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Requested date:	20-March-2013
Released date:	03-May-2013
Posted date:	29-July-2013
Source of document:	U.S. Department of Education Office of Inspector General 400 Maryland Avenue, SW Washington, D.C. 20202-1510 Fax: (202) 245-7039
Email:	Freedom of Information Act Office

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

MAY 3 2013

RE: FOIA Request No. 13-01095-F

This is in response to your March 20, 2013, Freedom of Information Act (FOIA) request for copies of the final report, closing memo, referral memo and referral letter of the closed investigations listed in your request. You narrowed your request to mean the closing reports without attachments.

Enclosed you will find information responsive to your request. We have deleted the names and other personal identifying information of certain individuals from the report pursuant to Exemptions (b)(6) and (b)(7)(C) of FOIA. These exemptions protect personal privacy interests. We are withholding 50 pages of information pursuant to Exemptions (b)(6) and (b)(7)(C) of FOIA.

We have redacted information pursuant to Exemption 7(E) of FOIA. Exemption (b)(7)(E) protects investigative techniques.

For your information, Congress excluded three discrete categories of law enforcement and national security records from the requirements of the FOIA. *See* 5 U.S.C. 552(c) (2006 & Supp. IV 2010). This response is limited to those records that are subject to the requirements of the FOIA. This is a standard notification that is given to all our requesters and should not be taken as an indication that excluded records do, or do not, exist.

If you are not satisfied with my action on this request you may file an administrative appeal by writing within 35 days to the:

Inspector General
U.S. Department of Education
400 Maryland Avenue, S.W.
ATTN: FOIA Appeal
Washington, DC 20202-1500

A copy of your initial request, a copy of this letter and your statement of circumstances, reasons, and arguments should accompany your appeal letter.

Should you have any questions concerning this response, please contact Ms. Chaun Eason, our FOIA and Privacy Act Coordinator, on (202) 245-7001.

Sincerely,

A handwritten signature in black ink, appearing to read 'Marta Erceg', written in a cursive style.

Marta Erceg
Counsel to the Inspector General

cc: Department's FOIA Office

UNITED STATES
DEPARTMENT OF EDUCATION



OFFICE OF INSPECTOR GENERAL
TECHNOLOGY CRIMES DIVISION

SER202008060020: EDU 407466 EPO Antivirus Detections
Washington D.C.

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(b) (6), (b) (7)(C)

Name of Reporting Agent

(b) (6), (b) (7)(C)

Signature

March 28, 2012

Date

Mark A. Smith

Name of Approving Official

For:

Christopher Cooper
2012.03.30 09:28:15 -04'00'

Signature

March 30, 2012

Date

-OFFICIAL USE ONLY-



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL
INVESTIGATION SERVICES



OI FILE NO: 10-110293

DATE: March 28, 2012

REPORT OF: SER202008060020: EDU 407466 EPO Antivirus Detections

OFFICE: TCD

PREPARED BY: Special Agent (b) (6), (b) (7)(C)

DISTRIBUTION: File, EDITS

SECTION A – NARRATIVE

On August 6, 2010, the U.S. Department of Education (ED) Office of the Chief Information Officer (OCIO) Information Assurance (IA) issued ED Computer Security Suspicious Event Report (EDSER) 201008060020 regarding malicious activity occurring on EDU407446 assigned Internal Protocol (IP) address 172.16.129.120 utilized by (b) (6), (b) (7)(C) (Attachment 1). The EDSER reported the file *ipsLNAc.dll* was detected and not removed, by McAfee Anti-Virus Protection Program. During a review of the Intrusion Detection System (IDS) logs, Perot Systems reported EDU407446 appeared to scan the network before it started to conduct TCP SYN sweeps.

Initial TCD analysis of the EDU407446 revealed the only existence of *ipsLNAc.dll* was in *c:\Users\ (b) (6), (b) (7)(C) \AppData\Local* (Attachment 2). It was created and last accessed on April 29, 2010 at 21:39:48 Pacific Standard Time (PST). The file was modified on August 5, 2010 at 23:03:33 PST.

McAfee On Access Scan Logs revealed the following detections were made using Engine Version 5400.1158 and DAT 6065, which was updated on August 5, 2010, at 10:28:49 PST from 6064:

8/5/2010 21:40:50 PM Not scanned (scan timed out) NT AUTHORITY\SYSTEM
C:\Windows\system32\SearchProtocolHost.exe
C:\Users\ (b) (6), (b) (7)(C) \AppData\Local\ipsLNAc.dll

8/5/2010 21:40:51 PM Delete failed (Clean failed) NT AUTHORITY\SYSTEM
C:\Windows\system32\SearchProtocolHost.exe
C:\Users\ (b) (6), (b) (7)(C) \AppData\Local\ipsLNAc.dll Hiloti.gen.e (Trojan)

According to McAfee, Hiloti.gen.e is a generic detection for a Trojan that attempts to connect to remote sites to upload system information and download malicious files. It was discovered on July 27, 2010 and required a minimum DAT of 6056. However, a review of DAT 6065 revealed McAfee made an enhancement to Hiloti.gen.e during DAT 6065, which likely resulted in the detection on August 5, 2010.

Initial analysis of EDU 407446 did not reveal other attributes of Hiloti.gen.e such as registry changes that McAfee described. However, a virus scan of EDU407446 revealed multiple pieces of malware including Fake Antivirus.

The IDS logs revealed on between August 5, 2010, 21:35:34 PST and August 6, 2010 02:35:27 PST, 172.16.129.120 conducted a TCP SYN Host Sweep over an ephemeral source port, 53768. The IDS logs revealed another TCP SYN host sweep on August 6, 2010, between 00:10:19 PST and 5:09:39 PST, from 172.16.129.120 from source port 57079.

