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DCMA FOIA Office  
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3901 A Avenue  
Fort Lee, VA 23801  
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## DEFENSE CONTRACT MANAGEMENT AGENCY

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

FEB 22 2016

This is in response to your request, dated February 6, 2016, under the Freedom of Information Act (FOIA), for "electronic copies of the DCMA Focus on Fraud Newsletters, issues number 63 through present". This request was perfected February 12, 2016 with a DCMA assigned control No. 16-051 to your request for administrative purposes.

Based upon a reasonable search, responsive records were located, and copies of DCMA Focus on Fraud Newsletters #63-68 are enclosed with this correspondence. DCMA undertook a detailed review of the attached responsive records. As part of that review, please be advised that certain information was redacted from the records pursuant to the FOIA.

The names and related personally identifiable information (PII) of various Department of Defense (DoD) employees set forth in the records are being withheld under Title 5, United States Code Section 552, Exemption (b)(6) of the FOIA. Due to heightened security interests, especially with current threat conditions, cyber-attacks and various global terrorist activities, the PII of DoD employees have been redacted to protect personal privacy interests. In carefully weighing the significant privacy interests and concerns of those individuals against any presumed public interest in favor of disclosure, personally identifiable information is exempt from disclosure under Exemption (b)(6) of the FOIA. See Long v. Office of Personnel Management, 692 F.3d 185, 192-193 (2<sup>nd</sup> Cir. 2012); Core v. United States Postal Service, 730 F.2d 946, 949 (4<sup>th</sup> Cir. 1984); Voinche v. Federal Bureau of Investigation, 940 F. Supp. 323, 330 (D.D.C. 1996).

Because you are considered an "other" requester and the search time did not exceed the two free hours afforded to that fee category under the FOIA, no fees are being assessed in connection with the processing of your request.

With information being 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 made within sixty (60) calendar days of the date of this correspondence and include the control number listed above along with the reasons for reconsideration of this decision. Both your letter and the envelope must be clearly marked "Freedom of Information Act Appeal" and forwarded to the following address:

Appellate Authority, c/o Freedom of Information Act Office  
Defense Contract Management Agency  
3901 A Avenue, Building 10500

Fort Lee, Virginia 23801-1809.

If you have any questions or concerns regarding this matter, please send an e-message to [dcma.foia@dcma.mil](mailto:dcma.foia@dcma.mil), or contact the DCMA FOIA Officer at (804) 734-1488, and reference administrative control number 16-051.

Sincerely,

  
JORGE BENNETT  
Acting Director, DCMA Central Region

Enclosures: As stated

# Focus On Fraud

DCMA Contract Integrity Center Initiative

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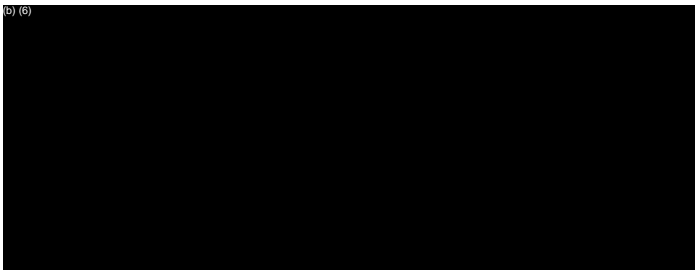
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Have you ever been on a flight that made an emergency landing? During the three second lapse in time between the oxygen mask falling and its application to your face, your mind races and believes you are gasping for air. You see too closely the tops of houses and trees as the distressed aircraft approaches a foreign airport, far from your destination. Upon landing, you depart through a tiny door over the wing and try to process what has just happened. These are not random thoughts, but are the thoughts relayed by DCMA St. Louis Fraud Counsel <sup>(b) (6)</sup> [REDACTED], who recently experienced an emergency landing. While the safety of the warfighter is always first and foremost on our minds as we go about our daily duties performing the DCMA mission, experiences like <sup>(b) (6)</sup> [REDACTED] hit home the critical importance of conforming aircraft parts. Coincidentally, this edition of **Focus on Fraud** highlights three different fraud cases involving substitution of aircraft parts and reminds us that we must stay vigilant to these and other schemes that so directly affect the safety of the warfighter and operational readiness. Whether it is a manufacturer falsifying test certifications or a broker falsifying labels to supply non-OEM or commercial grade parts, dedicated fraud fighters like DCIS Special Agent <sup>(b) (6)</sup> [REDACTED] (see, **The “Art” of the Non-Conforming Part**) will root them out, track them down and ensure they are accountable. Thanks to the careful eyes and ears of dedicated DCMA employees like DCMA Santa Ana QAS <sup>(b) (6)</sup> [REDACTED] (see, **Attention to Detail Uncovers Sticky Situation**), those aircraft parts suppliers and distributors who would place the warfighter at risk for their own profit can be uncovered. **Stay Vigilant!** <sup>(b) (6)</sup> [REDACTED]



