraud

DCMA Contract Integrity Center Initiative

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Proactive. It's an empowering word. Often, in our roles as DCMA employees, we are limited to being *reactive* to events that occur during our contract administration effort. This issue of *Focus on Fraud* highlights areas where you are empowered to be proactive. *Do you have a non-performing contractor?* You may want to take **CIC Philadelphia Counsel (b) (6)** advice in her article below and contact your CMO Counsel to explore the remedy of a performance based debarment recommendation. *Do you have an audit to resolve that involves issues under investigation?* You might take **CIC Carson Counsel (b) (6)** advice and coordinate with your CIC Counsel at least one year prior to the time Statute of Limitations issues come into play. The articles below also show CIC Counsel leading the way in proactive efforts such as **Atlanta CIC Counsel (b) (6)** coordination with the DCMA Wide Area Work Flow Coordinator and ITSCO to issue an IT Messenger alert on individuals trying to gain unlawful access to DCMA systems; or **Dallas CIC Counsel (b) (6)** efforts to seek a 10 USC Section 2408 debarment with additional restrictions on wrongdoers. Finally, the ultimate proactive effort is reporting those *Red Flags*. **You can be proactive! (b) (6)**

DCMA ATLANTA 'UNMASKS' WAWF IMPOSTERS – AN UPDATE

In [Focus on Fraud, Issue No. 59](#), we reported that Dale Capelouto and Glen Favre had been debarred for a scheme relating to WAWF government user roles (using the false information in an attempt to approve their own false invoices). Subsequently, the DCMA Wide Area Workflow (WAWF) Program Manager clarified that the responsibilities of DCMA WAWF Group Administrators (GAMs) do not include review or approval of vendor requests for access to WAWF. The article stated that GAMs are responsible for reviewing and approving applications "submitted by vendors" for access to WAWF. However, DCMA WAWF GAMs only review and/or approve access for Government users or Government Support Contractor users. Here, the impostors had indeed posed as Government employees so their requests had been forwarded to the GAM who uncovered their fraudulent attempts to gain access.

Apparently, *the 2 individuals did not 'get the message'* and have continued to misrepresent themselves to various agencies, including DCMA, as employees of the Government, or as being entitled to Government funds. **(b) (5), (b) (6)**



IS THERE A DOCTOR IN THE HOUSE (OR IN THE LAB)?

A (former) longtime professor of physics at UCLA, Dr. Alfred Wong served as the Director of the Plasma Physics Laboratory at UCLA and as the Director of the High Power Auroral Stimulation Observatory near Fairbanks, Alaska. About 10 years ago, Wong and two companies he founded --

Non-Linear Ion Dynamics, Inc. (NID) and the International Foundation for Science, Health, and the Environment (IFSHE), both of Van Nuys, CA, entered into contracts worth \$25 million to research the feasibility of nanotechnology batteries for defense applications and to conduct ionospheric research. Alfred Wong Technologies, LLC (AWT), a Beverly Hills-based concern he established to manage various patent rights, was utilized to create fictitious invoices claiming it had manufactured and sold to NID certain nanotechnology components. Fraudulent invoices totaling \$160,000 were submitted to the DoD for payment. Wong also utilized IFSHE and NID to submit false vouchers to the Department of Interior (DoI) for improvements on his privately owned land, as well as equipment and labor costs.

Wong pled guilty to federal fraud charges for submitting fraudulent invoices and must pay a total of \$1,686,000 in fines, restitution and damages to the United States and to UCLA. He was sentenced to 5-days imprisonment, 6-months home detention, and 18-months of supervised release; he must also complete 300 hours of community service. Wong, IFSHE and NID have been proposed for debarment.

DCMA Los Angeles ACO Stephanie Washington and CA Joe Rosella are commended for providing critical support to ensure that the drafted settlement agreement incorporated and resolved all of the significant contractual issues. **DCIS Special Agent Janice Horst** and **DCIS Special Agent Cordell “Trey” DeLaPena** (primarily, while an agent for the DoI OIG) conducted the comprehensive investigation. **Criminal AUSA Dan O’Brien** and **Civil AUSA Kent Kawakami** deserve much praise for successfully concluding this matter. **DCAA RSI Auditor Mark North** did an outstanding job calculating damages and supporting the investigation.