A review of firewall logs for August 2- August 5, 2010, revealed no connections were made with the addresses identified in the IDS logs and no data transfer occurred to an outside IP address during that time.

On August 16, 2011, Perot provided requested ePO logs for (b) (6), (b) (7)(C) (Attachment 3). The logs revealed McAfee detected a trojan called VBS/PSyme on April 7, 2010 and deleted them. On July 21, 24, 26, 27, 29, and August 3, 2010, McAfee detected Fake Antivirus on EDU407446 and deleted them. Beginning on August 5, 2010 at 23:23, McAfee detected *Hiloti.gen.e* during a scheduled scan at but was unable to delete it.¹ At 23:34, McAfee detected through a scheduled scan six instances of various *Exploit-CVEs* and deleted them. Also at 23:34, McAfee detected during a scheduled scan another instance of *Hiloti.gen.e*², which it was able to successfully delete. At 23:40, access was denied to McAfee during an On Access scan that located the same *ipsLNAC.dll*.

Bluecoat logs prior to those provided for August 2010 were unavailable for further review. Thus, the exact cause of the malware was not attributed. A review of firewall logs for 172.16.19.120 and, however, revealed significant browsing activity. This activity included regular connections made to the IP address that were identified as being denied in IDS logs. These IP addresses included sites that (b) (6), (b) (7)(C) regularly browsed to and those to devices internal to the Departments Network.

On March 28, 2012, the results of various forensic tools to include an updated virus scan revealed no new leads (Attachment 4).

EDU407466 was removed from the network on August 6, 2010, and according to OCIO was wiped. No exfiltration was identified and no cause for the connections was determined. OCIO also confirmed no new activity associated with the (b) (6), (b) (7)(C) profile. Consequently, this case is being closed due to lack of identifiable leads or suspect.

¹ c:\DocumentsandSettings (b) (6), (b) (7)(C) AppData\Local\ipsLNAC.dll

² c:\DocumentsandSettings (b) (6), (b) (7)(C) AppData\Local\Temp\SHuuiNBMLLnGOYsYddnm.exe

SECTION B – ENTITIES AND INDIVIDUALS

None.

SECTION C – PROSECUTION STATUS

TCD did not brief the investigation to a prosecutor.

SECTION D – ATTACHMENTS

- 1- EDSER 201008060020 dated August 6, 2010
- 2- Request 504 Initial analysis of EDU407446 dated November 4, 2010
- 3- ePO Logs provided August 11, 2011
- 4- Results of forensic tools dated March 28, 2012

**Case Initiation Data**

CCN: 05-030054

TTRS NO: V03F0054

Title: HARRISON CAREER INSTITUTE

Lead Agent: (b) (6), (b) (7)(C)

Division: Investigation

Region: Investigation - WFO

Office: REGION III - PHILADELPHIA

Opened: 06/08/2005

Received: 12/09/2003

Status: Closed

Completed: 02/27/2012

Closed: 02/27/2012

WARNING: THIS CASE CONTAINS GRAND JURY INFORMATION.
UNAUTHORIZED ACCESS OF CERTAIN CASE INFORMATION IS A VIOLATION OF FEDERAL LAW.

★ Complaint
Method: E-mail★ Complaint
Source: Department of Education Employee

★ State: Pennsylvania

★ POC: Federal Student Assistance

Transfer:

Task Force:

Priority: 2

Congress. Int.:

★ Summary: This investigation is based on a referral from (b) (6), (b) (7)(C) Federal Student Aid (FSA). FSA conducted a program review at HCI Philadelphia and identified preliminary findings of non-compliance. The findings include: 1) Inaccurate refund/repayment calculations. 2) Failure to delay 1st time FFELP disbursements for 30 days. 3) Excess cash 4) Inaccurate Accounting Records/ Lack of clear audit trail. 5) Improper Satisfactory Academic Progress. The review team also found several students for whom assets and income information was identical or nearly so on both the 2001-02 and 2002-03 FAFSA.

**UNITED STATES
DEPARTMENT OF EDUCATION**



**OFFICE OF INSPECTOR GENERAL
OFFICE OF INVESTIGATION SERVICES
REPORT OF INVESTIGATION CONCERNING
Harrison Career Institute
Voorhees, NJ**

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(b) (6), (b) (7)(C)

Name of Reporting Agent

Signature

Date

Steven Anderson

Name of Approving Official

Signature

Date

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**UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL
INVESTIGATION SERVICES**



OI FILE NO: 05-030054 DATE: 1/4/2011
REPORT OF: Harrison Career Institute (HCI) OFFICE: Mid-Atlantic Region
PREPARED BY: Special Agent (b) (6), (b) (7)(C)
DISTRIBUTION: Headquarters, File

Section - NARRATIVE

Introduction

This case was predicated on information received from the ED Region III Case Management Team, Federal Student Aid (FSA), Philadelphia, PA. ED/OIG agents met with the Case Management (b) (6), (b) (7)(C) who reported that several issues had been uncovered during a review of the HCI financial aid records. This review revealed that HCI had a significant increase in Title IV funding for the award year 2000-2001, HCI student loan default rates were rising, HCI was having issues with late refunds, and that the institution had a change of ownership. All of these issues caused the ED/OIG agents to suggest that the Case Management Team conduct a Program Review of HCI, and to refer any indications of fraud to this office.