## THE ‘ART’ OF THE NON-CONFORMING PART

DLA supplier Art Michel, owner of A.D. Michel Company, was recently convicted and sentenced for supplying non-conforming parts under 345 DLA Land and Maritime purchase orders. DLA’s Product Verification Office discovered the substituted/non-conforming parts and an investigation ensued. A.D. Michel Co.’s modus operandi was to quote prices listing Original Equipment Manufacturers’ (OEM) parts and then identify the outer packages and containers as OEM. The

company would then fill the packages with unauthorized, non-OEM parts to complete the scheme. The Government-Industry Data Exchange Program (GIDEP) listed almost 200 affected parts, many of which were critical application items on their way to use in Military Aircraft, Nuclear Reactor Programs, Aircraft Carriers, Missiles, Mine Resistant Ambush Vehicles, and Submarines.

DLA and DCMA Fraud Counsel coordinated agency efforts during the investigation with (b) (6), **Special Agent, Defense Criminal Investigative Service.** Based on the outstanding investigative efforts of **Special Agent** (b) (6), the Assistant United States Attorney secured a conviction in short order. DCMA's own (b) (6), **QAS**, supplied vital intelligence concerning A.D. Michel Co.'s facility, which DCIS used to execute their search warrant. Special thanks and kudos to all.



Officers of the company Richard Wagner, Dennis Hobbs, Fran Michel, along with Art Michel and A.D. Michel Co. were all debarred by DLA. Art Michel pleaded guilty and was convicted of Wire Fraud ([18 U.S.C. 1343](#)) in the Southern District Court of Ohio. He was sentenced to over 1 year in federal prison, 416 hours of community service; 2 years supervised release, restitution of \$253,593.49, and a fine of \$5,000. A.D. Michel Co. was separately convicted of Wire Fraud, fined \$47,600, and given 2 years' probation.

**Lessons Learned: The distributor scheme of falsifying labels identifying non-OEM parts as OEM is alive and well. Although these were destination acceptance contracts, this case is a continued reminder** for DCMA personnel, and all others, to be alert to false label schemes.

(b) (6)

### ***ATTENTION TO DETAIL UNCOVERS STICKY SITUATION***

While examining First Article Test results at Global Engineering Exchange (GEE), **DCMA Santa Ana QAS** (b) (6) observed that several certifications from subcontractors exhibited subtle evidence of alteration (i.e., changes in type font, copied stick-on labels over company letterhead and inconsistent or misaligned text). Based on these fraud indicators, the QAS discontinued inspection and called the CIC. DCIS and Army CID conducted an investigation of GEE and its sister company, VJ Engineering (VJE), co-located in Garden Grove, CA. VJE pleaded guilty to falsely certifying that aircraft parts were in conformance with contract requirements. From 1998 through 2010, VJE submitted false certifications, including Certificates of Conformance (CoCs) and test certifications, falsely claiming that the accompanying aircraft parts had been tested and were in conformance with the requirements and specifications of the FAA and DoD. VJE was sentenced to an \$800 Special Assessment, \$186,189.64 in Restitution (DoD receives \$36,189.64), \$100,000 for cost of prosecution and 2 years of probation.

GEE, VJE and their owner/President, Victor Nguyen, were originally debarred for submitting falsified material and special processing certifications for at least three different contracts

administered by DCMA for DLA Land & Maritime. DLA suspended GEE, VJE and Mr. Nguyen after the criminal information was filed and plans to convert that to another debarment.

This fraud investigation and the resulting recovery would never have happened without (b) (6) who also provided significant technical support to the investigators. His proactive efforts should be applauded! In addition, **DCMA Santa Ana QAS** (b) (6) played a key role in gathering information and providing technical expertise to the investigative agents. **ACO** (b) (6) former **ACO** (b) (6) and **Contracts Director** (b) (6) provided critical support in the preparation of the formal recommendations that ultimately resulted in the debarments of GEE, VJE and principals. The DCMA Santa Ana Quality and Contracts personnel handled the investigative and contractual issues expertly and deserve much praise.