Lessons Learned: This investigation highlighted two red flags that could indicate potential fraud – 1) *individual ownership or control of multiple, closely interconnected businesses, serving as subcontractors or suppliers to each other* (opportunity to move money and engage in mischarging of materials between the different entities); and, 2) *a lack of a solid accounting system*. These red flags do not prove that a company is a bad player but they indicate an environment conducive for fraud. When you add in some “inaccurate” statements by the individual, these indicators become even stronger -- notify your local CIC Counsel. (b) (6)

A TRIPLE WHAMMY? YES, YES AND YES!

In [Focus on Fraud, Issue No. 55](#), we learned about a couple of USAF engineers who had conspired with contractors to ‘financially enhance themselves’ through base construction projects; they had been indicted and suspended from contracting. Now, all 4 individuals have been **convicted and sentenced to prison** (a 60-month term, a 24-month term, an 18-month term and an 8-month term); they were **debarred by the USAF** (an 8-year term, a 54-month term, a 44-month term and a 3-year term); and, the **DoJ has debarred the individuals for a period of 5 years under [10 USC 2408](#)**. The DoJ debarment imposes the same restrictions as the USAF debarments *plus additional restrictions* regarding their employment in a managerial or supervisory capacity, their service on the Board of Directors or as a consultant *and it carries a potential criminal penalty of \$500,000 for a violating contractor*. YES, YES and YES; thank you **DCIS Special Agent Jody Fletcher** and **Criminal AUSA David Jarvis**. (b) (6)

BODYBUILDER ADMITS SELLING DEFECTIVE AIRCRAFT PARTS

Martin Dale Geyer, a former bodybuilder, pleaded guilty in Federal Court in the Southern District of Ohio, admitting that he had sold defective self-locking nuts to DLA's Troop Support for use in military aircraft. A 9-Count Indictment had charged him with supplying counterfeit nuts, bolts and screws through Wellworth Fastener Products, *a company he ran out of his home*. Geyer admitted falsifying invoices and altering certificates to falsely indicate the parts met specifications. **DCMA Dayton QARs Roger Stull and Alan Solocinski** (retired) became suspicious and reported the matter when material certifications couldn't be traced back to suppliers (note - Wellworth had been contracting with the Government for 7 years and was a Qualified Supplier List Distributor/QSLD for Class 3 aerospace fasteners). The defective parts were also utilized in nuclear power plants and were considered "critical application items".

DCIS Special Agent Michael Hampp led the criminal investigation. During a search of Geyer's home, agents found illegal steroids, nine firearms and 3,000 rounds of ammunition. Geyer pled guilty to Mail Fraud ([18 USC 1341](#)), Possessing a Schedule III Controlled Substance ([21 USC 844](#)), and unlawful use of a controlled substance and possession of a semi-automatic firearm ([18 USC 922\(g\)\(3\)](#) and [18 USC 924\(a\)\(2\)](#)). He could be sentenced to 20 years in prison and ordered to pay a \$250,000 fine on the mail-fraud charge, a year in prison and a fine of \$100,000 on the steroid-possession charge, and 10 years in prison and a fine of \$250,000 on the firearms charge.

Lesson learned: Suspicious activity should always be reported, even if it involves a qualified supplier with years of procurement history. (b) (6)

CONSIDER THIS...A DEBARMENT BASED ON POOR PERFORMANCE

Let's assume that you are part of a Contract Management Team (CMT) and "your" contractor fails to perform on contracts or when he does perform, the performance is unsatisfactory. The QAR has written Corrective Action Requests (CARs) and also received Product Quality Deficiency Reports (PQDRs). This contractor basically requires an inordinate amount of the CMT's time and effort. *Sound familiar?* In this case - this describes DCMA Hartford's interaction with All Quality Spares, Inc. (AQS).

While most of us realize that contractors may be debarred based upon a criminal conviction, we sometimes forget that a government contractor may also be debarred (*a protective measure*) as a result of performance issues. In the case of AQS, DCMA CIC initiated a recommendation for

(b) (5)

DLA subsequently debarred AQS and its owners, Joseph and Carol Garofano.