This Program Review revealed several areas of concern related to HCI's handling of federal student aid. The Philadelphia Case Management Team sent a referral to this office with the following issues:

1. Inaccurate refund/repayment calculations
2. Failure to delay first time Federal Family Education Loan Program disbursements for thirty days
3. Excess cash on-hand
4. Inaccurate accounting records/ lack of clear audit trails
5. Improper Satisfactory Academic Progress (SAP)

An investigation by this office revealed that HCI had established an Internal Audit Team that was located in Kingston, PA. This Audit Team primarily consisted of three HCI employees, and several additional employees that assisted on an "as-needed" basis. This audit team was supposed to audit the active, dropped, and graduated HCI student files. This quickly grew to become a very daunting task so the team no longer audited active students. The audit team began auditing HCI student files full-time sometime in 2001. These audits ended when the audit team members were laid-off due to the closure of the HCI schools. The audit team was supposed to ensure that HCI employees were following the rules and regulations set forth in the ED Federal Student Aid regulations. During the audit process, the HCI employees realized that there were an incredibly high number of documents missing and/or incomplete from the student financial aid files. Typically, the documents that were missing were verification worksheets, Leave of Absence (LOA) documents, and Free Applications for Federal Student Aid (FAFSA). The audit team members also realized that there was a major problem with Title IV refunds to ED being made late.

Further investigation by this office indicated that members of the audit team realized that it was going to be an impossible task to obtain the missing documentation required to properly document the student files for students that had either dropped out or graduated from HCI. (b) (6), (b) (7)(C)

(b) (6), (b) (7)(C) and member of the audit team, (b) (6), (b) (7)(C)
(b) (6), (b) (7)(C)

and others, decided that they would create whatever documents were necessary to ensure that all of the student files were in compliance with ED regulations. The documents that were created and placed in student files were Federal Tax Returns, LOA Letters, and other documents to conceal late refunds, verification documents, and many other documents that were required to be in student financial aid files. In addition, incomplete FAFSA were completed and placed in the files.

The audit team's process of "Cleaning the Files" included the forging of student signatures by using an "overhead projector". This was done on documents such as Federal Tax Returns, FAFSAs, student LOA Letters and several other documents. This process was done to make HCI's student files falsely appear as if they were in proper order, to avoid detection by the annual ED-required Compliance Audit that was completed by the auditing firm of Baratz and Associates. On many occasions HCI conducted "group-sessions" with many HCI employees present to "clean" the files just days prior to the Baratz auditors arriving on-site to conduct the annual Compliance Audit. HCI also conducted similar sessions to "clean" the files just prior to the ED's Case Management Team's Program Review.

Just prior to conducting the annual compliance audit, Baratz always requested that HCI supply them with a list of all of the students that received Title IV funding for the fiscal year. This report was produced from HCI's student database. The only students whom did not show up on this report were the students that were in the "Cancel" classification within the HCI database. The "Cancel" students were those who had their Title IV funding canceled prior to beginning a course at HCI. Just prior to at least one of the audits, (b) (6), (b) (7)(C) was made aware by (b) (6), (b) (7)(C) that there were several files that were impossible to fix in such a short period of time. (b) (6), (b) (7)(C) directed an HCI employee to falsely reclassify students as "Cancels". By making this change within HCI's database, those students would not appear in the student population list that was supplied to Baratz just prior to the annual ED required audit. By doing

this, (b) (6), (b) (7)(C) was assuring that none of the student files that HCI employees were unable to fix would end up in the "random" selection of students to be audited by Baratz.

Chronology of Major Events: Harrison Career Institute

Scheme to defraud the Federal Student Aid Program

In June of 2004, FSA began a Program Review at a number of HCI's campuses. As a result of the program review, all of the HCI OPEID numbers were placed on Heightened Cash Monitoring (HCM2).

On May, 25, 2005, (b) (6), (b) (7)(C) was interviewed (Attachment 1). (b) (6), (b) (7)(C) said that on a number of occasions, she was directed by (b) (6), (b) (7)(C) to complete the 2003 FAFSA income portion with the same amount of income as was claimed on the student's 2002 FAFSA. In order to do this, she also forged the signatures of the students on many of the FAFSAs. There was forty or fifty student FAFSAs that she completed in this manner. (b) (6), (b) (7)(C) completed this task with the door in her office closed, because (b) (6), (b) (7)(C) did not want anyone to see what she was doing.

In August 2005, an "emergency action" (Attachment 2) to stop FSA funding to HCI was executed by FSA. HCI appealed the action, and an ED administrative Law Judge allowed HCI to stay on HCM2 until the conclusion of the appeal. The Administrative Law Judge did not render a decision in the case. Eventually, all of HCI's schools closed prior to the Administrative Law Judge making a decision in the administrative case.

On September 15, 2005, federal search warrants (Attachments 3-8) were executed at the HCI Voorhees, NJ; Deptford, NJ; Philadelphia, PA; and Kingston, PA locations. Over nine hundred boxes of records were seized from the four locations. An additional search warrant was obtained on the same day for a truck that arrived in the parking lot of the Voorhees location. The truck contained a large number of records from the HCI Kingston location. Another search warrant (Attachment 9) was obtained, and executed on September 27, 2005, on spaces at the HCI Voorhees location that were not addressed in the original search warrants at that location.

On November 17, 2006, (b) (6), (b) (7)(C) was interviewed (Attachment 10) under the terms of a signed proffer agreement. (b) (6), (b) (7)(C) said that (b) (6), (b) (7)(C) and she were falsifying student records by forging student signatures, and creating documents that were missing from student files. (b) (6), (b) (7)(C) also said that she believed the Audit Team forged student signatures on documents in approximately thirty percent of the student files that were audited. (b) (6), (b) (7)(C) said that she observed (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C) forging student signatures by using an overhead projector. (b) (6), (b) (7)(C) assisted ED/OIG by reviewing student financial aid files to determine which files were manipulated and/or contained forged signatures on documents. (b) (6), (b) (7)(C) located many student files on which she had made improper changes to the records contained therein.