**Lessons Learned:** When reviewing CoCs, test certifications, first article test documents and other documentation provided by the contractor, keep an eye out for fraud indicators such as minor discrepancies in the appearance of figures, changes in typefaces, particularly concerning the number/identity of items tested or where dates are indicated, and inconsistent or misaligned lines of text on certifications. If you see evidence indicating that contractor documents may have been altered, please contact your CIC Counsel. (b) (6)

## **C<sup>2</sup>: COORDINATION REMINDERS – GET THE WORD OUT!**

We all know to report fraud indicators to your CIC Counsel. We also know that once an investigation begins, that doesn't mean contract administration stops. So as we navigate those dual processes, remember that your CIC Counsel is the key to effective coordination. Here are two reminders on areas to coordinate: COFD's and CAR's.



### **COFDs/Statute of Limitations**

In FoF Issue #60, we reminded ACOs, DACOs and CACOs to coordinate with their CIC Counsel when faced with a situation where a Contracting Officer's Final Decision (COFD) **involving cost issues that are part of an on-going fraud investigation** must be issued in order to comply with a **6-year Statute of Limitations (FAR 33.206(b))**. We suggested that ACOs, DACOs and CACOs contact the CIC Counsel at least one year prior to the **Statute of Limitations deadline**. However, that does **NOT** mean Contracting Officers need to, or should, wait until one year prior to the **Statute of Limitations deadline to start working on a COFD**. While *Contracting Officers are prohibited by regulation and statute (FAR 33.210 (b) & 41 7103 (c)(1)) from settling or paying contractor claims involving fraud, Contracting Officers should be drafting COFDs as early as possible because CMO Counsel and the Contract Disputes Resolution Center (CDRC) are required to conduct legal reviews which take time to complete.*

**BOTTOM LINE:** When it comes to drafting COFDs, the key is to prepare and submit for legal review well in advance of any deadlines and coordinate, coordinate, coordinate!

## Level III/IV CARs

As you may know, the DCMA Instruction for the Corrective Action Process, DCMA-INST 1201 (IPC -1), was most recently revised effective September 23, 2013. A key change was the requirement that all **Level III & Level IV CARs must be coordinated with your regional CIC Counsel prior to release**. See Table 1, on page 4 of DCMA-INST 1201 which indicates that pre-release coordination of Level III & IV CARs is required with the CMO Commander/Director, Legal Counsel, Contract Integrity Center (CIC), applicable Centers (e.g., Property), etc., and applicable customer(s). Of course, CIC Counsel will be reviewing the Level III & IV CARs for potential fraud issues. Once the Level III & IV CAR is released, CIC Counsel should also receive a copy of this final version. (b) (6)

## ***FAKE CoCs LAND AIRCRAFT PARTS DISTRIBUTORS IN JAIL***

Glenn Nichols and Steven Frediani, owner and sales manager of Instocomp Inc., a Coral Springs, FL company, were found guilty of Conspiracy to Commit Aircraft Parts Fraud, and Aircraft Parts Fraud ([18 U.S.C. 38](#)). Between January 2006 and March 2008, DLA awarded InstoComp in excess of \$200,000 worth of contracts for various semiconductors and microcircuits to be used on aircraft (CH-47 Chinook helicopters, B-52 aircraft, F-16 aircraft, F/A-18 Hornet aircraft and numerous other aircraft types utilized by the U.S. Military) and nuclear submarines. DLA evaluated the purchase orders and products supplied by Instocomp, and determined that Instocomp did not supply the required Original Equipment Manufacturers' parts or supplied non-conforming parts.

A joint DCIS and AFOSI investigation revealed the duo knowingly and willfully submitted fraudulent traceability documentation (e.g. "Certificates of Conformance") in order to misrepresent the true condition, origin or type of aircraft parts being offered by Instocomp in response to solicitations. Once awarded a contract, rather than supplying the parts required, Nichols and Frediani would supply non-conforming substitute parts produced either by unapproved sources or not manufactured in accordance with other stated requirements, such as providing commercial grade rather than military grade parts. The duo would then seek and receive payment falsely claiming to have performed in accordance with the terms of the contract.