Kudos to DCMA Hartford personnel, who provided detailed narratives, charts, graphs, and analyses to support the DCMA (b) (5), and to aid in responding to AQS contentions during the debarment process. Specifically, well-done to **J. Reed Vander Schel, Contract Administrator; Lydia Lariviere, Administrative Contracting Officer; Stephen Mueller, Quality Assurance Representative; Carl Kulbaski, Quality Assurance Specialist; Debra Winnie, Industrial Specialist; and, Richard Belford, Team Leader, Contracts.**

Lessons Learned: The Government can protect itself from contractors who cannot perform

satisfactorily. If you have a contractor with repeated performance issues or is nonresponsive to DCMA CARs, contact your local CIC counsel with this information. The debarment process may be an appropriate avenue of redress. (b) (6)

KNOW YOUR LIMITATIONS – AND OUR “STATUTE OF LIMITATIONS”

We recognize that ACOs, DACOs and CACOs are under significant pressure to issue final decisions (COFDs) without violating the 6-year Statute of Limitations ([FAR 33.206\(b\)](#)). Complications ensue if the contractual issues are also part of an on-going fraud investigation. As many of you know, **Contracting Officers are prohibited by regulation and statute ([FAR 33.210 \(b\)](#) and [41 USC 7103\(c\)\(1\)](#)) from settling or paying contractor claims involving fraud.** As a result, Contracting Officers may typically wait until the fraud investigation is completed before addressing the contractual issues. (b) (5)

(b) (5)

(b) (6)

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(b) (6)

March 2014

Issue No. 61

Focus On Fraud

DCMA Contract Integrity Center Initiative

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Bob Dylan crooned "...the times, they are a changing;" the Contract Integrity Center is no exception to the winds of change. A recent change comes by way of a new DCMA St. Louis Fraud Counsel, (b) (6). (b) (6) comes to the CIC fraud fighting fold from the Army Surface Deployment and Distribution Command (SDDC) at Scott Air Force Base where he served as a Procurement Fraud Advisor and Acquisition Attorney. With a strong work ethic and can-do attitude, (b) (6) will be covering the Midwest for fraud remedies and would be happy to hear from you. For our updated coverage areas, take a peek at our new [CIC Map](#). Another change may pop out at you in the articles below that contain a little added color, by way of pictures. You spoke and we listened, thanks to the creative capability of our *Focus on Fraud* Editor DCMA Dallas Fraud Counsel (b) (6). Finally, it's worth commenting on what hasn't changed. The names change, the dollars recovered change and sentences may change, but what remains the same are the persistent schemes to defraud the Government. Classic [Red Flags](#), like the fake invoices described in the articles below, continue to be a potential in our contract administration world. Just as the times are a changing, there are still some things that never change. *Please stay vigilant.* (b) (6)

Note: DCMA Dallas Fraud Counsel (b) (6) goes to great lengths to thank an outstanding Government team for their individual and joint efforts in the NEK case reported below (*CHARGE GP AS DIRECT, THEN AS LEASE COST, THEN KEEP IT???*). Special thanks and kudos also go out to (b) (6) for going above and beyond with coordination efforts to find a way to ensure that a significant inventory of weapons could be returned to and utilized by the Government.

MALASADAS (HAWAIIAN PASTRY) OR USN T-44 AVIONICS PARTS?

Nomad Aviation, Inc. (Nomad), Sanford, Florida, repaired avionics systems in USN T-44 *Pegasus* aircraft pursuant to a \$43M NAVAIR contract. Nomad was required to remove the existing dated analog systems, install updated digital avionics and provide spare parts. In May 2008, Nomad's owner, Thomas Robeson, submitted a Combo Receiving Report/Invoice, shipment number NOM0028, for a total of \$5,075,907 via WAWF. NOM0028 was then signed off by a USN representative. **DCMA AIMO-St Augustine ACO, David Lamb**, became suspicious because the invoice included an amount of \$3,190,231.70 against a cost-reimbursable CLIN for parts and materials with a group of fixed price CLINs. He knew that claims against that CLIN should have been submitted on a cost voucher through DCAA, so he requested a DCAA support evaluation of the \$5M invoice. Following multiple requests, Robeson finally provided DCAA with four vendor invoices, including one for \$2,171,621 from South Peck Aviation (SPA). *Interestingly, SPA was later determined to actually be a bakery that Robeson and his wife owned in Hawaii.*