March 11, 2008, (b) (6), (b) (7)(C) was interviewed (Attachment 11). One of (b) (6), (b) (7)(C) responsibilities was to "fill-in" for various HCI School Directors as needed. When performing the duties of a (b) (6), (b) (7)(C) (b) (6), (b) (7)(C) had the opportunity to complete paperwork in student files. During the interview (b) (6), (b) (7)(C) was shown paperwork pertaining to LOAs for students who later claimed to ED/OIG that they did not complete the paperwork. (b) (6), (b) (7)(C) reviewed the paperwork that contained a signature that purported to be her signature. After her review, (b) (6), (b) (7)(C) claimed that all of the signatures on the paperwork she reviewed were forgeries of her signature.

On July 23, 2008, (b) (6), (b) (7)(C) was interviewed (Attachment 12) under the terms of a signed proffer agreement. According to (b) (6), (b) (7)(C) "fixing files" was the act of forging student signatures, creating false documents, and generally doing anything that was required to make it appear as though a student's file was in compliance with ED regulations. The student files were sent to (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C) in Kingston, who audited them to verify that the necessary items were in the file and complete. If the documents were either not present or complete, (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C) created whatever documents they needed to in order to bring the student files into compliance with ED regulations. The following is a list of the different types of documents that were falsified by several HCI employees, including (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C):

1. Verification Documents
2. C-Code eligibility
3. Tax Returns
4. Refund Calculations
5. Progress Reports
6. Attendance records
7. Change of Status Forms
8. Dependency Overrides
9. LOAs
10. FAFSAs
11. Ability to Benefit Test

(b) (6), (b) (7)(C) continually sent reports to (b) (6), (b) (7)(C) in order to keep him informed as to the results of the audits she was conducting. These reports had information about student files that had problems, as well as files that were complete. (b) (6), (b) (7)(C) updated the reports as she "fixed" files that had problems. When (b) (6), (b) (7)(C) completed a fabricated LOA she was required to obtain (b) (6), (b) (7)(C) signature on the document. In 2002, WALTMAN had sent several fabricated LOAs to (b) (6), (b) (7)(C) for his signature. (b) (6), (b) (7)(C) knew they were fabricated, and he signed them without any questions. In 2003, (b) (6), (b) (7)(C) signed a blank LOA, and gave it to (b) (6), (b) (7)(C) to make copies for use in the future.

(b) (6), (b) (7)(C) created a spreadsheet each year prior to the annual BARATZ audits, which contained the names of students for whom HCI had made a refund late to ED, and for whom HCI did not complete their verification. The students listed were students that (b) (6), (b) (7)(C) indicated could not be "fixed". (b) (6), (b) (7)(C) used this spreadsheet to select which students he wanted to change from a "drop" or a "graduate" to a "cancel" in HCI's database. (b) (6), (b) (7)(C) changed the students' statuses back to the proper code after the audit was finished. (b) (6), (b) (7)(C) admitted to (b) (6), (b) (7)(C) that he went into HCI's database prior to a Baratz audit to make the above changes.

The change from “drop” to “cancel” caused the student to be removed from Baratz list of potential students selected for auditing.

On July 25, 2008, (b) (6), (b) (7)(C) Delaware HCI Campus, was interviewed (Attachment 13). (b) (6), (b) (7)(C) said that she was directed by (b) (6), (b) (7)(C) to complete false LOAs to “fix” late refunds. By completing this process, (b) (6), (b) (7)(C) was able to falsely prolong the Title IV refund period for a student whom had dropped out of school. (b) (6), (b) (7)(C) fabricated the LOAs in this manner on many occasions. (b) (6), (b) (7)(C) was only able to recall one legitimate LOA that was actually requested by a student. At one point in time, (b) (6), (b) (7)(C) received an LOA form from (b) (6), (b) (7)(C) that was blank, except that it had (b) (6), (b) (7)(C) signature at the bottom of the form. This was given to (b) (6), (b) (7)(C) so that she did not have to bother (b) (6), (b) (7)(C) every time she needed to “fix” a late refund by completing a false LOA.

On September 5, 2008 (b) (6), (b) (7)(C) was interviewed (Attachment 14) under the terms of a signed proffer agreement. (b) (6), (b) (7)(C) admitted to taking part in altering many different types of documents in student files. The files were altered to make sure that all of the files were compliant with ED’s Title IV regulations. These files were altered and “fixed” on a regular basis, prior to the ED-required Annual Title IV Audits, and prior to the ED Case Management Team Program Reviews of HCI. They also altered ED “Return to Title IV” (R2T4) calculations, IRS tax returns, FAFSA, verification worksheets, and many other financial aid related documents. (b) (6), (b) (7)(C) discussed several methods that he and others used to forge student signatures on various financial aid documents in the students financial aid files. The methods of forging signatures were the “Cut and Paste” method, the overhead projector method, the “window trick” method, and the “free hand” method. (b) (6), (b) (7)(C) had either used, or had seen others use, these methods to forge signatures on documents that were placed in student files in order to falsely indicate compliance with ED regulations.

On September 25, 2008, a Federal Grand Jury in the Eastern District of Pennsylvania indicted (Attachment 15) (b) (6), (b) (7)(C), and (b) (6), (b) (7)(C) on one count each of 18 USC 371 (Conspiracy to Defraud the United States). (b) (6), (b) (7)(C) was indicted on one count of 18 USC 371 (Conspiracy to Defraud the United States), and five counts of 18 USC 1001 (Fraud and False Statements).