Frediani was sentenced to 18 months confinement and 3 years supervised release. Additionally, Frediani was ordered to repay \$229,494.24 in restitution. Nichols was sentenced to 15 months confinement and 3 years supervised release. Additionally, Nichols was ordered to repay \$229,494.24 in restitution. DLA has proposed debarment.

**Lesson Learned:** Although these contracts were inspection and acceptance at destination, the case further emphasizes the increasing trend in non-conforming parts schemes and the need to closely examine certifications and traceability documentation when the contract does require source inspection. (b) (6)

## **OWNER POCKETS PROGRESS PAYMENTS**

Kenneth Narzikul, President and 85% owner of NP Precision, Inc., a machine tool business, was charged with major fraud against the United States ([18 U.S.C. 1031](#)), obstructing a federal audit ([18 U.S.C. 1516](#)), and making false claims to the Government ([18 U.S.C. 287](#)).



The Criminal Information charged that as early as 2007, Narzikul began misusing progress payments by failing to pay subcontractors and requesting progress payments under the contracts for costs that NP Precision had not actually incurred, and without the intention of using the progress payments for the costs and contracts at issue. Mr. Narzikul schemed to fraudulently divert and steal approximately \$1.2 million in progress payments under two contracts to produce drive shaft couplings for the U.S. Army helicopter CH-47 or Chinook helicopter. The Government received late product and many times incomplete product, far later than delivery schedules required.

Also, Mr. Narzikul and others made false statements to Government auditors and made false claims to reflect progress on Government contracts to continue to receive progress payments. Mr. Narzikul diverted funds to pay outstanding obligations on other contracts and other business and personal expenses for himself and his family.

This Criminal Information resulted from a joint investigation of the Major Procurement Fraud Unit of the U.S. Criminal Investigative Command (Army CID), the Defense Criminal Investigative Service (DCIS), and the United States Air Force Office of Special Investigations (AF OSI).

**Lessons Learned in the Matter:** Failure to pay subcontractors can be a classic red flag fraud indicator. This is an excellent opportunity to go to the CIC website, and review the red flags or fraud indicators for "[DCMA CONTRACTS/PRICING SPECIALISTS](#)." (b) (6)



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*Altered Purchase Orders. Fake invoices. Completely Fictitious Traceability Documents. Forged Proof of Delivery Documents.* These are all descriptions of documents from fraud schemes identified in the stories below. As you read this edition of Focus on Fraud, you'll notice this common thread: falsified documents. Whether the documents identified in the stories are fake, fictitious or forged, they all equal *Red Flag Fraud Indicators*. Will you know them if you see them? Will you know what to do, if you do see them? DCMA QAR (b)(6) knew what to do and immediately reported the Red Flags to investigators and CIC Fraud Counsel, resulting in the uncovering of a multi-million dollar counterfeit parts scheme that put our warfighters at risk. (See, *Counterfeit Parts Scheme is a Family Affair*) You are the eyes and ears of the Government. Report those Red Flags!

## WELCOME ABOARD TO CIC DALLAS FRAUD COUNSEL (b)(6)

(b)(6)

Please join us in welcoming our new CIC Dallas Fraud Counsel (b)(6). (b)(6) joined the CIC staff in December, replacing (b)(6) who retired last year. No stranger to fraud, (b)(6) spent over fifteen years investigating and prosecuting domestic and international white collar crimes as a Trial Attorney for the United States Department of Justice Antitrust Division in Dallas. She was also the Antitrust Division's representative on the Hurricane Katrina Disaster Fraud Task Force. (b)(6) is looking forward to her new role as a DCMA fraud fighter and is in the process of reaching out to clients, investigators and agency counsel. As a CIC Fraud Counsel she will have responsibility for the southwest and mountain regions covering CMO offices within the states of TX, OK, AR, CO, UT, AZ, NM, ID, MT, and WY. (See [CIC Map](#)). You can reach (b)(6)

## COUNTERFEIT PARTS SCHEME IS A FAMILY AFFAIR

An Oregon contractor and his sons will be spending time in jail for placing warfighter safety and mission readiness at risk. The tale of Kustom Products Inc. involves the supply of over \$10 million in knock-off non-conforming parts to DoD, including critical safety items. Thanks to the sharp eyes and ears of a diligent DCMA QAR and DLA buying command personnel, investigators were unable to uncover the scheme.