DCAA referred the case for investigation as it appeared that none of the amount claimed against the CLIN included allowable costs actually incurred by Nomad. **DCIS Special Agent William Forrester** investigated the matter and determined that Robeson defrauded the Government by: (1) submitting completely fictitious vendor invoices; (2) invoicing the Government before costs were

actually incurred; and (3) inflating invoices above cost. Robeson had created SPA and electronically provided SPA invoices as if it were an unrelated, third-party vendor that had billed Nomad. *SPA/Nomad actually purchased parts from third-party vendors, "marked up" the costs of the purchases, and submitted the inflated amounts as if Nomad had purchased the parts from SPA.*

Robeson pled guilty (Conspiracy to commit money laundering, [18 USC Section 1956\(h\)](#)) in June 2013 and was sentenced in November 2013 to 18 months in prison; 3 years supervised release and 50 hours of community service. As part of his sentence, he was ordered to pay \$2,171,621 in restitution. This case was investigated by the Internal Revenue Service – Criminal Investigation, the DCIS and the NCIS.

Lesson Learned: A contractor's failure to request payment exactly as required by the terms of the contract is a [Red Flag](#) requiring close scrutiny for possible fraud. If in doubt, consult with CIC Counsel. **(b) (6)**

CHARGE GP AS DIRECT, THEN AS LEASE COST, THEN KEEP IT???

The USA Research, Development and Engineering Command cost-plus-award-fee contract, valued at \$71M, provided for NEK Advanced Securities Inc. (NEK), a security contractor headquartered in Colorado Springs, CO to support the Joint IED Defeat Organization. NEK was required to develop and deploy teams of specialized personnel to Iraq and Afghanistan to combat improvised explosive devices. A DCAA review initially identified over \$2 million in questionable costs. Further analysis disclosed that a large portion of that amount was merely due to faulty documentation however, this further review also revealed that *NEK may have purchased weapons and other items, charged the items as a direct charge and then later invoiced their "lease cost" to the contract. In addition, NEK claimed ownership of the contract inventory.*

Following extensive investigative effort by **USA CID Special Agent William Zastrow** and **DCIS Special Agent Todd Sweeney**, it was apparent that NEK had mischarged the DoD, not only for the weapons but, other inventory and claimed costs. The DCMA CIC worked directly with **Assistant US Attorney Chris Larson, US Attorney's Office, CO** and **Department of Justice Trial Attorney Benjamin C. Wei** to assist in settling of the complex matter and the drafting of the Settlement Agreement. Significant support effort was also provided by **ACE Financial Analyst Eileen Leslie, CPA, CFE, MT, US Attorney's Office, CO**. NEK agreed to pay \$2.08 million, release/disclaim its current \$744,969 invoice (on hold by the DCMA ACO) and turn over to the DoD (through DCMA) a significant inventory (including

95 assault rifles and 520 high-capacity magazines, 85 handguns and 358 magazines, 27 rifles slings and 72 rifle optics). CIC inter-agency coordination efforts resulted in the weapons and inventory being transferred to the Federal Law Enforcement Training Center (Department of Homeland Security) and the DCIS. The complicated physical transfer of the inventory was later processed by **DCMA Plant Clearance Officer Laura Lenington**.



Lesson Learned: Valid, legitimate costs may sometimes be claimed in more than one manner –

but, they may only be claimed *ONCE*. (b) (6)

MAJOR FRAUD AGAINST THE GOVERNMENT!

Two brothers who owned a major defense contracting firm were sentenced in federal court on charges of Major Fraud Against the United States ([18 USC 1031](#)) and Conspiracy ([18 USC 371](#)). William and Ronald Kuchera, were each sentenced to five years' probation, the first 18 months on home detention with electronic monitoring, 1,000 hours of community service, and a fine of \$500,000.