On October 9, 2008, a Federal Grand Jury in the Eastern District of Pennsylvania issued a superseding indictment (Attachment 16) on (b) (6), (b) (7)(C), and (b) (6), (b) (7)(C) on one count each of 18 USC 371 (Conspiracy to Defraud the United States). (b) (6), (b) (7)(C) was indicted on one count of 18 USC 371 (Conspiracy to Defraud the United States), and five counts of 18 USC 1001 (Fraud and False Statements).

On November 4, 2008, (b) (6), (b) (7)(C) pled guilty in the Eastern District of Pennsylvania to one count of 18 USC 371 (Conspiracy to Defraud the United States) (Attachment 17).

On November 5, 2008, (b) (6), (b) (7)(C) pled guilty in the Eastern District of Pennsylvania to one count of 18 USC 371 (Conspiracy to Defraud the United States) (Attachment 18).

On December 8, 2008, (b) (6), (b) (7)(C) pled guilty in the Eastern District of Pennsylvania to one count of 18 USC 371 (Conspiracy to Defraud the United States) (Attachment 19).

On April 8, 2009, (b) (6), (b) (7)(C) was sentenced in the Eastern District of Pennsylvania to five years probation, and was ordered to pay \$115,000 in restitution to ED (Attachment 20).

On April 8, 2009, (b) (6), (b) (7)(C) was sentenced in the Eastern District of Pennsylvania to five years probation, and was ordered to pay ED \$115,000 in restitution (Attachment 21).

On April 9, 2009, (b) (6), (b) (7)(C) was sentenced in the Eastern District of Pennsylvania to eighteen months incarceration, three years probation, and was ordered to pay ED \$115,000 in restitution (Attachment 22).

This investigation is closed and no further investigation is warranted.

SECTION B – ENTITIES AND INDIVIDUALS

SUBJECT NAME: (b) (6), (b) (7)(C)

ADDRESS: (b) (6), (b) (7)(C)

RACE: White

SEX: Male

PRIOR CRIMINAL RECORD: None

SUBJECT NAME: (b) (6), (b) (7)(C)

ADDRESS: (b) (6), (b) (7)(C)

RACE: White

SEX: Female

PRIOR CRIMINAL RECORD: None

SUBJECT NAME: (b) (6), (b) (7)(C)

ADDRESS: (b) (6), (b) (7)(C)

RACE: White

SEX: Male

PRIOR CRIMINAL RECORD: None

SECTION C - PROSECUTIVE STATUS

On June 28, 2007, the United States Attorney's Office in the Eastern District of Pennsylvania formally accepted this case for criminal prosecution.

On September 25, 2008, a Federal Grand Jury in the Eastern District of Pennsylvania indicted (Attachment 15) (b) (6), (b) (7)(C) and (b) (6), (b) (7)(C) on one count each of 18 USC 371 (Conspiracy to Defraud the United States). (b) (6), (b) (7)(C) was indicted on one count of 18 USC 371 (Conspiracy to Defraud the United States), and five counts of 18 USC 1001 (Fraud and False Statements).

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On November 5, 2008, (b) (6), (b) (7)(C) pled guilty in the Eastern District of Pennsylvania to one count of 18 USC 371 (Conspiracy to Defraud the United States) (Attachment 18).

On December 8, 2008, (b) (6), (b) (7)(C) pled guilty in the Eastern District of Pennsylvania to one count of 18 USC 371 (Conspiracy to Defraud the United States) (Attachment 19).

On April 8, 2009, (b) (6), (b) (7)(C) was sentenced in the Eastern District of Pennsylvania to five years probation, and was ordered to pay \$115,000 in restitution to ED (Attachment 20).

On April 8, 2009, (b) (6), (b) (7)(C) was sentenced in the Eastern District of Pennsylvania to five years probation, and was ordered to pay ED \$115,000 in restitution (Attachment 21).

On April 9, 2009, (b) (6), (b) (7)(C) was sentenced in the Eastern District of Pennsylvania to eighteen months incarceration, three years probation, and was ordered to pay ED \$115,000 in restitution (Attachment 22).

SECTION D - ATTACHMENTS

- Attachment 1 Interview of (b) (6), (b) (7)(C) dated May 25, 2005.
- Attachment 2 FSA Emergency Action Letter dated August 18, 2005.
- Attachment 3 Search Warrant Affidavit for the Voorhees Office dated September 5, 2004.
- Attachment 4 Search Warrant Affidavit for the Deptford School dated September 5, 2004.
- Attachment 5 Search Warrant Affidavit for the Kingston Office dated September 5, 2004.
- Attachment 6 Search Warrant Affidavit for the Voorhees Basement Office dated September 5, 2004.
- Attachment 7 Search Warrant Affidavit for the Voorhees Truck dated September 5, 2004.
- Attachment 8 Search Warrant Affidavit for the Philadelphia School dated September 5, 2004.
- Attachment 9 Search Warrant Affidavit for the Voorhees Office dated September 26, 2004.
- Attachment 10 Interview of (b) (6), (b) (7)(C) dated November 17, 2006.
- Attachment 11 Interview of (b) (6), (b) (7)(C) dated March 11, 2008.
- Attachment 12 Interview of (b) (6), (b) (7)(C) dated July 23, 2008.
- Attachment 13 Interview of (b) (6), (b) (7)(C) dated July 25, 2008.
- Attachment 14 Interview of (b) (6), (b) (7)(C) dated September 5, 2008.
- Attachment 15 Indictment of (b) (6), (b) (7)(C)
(b) (6), (b) (7)(C) dated September 25, 2008.
- Attachment 16 Superseding Indictment of (b) (6), (b) (7)(C)
(b) (6), (b) (7)(C) dated October 9, 2008

Attachment 17 Plea Agreement of (b) (6), (b) (7)(C) dated November 4, 2008.