*The Scheme:* Over a period of years, Kustom Products, Inc. (KPI) was awarded thousands of DoD purchase orders to provide parts for military vehicles and aircraft. Each contained specific information and requirements including Original Equipment Manufacturer (OEM) vendor and part number, whether the part was a critical application item and whether the part was required to be manufactured in the U.S. In some contracts, the defendants supplied counterfeit Freightliner parts and shipped some parts on pallets that falsely contained the logo and heat treatment certification stamp of Timber Products Inspection, Inc. Many of these contracts were inspection destination. In

essence, the defendants bid to supply a specific OEM part from an approved vendor at a price consistent with an OEM part, but instead knowingly provided a knock-off part from an unapproved vendor that cost them significantly less. This allowed KPI to under-bid the competition and generate substantial profits. However, after receiving and looking into a request from a program office to investigate a second PQDR regarding defective helicopter locknuts, **DCMA Seattle QAS** (b) (6) raised the Red Flag, reporting his concerns which resulted in a DCIS investigation.

**Critical Safety Parts:** KPI was awarded contracts to supply aviation locknuts, which were used to secure the blades to the main rotary assembly of the Kiowa Helicopter. The locknuts were flight critical and of proprietary design to be acquired from only two approved manufacturers - SPS or Bristol Industries. Rather than obtain the locknuts from one of the approved sources, KPI



contacted Coloc Manufacturing in Texas and arranged with them to make and deliver thousands of non-conforming locknuts for fulfillment of the contract. Coloc was unaware that the parts they were contracted to manufacture were proprietary and were to be used in a flight-critical military application. The defective locknuts were detected throughout the military supply chain, which triggered the issuance of a DoD-wide safety alert and a worldwide inspection of all aircraft and stockpiles. After DoD notified KPI about the defective parts, KPI provided DoD officials with false information in

an attempt to cover up the acquisition of the defective locknuts.

**The Cover Up:** KPI was also contacted by a DoD inspector, who requested KPI officials provide a written response as to the cause of the deficiency. KPI provided DoD with a false explanation as to why the locknuts were not in compliance with the contract requirements, explaining that the parts were pulled from the wrong storage bin.

Even after being notified of the deficiency, instead of replacing the defective parts with authentic parts from the approved manufacturers, KPI went back to Coloc and directed them to re-machine another batch of non-conforming locknuts to more closely resemble the authentic part. The additional defective locknuts were shipped to the DoD, all with complete disregard for the contract specifications on this critical application and the potential for catastrophic failure to the helicopter and injury or death to the occupants as a result.

Again, when the second batch of defective locknuts were detected in the supply chain, DoD officials requested acquisition records from KPI. In response, KPI created false records reflecting that the correct parts were ordered by KPI and supplied to the military. KPI, through office manager Margo Densmore, altered purchase orders to indicate that the correct parts were ordered, and provided those altered documents to DoD officials and investigators. KPI Owner Harold Bettencourt II also provided DoD officials with these false purchase orders along with a price quote from a parts dealer for authentic conforming parts that KPI never actually ordered.

**The Charges:** **Assistant U.S. Attorney** (b) (6) charged that KPI, Bettencourt II, and the others conspired to commit wire fraud, money laundering, and trafficking in counterfeit goods and services. DoJ alleged that these actions by the defendants compromised the integrity of the aviation supply chain and put service members in harm's way by knowingly placing defective and unsafe aviation components into the supply chain and attempting to conceal their actions by falsifying records, and misleading DoD officials and investigators with false statements and information.

**Sentencing:** Harold Bettencourt II, his three sons and Margo Densmore, pleaded guilty in Federal District Court to conspiracy to defraud the U.S. under DoD contracts. As part of the plea, *the defendants agreed to forfeit all proceeds traceable to the fraud, including \$365,503.26 in funds*

from 20 bank accounts, eight vehicles, one boat, two boat trailers, two jet skis, and three all-terrain vehicles. Harold Bettencourt II was sentenced to 3 years, 9 months in prison. Bettencourt's two oldest sons were sentenced to a little more than two years in prison. Their younger brother and Margo Densmore were each sentenced to 1 year and 1 day in prison. KPI was placed on 5 years' probation and ordered to pay \$5 million in restitution and a \$150,000 fine.