The brothers owned and managed Kuchera Defense Systems, Inc. (KDS), a DoD contractor. KDS had submitted cost certifications to the Government regarding unallowable expenses that improperly inflated costs for overhead and general and administrative expenses. *These unallowable expenses included the leasing of a private airplane, vacations to Jamaica, personal car leases, improvements on a private residence and lobbying fees.*

The Kuchera brothers also submitted a false invoice for \$650,000 to Coherent Systems International, Inc. (Coherent), a DoD contractor owned by Richard S. Ianieri. As a prime contractor, Coherent had an \$8 million DoD contract for the Ground Mobile Gateway Systems, involving the development of a new prototype unmanned vehicle designed to prevent friendly-fire incidents. *The false invoice sought payment for a component that was never manufactured or delivered to Coherent and, after receiving the \$650,000 payment from Coherent, the Kuchera brothers kicked back approximately \$200,000 to Ianieri.* Each Kuchera brother filed false income tax returns for themselves and KDS. Their personal tax returns were false because they failed to disclose as income certain personal expenses paid for by their companies. The KDS tax returns were false because they included as business deductions certain expenses that were personal expenditures of the two brothers and because they illegally claimed the kickback to Ianieri as a legitimate business expense.

As part of the plea agreement, Ronald Kuchera also agreed to the civil forfeiture of an additional \$450,000 and agreed to make payment to the Internal Revenue Service (IRS) in the amount of \$121,313, (representing taxes owed due to his filing of false personal tax returns and his share of the taxes owed by KDS). William Kuchera similarly agreed to the civil forfeiture of \$450,000, and to pay restitution to the IRS in the amount of \$257,168. The Kuchera brothers and KDS also paid \$2.7 million to resolve their civil liabilities (Ronald paid \$950,000 and William paid \$829,566; KDS, now doing business as Currency, Inc., paid \$920,434 following the audit conducted by DCAA). The Kuchera brothers were also debarred from federal contracting.

Excellent investigative effort was provided by **DCIS Special Agent Jennifer Jezewski; NCIS Special Agent David Snyder; and IRS-CID Special Agent Janet Isman. Assistant US Attorneys Nelson Cohen and Paul Skirtich** transformed the investigative efforts into successful criminal and civil prosecutions. Investigative efforts were supported by the **DCAA Pennsylvania Branch Office, Pittsburgh**. Kudos to the supportive efforts of **Peggy Burchardt, Contract Team Leader at DCMA Pittsburgh; Joseph Scott, former Administrative Contracting Officer; and Matthew Rok, Contracts Group Leader.**

What are the "Lessons Learned" here? This complex fraud is a reminder for ACOs and CAs and others to review the **Red Flags** on the CIC website, especially [Contract Cost and Pricing and Kickbacks Red Flags](#). (b) (6)

MERE COINCIDENCE . . . I THINK NOT!

In an attempt to schedule a telephonic Post Award Orientation Conference with Osprey Machining Systems (OMS) regarding four newly awarded DLA contracts, **DCMA Pacific (Singapore) Contract Specialist, Jeni Chung**, phoned the contractor requesting to speak with the owner of the company, Jerline Anitha. The female OMS employee answering the phone did not speak English so she handed the phone to a person who identified himself as “Ms. Anitha’s husband.” During the course of the conversation, Ms. Chung requested a business email address and was informed that the proper email address was “anitha_md@crescentengineering.gmail.com.” Ms. Chung became concerned and actually commented that the company indicated by the email address was not OMS. Later that day, Ms. Chung received a new email address from OMS, “ospreymachiningsystems@gmail.com.” She then discussed her concerns with **DCMA Pacific (Singapore) ACO Susan Hogge**. In light of that information and also being aware that Crescent Engineering (CE) had been debarred, Ms. Hogge immediately contacted CIC. She suspected that the person on the phone was Mr. Daniyal Anton Prabhu (formerly with CE); surely, it was not a mere coincidence that OMS initially provided the email address of a debarred contractor (CE). *Ultimately, it was determined that OMS was in fact an affiliate of debarred contractor Crescent Engineering and Mr. Prabhu, as such OMS was debarred until May 23, 2017.* Hat’s off to our DCMA Pacific CA and ACO for their astute observations AND prompt discussion with the CIC!