Attachment 18 Plea Agreement of (b) (6), (b) (7)(C) dated November 5, 2008.

Attachment 19 Plea Agreement of (b) (6), (b) (7)(C) dated December 8, 2008.

Attachment 20 Judgment and Committal Order for (b) (6), (b) (7)(C) dated April 8, 2009.

Attachment 21 Judgment and Committal Order for (b) (6), (b) (7)(C) dated April 8, 2009.

Attachment 22 Judgment and Committal Order for (b) (6), (b) (7)(C) dated April, 2009.



**Case Initiation Data**

CCN: 09-000326

TTRS NO: V00J0326

Title: ACCENTURE (QUI TAM)

Lead Agent: (b) (6), (b) (7)(C)

Division: Investigation

Region: Investigation - WFO

Office: INVESTIGATION - WFO

Opened: 02/18/2009

Received: 01/26/2009

Status: Closed

Completed: 02/29/2012

Closed: 02/29/2012

CHECK IF GRAND JURY CASE:

★ Complaint
Method: Telephone★ Complaint
Source: Qui Tams

★ State: District of Columbia

★ POC: Federal Student Assistance

Transfer:

Task Force:

Priority: 2

Congress. Int.:

★ Summary: Complaint received via telephone from DOJ attorney (b) (6), (b) (7)(C). DOJ intervened in a qui tam regarding kickbacks by Accenture to various subcontractors through a method they termed "Systems Integration Compensation," and also defrauded ED by failing to pass along resale revenue benefits they received from subcontractors who gave Accenture significant discounts on items purchased for ED. Approximately \$2 million of these benefits were from items Accenture purchased from Oracle. DOJ is currently preparing document production as part of litigation. Current loss to ED is approximately \$3 million. Settlement agreement reached between Accenture and the United States on 9-8-2011 for \$63,675,000. ED recovery is \$3 million.

(b)(7)(E)

3/26/2013



OFFICE OF
GENERAL
INSPECTOR
OFFICE OF INVESTIGATION SERVICES
REPORT OF INVESTIGATION CONCERNING

ACCENTURE (Qui Tam)
Eastern District, AR
09-000326

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INDIVIDUALS

Section C.....PROSECUTIVE STATUS

Section D.....ATTACHMENTS

(b) (6), (b) (7)(C)

Name of Reporting Agent

Steven D. Anderson

Name of Approving Official

Signature

Signature

December 29, 2011

December 29, 2011

Date

Date

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OI FILE NO: 09-000326

DATE: December 29, 2011

REPORT OF: ACCENTURE (Qui Tam)

OFFICE: Mid-Atlantic Region

PREPARED BY: Special Agent (b) (6), (b) (7)(C)

DISTRIBUTION: EDITS, HQ

SECTION A - NARRATIVE

This investigation was initiated on January 26, 2009, pursuant to a telephonic request from U.S. Department of Justice (DOJ), Civil Division trial attorney (b) (7)(C). (b) (7)(C) advised that DOJ had intervened in a qui tam against ACCENTURE LLP (ACCENTURE). Furthermore, DOJ filed a complaint against ACCENTURE and affiliated companies in the Eastern District of Arkansas on April 12, 2007 (Attachment 1). The complaint alleged ACCENTURE violated the Anti-Kickback Act and the False Claims Act by receiving payments from various subcontractors under "Alliance Agreements" with subcontractors. This was allegedly to influence government agencies to use these companies and also for ACCENTURE to include these subcontractors as part of their prime contracts with federal agencies. The funds received by ACCENTURE on the basis of these Alliance Agreements were termed "Systems Integration Compensation" (SI Compensation).

Additional allegations included ACCENTURE unjustly enriched itself by failing to pass on discounts provided by its subcontractors or vendors, termed "resale revenue." The DOJ identified almost \$3 million ACCENTURE unjustly earned in SI compensation and resale revenue pursuant to a Blanket Purchase Agreement (BPA) ACCENTURE had with the U.S. Department of Education (ED). This BPA, with multiple task orders assigned to it, awarded in September 1999 and concluding in 2005, was to assist the ED Office of Federal Student Aid (ED/FSA) as a Modernization Partner.

The DOJ had requested the ED Office of Inspector General (ED/OIG) assist them in compiling documentation for discovery and identifying any additional instances in which ACCENTURE received SI Compensation or resale revenue as part of the BPA with ED, as well as identifying documents that supported the claims made in the complaint.

On August 3, 2009, (b) (7)(C), Contracting Officer (CO), ED/FSA was interviewed. (b) (7)(C) worked on the BPA with (b) (7)(C), CO, ED/FSA and stated ACCENTURE employees tried to convince ED/FSA COs to purchase additional hardware and software from ACCENTURE vendors, including Oracle Corporation (Oracle). (b) (7)(C) pushed for Oracle's products to be purchased to specifically

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address Task Order (TO) 45, Financial Management System (FMS). (b) (7)(C) informed (b) (7)(C) of unnecessary purchases regarding TO 45. Per the BPA, ACCENTURE was supposed to pass on all discounts received for purchases made from subcontractors. Further, since subcontractors were considered a "material" cost, there should not have been any mark-up on material costs. (b) (7)(C) stated it was possible ACCENTURE routed Modernization Partner BPA purchases through the Virtual Data Center (VDC), managed by CSC in Connecticut, even though the VDC operated under a separate contract. The VDC was contracted to house all of ED/FSAs computer operations and could have potentially served as a means for ACCENTURE to make purchases at discounted rates. Overall, FSA benefitted very little from the products and services provided by ACCENTURE and its subcontractors. (Attachment 2)

On August 4, 2009, (b) (7)(C) ED/FSA was interviewed. (b) (7)(C) worked on parts of ACCENTURE's Modernization Partner BPA. (b) (6), (b) (7)(C) (b) (6), (b) (7)(C) (b) (6), (b) (7)(C) (b) (7)(C) also ensured ACCENTURE did not make purchases for a lower price than was passed on to ED/FSA. (b) (7)(C) recalled ACCENTURE had a "different management style" and was very involved, walking her through each technical proposal, when normally she would review proposals first and then speak with the contractor later. According to (b) (7)(C) ED/FSA management wanted ACCENTURE employees to be viewed as ED/FSA employees.