Kudos to **DCMA Seattle** (b) (6) who was instrumental in providing significant support to this effort. **DCIS SA** (b) (6) praised (b) (6) efforts, stating he was "absolutely critical" to the investigation. We also heartily congratulate **DCIS SA** (b) (6) on the success of the comprehensive and painstakingly thorough investigation he conducted.

**Lesson Learned:** It never hurts for Quality personnel to occasionally check the validity of certifications from lower tier vendors and suppliers that are provided by prime contractors to verify that the certs are accurate and the part or equipment being inspected is fully conforming. (b) (6)

### **DCMA ATLANTA 'UNMASKS' WAWF IMPOSTERS – AN UPDATE**



In [Focus on Fraud, Issues No. 59](#) and [60](#), we reported that Dale Capelouto and Glen Favre had been debarred for a scheme relating to WAWF Government user roles (using false information in an attempt to approve their own false invoices). An IT Messenger entitled "Possible Fraud Alert for All DCMA Personnel (Especially System and E-Tool Administrators)" was sent out requesting that any contact with these individuals be reported. Since our last report, both subjects have been sentenced to prison terms

Beginning in November 2009, there have been thirteen investigations into the conduct of Glen Favre and Dale Capelouto. They have systematically and continually identified themselves as Federal employees and have filed numerous false claims with multiple agencies, to include DoD, Energy and GSA. However, because the duo failed in their attempts, DoJ ultimately declined prosecution due to the lack of monetary loss.

In May 2012, the subjects were arrested by Atlanta police for Theft of Services. A subsequent search discovered boxes of documents that contained Federal applications, forms and claims. The subjects were charged and pleaded guilty in the State of Georgia Superior Court of Fulton County, to Theft of Services, Computer Theft, and Computer Forgery. They were each sentenced to 60 years of probation.

Last October, the State petitioned to revoke probation based on their continued fraudulent attempts to collect funds from various entities, including the Federal Government. Several Federal agents and employees testified at the hearing including (b) (6) **DCMA Electronic Business Directorate**, who was contacted by the subjects several times. The judge revoked 10 years of the probation for each subject. Thus, Capelouto and Favre must serve 10 years in prison and will still be on probation for the remainder of their 60 year term when released. Conditions of their probation include 240 hours of community service each year (up to 5 years), appearance before the court once a month, and NO contact with any Federal agency.

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

## **SMALL DOLLAR CONTRACTS...FRAUD PROSECUTION FOR "PARTZ" SUBSTITUTION MOVES FORWARD**

The owner of a New Jersey parts supplier is charged with conspiracy to commit wire fraud for an alleged parts substitution scheme. Richard Melton, founder, owner, and president of Partz Network LLC (Partz Network) contracted with DoD to supply parts on small-dollar contracts. The contracts were for replacement parts on trucks, trailers, and engineering equipment and required that the items provided be manufactured by DoD-recognized qualified manufacturers. DLA became aware of reports of non-conforming parts related to Partz Network. As a result, DLA required Partz Network to provide "traceability documents" to confirm that the items it was supplying were actually being manufactured by DoD recognized qualified manufacturers. Partz Network provided traceability documents and invoices regarding items provided under the DoD contracts. However, when the traceability documents supplied were researched, it was discovered that the documents were either altered or completely fictitious.

Melton and his conspirators allegedly lied on Partz Network's bids for DoD contracts, stating that they would provide the "exact product" sought by the DoD, meaning that the product was manufactured by a DoD-recognized qualified manufacturer. In fact, Partz Network was allegedly providing parts made by unapproved, and oftentimes unknown, sources.

For example, according to court documents, Partz Network submitted a bid electronically through the DoD's internet bid system to supply 1,400 oil pans for \$53.85 per item. Partz Network represented that the company was providing the exact product manufactured by one of the two DoD-recognized qualified manufacturers. Partz Network was subsequently awarded the contract for 1,400 oil pans for a total contract price of \$75,390. Both the Request for Quotation (RFQ) and the final contract included the language that the exact product was required. The items ultimately provided by Partz Network were not the exact products required under the contract because the items were not manufactured by a qualified manufacturer. In fact, five days prior to Partz Network submitting its bid for the contract, Melton sent an e-mail to a Partz Network employee with a link to the DoD RFQ that stated the following: "Bid these (1400) HMMWW oil pans at \$53.85 and I will have them made overseas by [a company located in the People's Republic of China] or another overseas firm, 200-day lead time." Based on Partz Network documents related to that contract, Partz Network purchased the oil pans that were provided to the DoD from a company located in India.