Lesson Learned: Often, smaller debarred contractors reinvent their companies under a new name and CAGE code while maintaining the same personnel, address and/or phone number. If a contractor is behaving suspiciously or providing contact information that clearly belongs to another contractor, immediately contact your fraud counsel. (b) (6)

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June 2014

Issue No. 62

Focus On Fraud

DCMA Contract Integrity Center Initiative

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June 1998. If you link to the '[Focus on Fraud Newsletters](#)' page of the Contract Integrity Center's website, you'll find editions of the *Focus on Fraud* dating back to *Edition 1*, published sixteen years ago this month. While the names and stories may change, the schemes and [Red Flags](#) are the same and their rate of occurrence has not diminished. The cases described below - *everything from counterfeit batteries and overpriced aircraft spare parts to white-out on acceptance test reports* - highlight the critical role DCMA employees play in the detection of procurement fraud. Three of the five articles are cases where a conscientious DCMA employee, just like you, reported a fraud indicator and protected the safety of the warfighter or ensured a fair and reasonable price. The incidence of fraud in government procurement is not subsiding and neither is the importance of your role in prevention, detection and reporting!

The other constant since *Edition 1* was published long ago has been the diligent efforts of our Editor, (b) (6). After 34 years (29 as a Fraud Counsel), (b) (6) will be retiring from Federal Service at the end of June. (b) (6) was one of the first attorneys appointed to a Fraud Counsel position under the model Fraud Program established by the Defense Logistics Agency/Defense Contract Administration Services Region Dallas Office of General Counsel (DCASR Dallas) in the 1980's. An innovator in fraud awareness training, (b) (6) created *Focus on Fraud* to educate the workforce on lessons learned from fraud cases and to put the spotlight on you, our dedicated employees who are the eyes and ears of the government. But now, I'd like to shine the spotlight back on (b) (6), whose efforts have kept our workforce vigilant. (b) (6) individual and team efforts in managing over 1400 subjects in cases (tracked since 1999) resulted in 168 convictions, 226 suspensions, 327 debarments and recoveries in excess of \$752 million on behalf of the department and taxpayer. While these are significant numbers, the most important thing about (b) (6) service is not measurable. (b) (6) truly cares about the warfighters and the safety of the products they receive. Please join me in thanking (b) (6) for his outstanding and dedicated service as a DCMA fraud fighter and founding Editor of our *Focus on Fraud* newsletter. (b) (6)

OWNER LANDS A CONVICTION IN NAVY JET PARTS CASE

The owner of Aviation Engineering Consultants Inc. (AECI), a Clearwater, FL company that supplied and manufactured aerospace products, was convicted and sentenced on charges of providing substandard aircraft parts used on Navy jets.



Kamran Rouhani, AECI President, was arrested April 11, 2013 after being indicted on fraud charges relating to substandard parts for the Navy E-6B Mercury jet. The jet serves as a communications relay for ballistic missile submarines as well as U.S. strategic forces. Rockwell Collins subcontracted L-3 Communications (L-3), which in turn, subcontracted AECI to build *the E-6's environmental control system (ECS) and bleed air (wing de-icing) ducts*. The ECS and wing air ducts impact pressurization and cold weather flight capability of the aircraft, thus affecting the overall flight safety. According to the Indictment, Rouhani knowingly provided parts to L-3 which did not meet specifications and had not been fabricated by a certified welder (as required). He then falsely certified to L-3 that the parts had been tested and met the quality standards required by the contract.

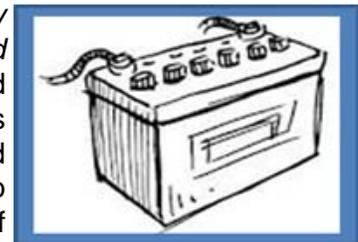
Nine air ducts had been installed on a test aircraft when L-3 and **DCMA Supply Chain Manager David Herda**, Waco, TX learned that one of the welder's who made the ducts had contacted L-3 to say he had not been paid by AECI and that he was not certified and thought he was just making *sample* ducts. Herda verified that AECI subcontracted to a welder who was not certified and alerted the DCMA CIC who referred the matter for investigation. **DCIS Special Agent Robert Matteis** led the investigation.

Rouhani was convicted November 15, 2013 on three counts of Wire Fraud ([18 U.S. Code 1343](#)), and sentenced to a term of 12 months and one day of imprisonment, two years of probation, a \$300 special assessment, \$28,640.09 in restitution to L-3, and a \$28,640.09 money judgment in relation to asset forfeiture. Both Herda and **DCMA Engineering & Manufacturing Team Leader, Daniel McCarty**, Waco, TX assisted DCIS throughout the investigation and trial.