(b) (7)(C) relied on the Office of the Chief Information Officer (OCIO) employees (b) (7)(C) (b) (7)(C) to direct regarding what items were appropriate in each TO. (b) (7)(C) approved TOs based on recommendations from (b) (7)(C). Any discounts obtained by ACCENTURE were to be passed on to ED/FSA, although the TOs often consisted of long-term projects in which the cost savings would not be realized for many years. (b) (7)(C) job was to ensure ED/FSA could not have received a better price for proposed products on its own and she believed ACCENTURE might have taken advantage of ED/FSA employees that did not have the technical expertise necessary to properly evaluate ACCENTURE's proposals, and thus, (b) (7)(C) did not think the Modernization Partner program accomplished its mission. (Attachment 3)

On August 4, 2009, (b) (7)(C) ED/FSA was interviewed. (b) (7)(C) worked on parts of FSA's Modernization Partner BPA with ACCENTURE. (b) (7)(C) was the assigned CO on the Modernization Partner's Share-in-Savings (SIS) TOs, amongst other TOs reassigned to him on an as-needed basis. (b) (7)(C) stated COs were to evaluate each technical proposal submitted by ACCENTURE or ED/FSA's program offices to determine if the TOs should be funded under the Modernization Partner contract, and if so, what type of contract each should be: fixed-price, time and materials, or SIS contracts. ACCENTURE normally invoiced ED/FSA on a monthly basis for each TO. If ACCENTURE had been allowed to mark up the cost of any given material, the TO would have a modification allowing the markup. ACCENTURE was meticulous about obtaining contract modifications. (b) (7)(C) explained ACCENTURE would have been allowed to purchase products such as software and hardware, though purchasing products was not part of its GSA Schedule, due to a "loose interpretation" of the BPA and GSA Schedule, which allowed ACCENTURE to purchase "incidentals." (b) (7)(C) believed ACCENTURE made much of its profit on the Modernization Partner BPA from the labor rates charged to ED/FSA. ACCENTURE interpreted the 35 percent labor rate discount outlined in the BPA as applying only to a core group of senior ACCENTURE employees, such as (b) (7)(C) rather than an across-the-board discount. ED/FSA management agreed with ACCENTURE's interpretation.

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(b) (7)(C) suspected ACCENTURE also charged ED/FSA for its subcontractors' labor at ACCENTURE's labor rates, rather than at the subcontractors' labor rates. (Attachment 4)

On November 25, 2009, (b) (7)(C) was interviewed. (b) (7)(C) was employed at ED/FSA during the ACCENTURE modernization contract. (b) (7)(C) stated ED/FSA conducted its own Information Technology (IT) services until ED/FSA became a (b) (6), (b) (7)(C) when (b) (7)(C) became the ED/FSA (b) (6), (b) (7)(C). (b) (6), (b) (7)(C) believed ED employees could not be expected to maintain up-to-date on IT issues and therefore, ACCENTURE was contracted to do so. (b) (7)(C) worked with ACCENTURE and ED/FSA until 2003 when new (b) (7)(C) decided to lower ACCENTURE's involvement with ED/FSA. (b) (7)(C) daily duties were to oversee the OCIO and report to (b) (7)(C). (b) (7)(C) main contact at ACCENTURE was (b) (7)(C) though he recalled (b) (7)(C) was also often present during manager meetings. (b) (7)(C) dealt with ACCENTURE's billings. (b) (7)(C) interacted with ED/FSA (b) (7)(C) whom informed him they were the only individuals authorized to make purchases.

(b) (7)(C) conducted market research and determined Siebel Systems (Siebel) was the market leader for customer relationship management (CRM) software and thus, he recommended ED/FSA seek Siebel to provide such services. (b) (7)(C) also worked on obtaining Oracle software, but price negotiations were conducted directly between OCIO and Oracle between 2004 and 2006. (b) (7)(C), an OCIO employee whom worked with ACCENTURE on ED/FSA projects joined ED/FSA in (b) (6), (b) (7)(C). (b) (6), (b) (7)(C) occasionally accepted recommendations from ACCENTURE. (b) (7)(C) then took his recommendations to (b) (7)(C), or to (b) (7)(C). (b) (7)(C) could be considered a project owner for some projects that fell under the ACCENTURE contract. (b) (7)(C) did not recall (b) (7)(C) advising him of any issues with ACCENTURE. Like (b) (7)(C) could make recommendations for the purchase of hardware or software, but could not authorize any purchases. (Attachment 5)

On November 27, 2009, (b) (7)(C) was interviewed. (b) (7)(C) worked at ED/FSA's OCIO. (b) (6), (b) (7)(C) worked with ACCENTURE in choosing products that would best suit FSA's needs in this regard. (b) (6), (b) (7)(C) projects with ACCENTURE included the Financial Partners Data Mart, the Delinquent Loan Data Mart, the Credit Management Data Mart, and the Chief Financial Office Data Mart, which has since been removed. (b) (6), (b) (7)(C) work was conducted through the VDC, which was operated by the CSC.