Melton was charged with a wire fraud conspiracy count, which carries a maximum potential penalty of 20 years in prison and a fine of \$250,000, or twice the gain or loss from the offense. DLA debarred Partz Network and related individuals. Kudos to **DCIS SA** (b)(6) for his diligent investigative efforts, and to **DCMA ACO** (b)(6), **DCMA IS** (b)(6) and former **DCMA QAR** (b)(6), for their support.

**Lessons Learned:** Always review contract requirements carefully. If the contract requires parts from qualified manufacturers, substitution is not acceptable. Falsification of traceability documents is NEVER acceptable. (b)(6)

## **THE BIGGER THEY ARE THE HARDER THEY FALL**



American President Lines, Ltd, Inc., (APL) and Maersk Line Limited (MLL) were recently the center of an investigation concerning hundreds of lost containers worth over \$12 million. Those lost containers were supposed to transport critical items like bottled water to the troops in Afghanistan. Instead, forged and fraudulent proof of delivery (POD) documents made it to destinations without the accompanying containers. APL and MLL allegedly used these false PODs to generate invoices to the U.S. Government for payment on delivered containers that were never actually delivered. The scheme was uncovered by subcontractor personnel from DRS Technologies on the ground in Afghanistan. In one instance, a DRS Field Service Representative at FOB Dwyer, noticed his signature on PODs that he

had never signed. The containers were full of military supplies sent by the Army and Air Force Exchange Service (AAFES), Defense Logistics Agency (DLA), General Services Administration (GSA), and DCMA, all bound for U.S. Forces in Afghanistan. Among the items lost were 28 containers filled with bottled water.

This was a truly joint investigation with a large interagency impact. The Special Inspector General for Afghanistan Reconstruction, Defense Criminal Investigative Service (DCIS), US Army Criminal Investigation Command (USACIDC), Assistant United States Attorney, US Transportation Command (USTRANSCOM), AAFES, DLA, GSA, and DCMA, including **DCMA St. Louis ACO** (b) (6), all coordinated to bring APL and MLL to justice. A special thanks to local agents **DCIS SA** (b) (6), **AFOSI SA** (b) (6), and **USACIDC SA** (b) (6). Multiple additional agents coordinated and worked together to make this a successful investigation and a special DCMA thanks goes out to all of them. Also, a special thanks goes out to USTRANSCOM attorneys and transportation personnel.

APL and MLL were facing possible charges of submitting false claims, wire fraud, and false statements. In lieu of prosecution, APL and the Government reached a settlement agreement in which APL paid \$4.25 million. In lieu of prosecution, MLL recently agreed to repay the U.S. Government \$8.7 million in a settlement agreement.

**Lessons Learned:** There is no contractor too big to fail in their responsibility to the U.S. Government. As the draw down in Afghanistan comes to a close, be vigilant with audits and contract closeouts as many opportunities stemming from Operation Enduring Freedom still exist to defraud the Government (b) (6)

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## ***CYC: Who you Gonna Call?***

Ghostbusters asked the question, “Who you Gonna Call?” Your friendly CIC “Fraudbusters” haven’t seen any ghosts lately, but think it’s a great question to ask DCMA employees when they see a contractor fraud matter. The easiest thing to remember is to CYC: “Call Your Counsel.”



The articles below set out other specific instances when you need to “CYC.” Of course, we want you to CYC to report contractor fraud, but there are other instances of which you need to be aware. Here’s a bright line rule: anytime you are contacted by a non-DCMA attorney, you should “CYC”. Don’t be afraid of ghosts. We’re here to help.

### ***CYC for Reporting Contractor Fraud: Areas of Responsibility***

For reporting fraud and irregularities within DCMA, [Policy Instruction 906, Fraud, Waste and Abuse](#), provides that “... employees shall notify CIC Counsel. Employees assigned to DCMA Special Programs (DCMAS) should contact DCMAS-GC”. Referrals should be made to the CIC Fraud Attorney responsible for your geographical area. (See [CIC Map](#)).