Lessons Learned: Knowingly supplying substandard parts which threaten the safety and operational effectiveness of U.S. military systems is a criminal offense. DCMA's quality assurance and supply management processes are aimed at detecting and preventing substandard parts from entering the inventory and in this case also led to a successful criminal prosecution. (b) (6)

FORMER CEO/EX-WIFE 'ZAPPED' IN COUNTERFEIT BATTERY SCAM

Didier De Nier, the former CEO of the Simi Valley-based battery distributor Powerline Inc. was found guilty of five counts of Wire Fraud ([18 U.S. Code 1343](#)) and one count of Conspiracy to Defraud the U.S. ([18 U.S. Code 371](#)) for his participation in a scheme to sell more than \$2.6 million in cheap, knock-off batteries to the DoD. From 2004 to 2011, Powerline, which also did business as Birdman Distribution Corp, *sold (destination inspection/acceptance contracts) more than 80,000 batteries and battery assemblies that the USN used for emergency back-up power aboard nuclear aircraft carriers, minesweepers and ballistic missile submarines*. According to the evidence presented during a six-day trial, De Nier and his employees disguised the bogus nature of the batteries by affixing counterfeit labels that falsely identified the batteries as originating from approved manufacturers. They also used chemicals to remove "Made in China" markings from the knock-off batteries.



Shortly after federal agents searched Powerline's offices in July 2012, De Nier fled the country to live on his yacht near the Caribbean island of St. Martin, a French territory. In October 2013, he was arrested after sailing his yacht to the U.S. Virgin Islands.

De Nier is scheduled to be sentenced in August 2014 and faces a maximum sentence of 110 years in prison. His ex-wife, Lisa De Nier, formerly Powerline's Vice President of Sales, also previously pleaded guilty to conspiracy to defraud the government and faces up to 10 years in prison. She is expected to be sentenced later this year.

Lessons Learned: Although this case involved 'destination I/A', it serves to remind us that QA personnel should become familiar with a contractor's manufacturing process and check for material certifications; they should also ensure contractors properly flow down requirements to sub-contractors and check traceability on supplied items; and, during final inspection, look for any obvious signs of counterfeiting (tampering, black topping, broken seals, irregular surfaces, altered markings/labels). If a QA suspects a part is counterfeit, he or she should immediately contact the DCMA CIC. (b) (6)

BEST PAST PRACTICES MAY NOT YIELD BEST (CURRENT) PRICES

During routine inspection/acceptance of aircraft spare parts at The Boeing Company, **DCMA Dallas QARs, Thomas Dawe and Donal E. Black** requested supporting documentation to establish traceability for the parts. The documentation (which included pricing information) provided 'eye-opening' commentary regarding the excessive mark-up on the parts. Initially this was viewed as an infrequent anomaly but, further review by the QAs, DCIS, the DCMA CIC and eventually the DoDIG (Auditing) reflected otherwise. The review was documented in a published audit report ([Improved Guidance Needed to Obtain Fair and Reasonable Prices for Sole-Sourced Spare Parts Procured by the Defense Logistics Agency From The Boeing Company. DoDIG-2013-090. June 7, 2013](#)). The report recognized weaknesses and over reliance on escalation of prior prices to establish negotiation objectives and recommended (b) (5)

(b) (5)
DLA and Boeing resolved the matter by a Supplemental Agreement (b) (5)

In addition, DLA issued a Memorandum to the DoDIG advising of more savings resulting from re-pricing efforts AND action to revise policies and procedures to protect against future overpricing on aircraft spare parts.



From our perspective, this represents a significant, definite change that will result in continual, future savings to the DoD. Dawe and Black are to be commended for their astute observations and follow-up to help ensure our DoD money is well spent. **DCIS Special Agent Kevin Heatherman's** development of the matter was a key ingredient in securing DoDIG Audit oversight.

Lessons Learned: If you have concerns – even if they are outside your area of expertise – report, report, and report – you CAN make a difference. (b) (6)

FALSE TEST REPORTS...BASIC FRAUD IN A HIGH TECH WORLD!