(b) (6), (b) (7)(C) stated ACCENTURE employees took over FSA when brought in as FSA's Modernization Partner. ACCENTURE controlled budgets and managed FSA's Investment Review Board (IRB), which was responsible for budgeting for FSA projects. (b) (7)(C) and ACCENTURE collaborated on market research for FSA but (b) (7)(C) acknowledged his concern was what the best functional product was for FSA, not the cost. As (b) (7)(C) lacked procurement authority and could not purchase materials, he never witnessed any ACCENTURE proposals or their projected related costs. (b) (7)(C) believed ACCENTURE requested too much software, charged a "ridiculous" amount of labor for senior employees and that ACCENTURE charged a different price than it paid for its products due to their suppliers. Though (b) (7)(C) was not involved with the procurement of Oracle products under the Modernization Partner contract, he stated he was aware a lot of Oracle products procured were never used by FSA. (Attachment 6)

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On December 2, 2009, (b) (7)(C) was interviewed. (b) (7)(C) was detailed to ED/FSA as a (b) (6), (b) (7)(C)

(b) (6), (b) (7)(C) During this time frame, he assisted FSA employees in the management of the Modernization Partner contract awarded to ACCENTURE. (b) (7)(C) reviewed contract modifications, TOs, and processed invoices for approval and payment by COs. (b) (7)(C) had no authority to approve ACCENTURE price proposals.

(b) (6), (b) (7)(C) stated an effort, initiated by ACCENTURE or FSA, was started to conduct market research on the technical architecture needed for the Modernization Partner contract. Hairfield stated he had no impact on decisions made by ACCENTURE or FSA and that ACCENTURE made purchase recommendations and ran the Modernization Partner contract. (Attachment 7)

On December 9, 2009, (b) (6), (b) (7)(C) ED/FSA was interviewed. (b) (6), (b) (7)(C) ACCENTURE was already working with FSA on the Modernization Partner contract when (b) (7)(C) began. (b) (7)(C) managed projects involving IT Architecture (ITA) and Enterprise Application Integration (EAI). (b) (7)(C) was involved in Modernization Partner TOs 46 (CIO Technical Architecture Support), 54 (EAI Core Architecture), 69 (FSA ITA Release 3.0), and 80 (EAI Core Architecture Release 3.0). (b) (7)(C) worked with ACCENTURE technical representatives but did not interact with ACCENTURE senior management.

On the projects (b) (7)(C) managed, ACCENTURE recommended various vendors for software and hardware. (b) (7)(C) was aware ACCENTURE had financial interests in some of the vendors. (b) (7)(C) explained SI Compensation included financial payments made to ACCENTURE or non-financial compensation such as free training provided to ACCENTURE.

On a few occasions, ACCENTURE recommended the procurement of hardware or software from companies (b) (7)(C) knew ACCENTURE had interests in. Sometimes, (b) (7)(C) overruled ACCENTURE on its vendor recommendations but (b) (7)(C) confirmed he accepted the majority of ACCENTURE's recommendations and forwarded the recommendations to the (b) (6), (b) (7)(C) (b) (7)(C) for approval as (b) (7)(C) had no authority to make procurement decisions. (b) (7)(C) added many of the software and hardware choices were completed in 1999, well before he worked for FSA. (Attachment 8)

ACCENTURE agreed to resolve allegations it received kickbacks for recommendations of hardware and software to the government, fraudulently inflated prices and rigged bids in connection with federal information technology contracts. A civil settlement was finalized between ACCENTURE and DOJ on September 9, 2011. The ED portion of the settlement totaled \$3,000,000. (Attachment 9)

SECTION B – ENTITIES AND INDIVIDUALS

Name:
Title:
Last Known Address:
Last Known Telephone:

(b) (7)(C)

Name:
Title:
Last Known Address:
Last Known Telephone:

(b) (7)(C)

Name:
Title:
Last Known Address:
Last Known Telephone:

(b) (7)(C)

Name:
Title:
Last Known Address:
Last Known Telephone:

(b) (7)(C)

Name:
Title:
Last Known Address:
Last Known Telephone:

(b) (7)(C)

Name:
Title:
Last Known Address:
Last Known Telephone:

(b) (7)(C)

Name:
Title:
Last Known Address:
Last Known Tel:

(b) (7)(C)










SECTION C - PROSECUTIVE STATUS

On January 26, 2009, this matter was accepted for civil prosecution by the DOJ, Civil Division, Eastern District of Arkansas. On September 9, 2011 a civil settlement was finalized between ACCENTURE and the DOJ. (b) (7)(C) DOJ, Civil Division trial attorney confirmed the ED portion of the settlement totaled \$3,000,000. (Attachment I)

SECTION D – ATTACHMENTS

ATTACHMENTS

Description

1. 
Accenture
Complaint.pdf
2. 
301 (b) (7)(C).doc
3. 
301 (b) (7)(C).doc
4. 
301 (b) (7)(C).doc
5. 
301 (b) (7)(C).doc
6. 
301 (b) (7)(C).doc
7. 
301 (b) (7)(C).doc
8. 
301 (b) (7)(C).doc
9. 
Settlement
Agreement 9-9-2011.

1. Qui Tam Complaint

2. Interview of (b) (7)(C)

3. Interview of (b) (7)(C)

4. Interview of (b) (7)(C)

5. Interview of (b) (7)(C)

6. Interview of (b) (7)(C)

7. Interview of (b) (7)(C)

8. Interview of (b) (7)(C)

9. Settlement Agreement

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