DCMA Syracuse received a tip that Lynx Machine Tool Corp. (Lynx) had falsified acceptance test reports for various military products, *including parts for helicopters and Howitzer weapon*. DCMA Syracuse's prompt contact with the DCMA CIC resulted in a referral to DCIS and Army CID. Their investigation confirmed that Denis Converse, a Lynx employee, had falsified and altered reports by photocopying documents, whiting-out the quantity tested and/or part name or number, increasing the quantity tested and then photocopying the altered original.



Mr. Converse falsely certified to the DoD that the parts manufactured by Lynx had undergone the required testing, when in fact the parts had not been tested. DCIS issued a "Notice of Suspected Nonconforming Product," also called a Safety Alert. Mr. Converse was convicted of making false statements to federal agencies and agents, and was sentenced to three years supervised probation and ordered to pay restitution in the amount of \$311,021. The Department of the Army debarred him as well.

Extensive and thorough investigative support was provided by **DCIS Special Agent William Bates** as well as **Army CID Special Agent Peter Seguin**. **DCMA Syracuse Team Leader Daniel Caterisano**, **DCMA Syracuse Quality Assurance Representative Ronald Johnson**, and **Team Leader Elizabeth Turzillo**, were also instrumental, integral parts of this investigation. Thanks to all.

Lessons Learned: Contractors must meet the specifications listed in the contract and do so in a timely manner. It is **NEVER** an option for a contractor employee to falsify testing results; *be alert for paperwork anomalies.* (b) (6)

CLEAN UP ON AISLE 5?

Boeing Procurement Officer, Deon Eli Anderson (Anderson), was working on purchase orders for Boeing's F-18, F-15, C-17, and AV-8B programs until he was caught in a bribery/kick-back scheme (2009-2013). An FBI investigation exposed Anderson's bribery scheme and



lead to a confession that included the names of his conspirators - Patrick Boozer, VP of Globe Dynamics ("Globe"); Jeffrey Lavelle, owner of JL Manufacturing ("JL"); and Robert Diaz, sales representative at JL. They were indicted in the Eastern District of Missouri, for Wire Fraud, Mail Fraud, and Aiding and Abetting.

Anderson had received bribes on the back end of purchase orders for the "fighter" programs in exchange for providing competitor's bid information to JL and Globe. The companies supplied close tolerance precision machined parts for the fighter jets and other aircraft but, apparently, they were willing to risk jail in exchange for purchase orders. Globe's Boozer, and Boeing's Anderson communicated using the code "Isle 5", mimicking "price check on aisle 5", while exchanging competitor bid information. Over the course of the fraud, Globe received over \$1.5M in business and won 7 of the 16 bids for which they competed. JL and Globe have been debarred...*now their owners might be put behind bars as well.*

Boozer pled guilty to one felony count of Wire Fraud ([18 U.S. Code 1343](#)) and is scheduled to be sentenced in August 2014. Pursuant to an agreement entered between Diaz and the United States Attorney's Office, Diaz pled guilty to one count of Mail Fraud ([18 U.S. Code 1341](#)) and two counts of Wire Fraud ([18 U.S. Code 1343](#)) on June 4, 2014; he is scheduled to be sentenced in September 2014. Wire Fraud carries a maximum penalty of 20 years in prison and/or fines up to \$250,000. Other conspirators are expected to either plead guilty or go to trial in the near future.

Special thanks go out to **DCIS Special Agent Christopher Thesing** for his outstanding investigative work. Investigative support was also provided by **AFOSI, IRS CID** and the **NASA OIG**. Thanks to all of them, this was a win for DoD.

Lessons Learned: As DoD dollars tighten, some individuals will do anything to get business (or to line their pockets). Let this serve as a reminder for all to review the **Red Flags** on the CIC website, specifically, the [Contract Cost and Pricing and Kickbacks Red Flags](#). (b) (6)

Editor's Note: *It has truly been a remarkable journey to serve as part of the DCMA CIC's production of these newsletters; awareness as to fraud schemes and as to the proper reporting of fraud is vital. I thank all of you for your support over the years and encourage you to "keep up the good fight"; our service men and women deserve quality parts/equipment, on time and, at the right price – be there, FOR THEM!* (b) (6)

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