The areas on the map include multiple local DCMA Commands, as well as Center personnel, for each of the various CIC Fraud Attorneys. If you are a Center employee, reach out to the **CIC Fraud Counsel** cognizant of your location. If you are a Special Programs employee, contact Special Programs Counsel. Some initial confusion is understandable; however, please recognize that your calls are important. If you are uncertain as to whom you should call or if the cognizant CIC Fraud Attorney is not available, any of the listed attorneys will be glad to field your questions and/or direct your call.

Did you know that there is another office in DCMA that handles investigations with a separate and distinct function? The DCMA Office of Independent Assessment incorporates the Investigations Center (CMA-DMR) which provides an investigative capability for internal DCMA matters or matters of interest to the Director, DCMA, not suitable for referral to the Defense Criminal Investigative Service (DCIS) or the Military Criminal Investigative Organizations (MCIO’s). If you have a **contractor fraud matter**, however, you must report to **CIC Fraud Counsel** for potential referral to DCIS or the MCIOs. Remember to CYC.

### ***CYC if Contacted by a Non-DCMA Attorney***

You’re sitting at your desk on a rainy Friday afternoon when the phone rings. A friendly voice on the other end identifies itself as Tammy Trial Lawyer. Tammy would like to know if you have a few minutes and could answer just a few questions about a contract you administer. She mentions in passing that she represents the contractor in a lawsuit brought by one of those pesky former

employees trying to bilk money out of the company. Her client told her that you are very cooperative and helpful. She asks if you could just tell her if you've ever had any quality problems with her client's product. What do you say? Do you answer her questions? After all, she is very friendly and complimentary. But she also said she is involved in litigation. That should be a clue to you to immediately "CYC"—"Call Your Counsel." In fact always CYC before agreeing to talk to an outside attorney on any subject involving your official duties.

The DoD has very specific rules regarding the release of official information. Those rules are even more important when litigation is involved. The Government may or may not be a party to the litigation. If the Government is not a party, DoD Directive 5405.2, Release of Official Information, may apply. This directive is often called the "Touhy" regulation after a Supreme Court case dealing with issues on release of official information. Under this regulation, only the Region Counsel has authority to authorize release of official information.

Recently we have seen a rise in litigation called "qui tam" actions. These actions allow a private citizen to sue under the False Claims Act on behalf of the Government for fraudulent activity. The qui tam provisions of the False Claims Act were intended to encourage all persons with information about fraud against the Government to come forward. These cases are sometimes called whistleblower suits and the person filing the suit is called a "Relator."

The Government has the opportunity to "intervene" in these qui tam cases after conducting an investigation. If the Government intervenes in the case, the Department of Justice (DoJ) represents the Government in the action. In that case, all discovery requests including witness and document production requests are handled through the DoJ attorneys in conjunction with agency counsel. In these situations, counsel for the Relator or Contractor should not contact you directly because they have ethical obligations to seek Government information through DoJ attorneys using a process called Discovery.

If the Government chooses not to intervene in the lawsuit, the Relator may proceed with the lawsuit alone. This places the agency in the tricky position of having official information concerning the DoD contract involved, while the Government is technically not a party to the case. In this situation the "Touhy" regulation applies and must be followed. Any requests for witness testimony or documents from attorneys representing either the Relator or the Contractor must be made in accordance with the regulation. You should immediately contact your cognizant **CIC Fraud Counsel** if you receive a request for official information in connection with litigation of a qui tam action. The request may take the form of a subpoena, a letter, or merely a phone call as in the example in the opening paragraph. The bottom line is don't go out on a limb when litigation is involved. Just "CYC"—"Call Your Counsel."

### ***CYC Even for Former Employees***

The "Touhy" regulation described above applies not only to current employees, but to former employees as well. Once you retire or resign from DCMA, you still have an obligation to "CYC," before releasing official information to a party in litigation. For example, Tammy Trial Lawyer might call you at home because she knows you are a retired QAR that dealt with the DoD contract which is the subject of the litigation. She asks if you might answer a few questions for her. You still must "CYC." Only the DCMA Office of General Counsel has authority to authorize release of official information, even through former officers and employees. Former employees should pay particular

attention to the “Touhy” regulation if counsel offers you payment for your testimony. Under the regulation, “expert” testimony cannot be given unless authorized. You may never accept compensation, other than normal witness fees, for your testimony unless pursuant to a court order. If you give “expert” testimony and accept compensation for that testimony, you may put yourself in jeopardy of violating [18 U.S.C. 207](#), a criminal conflict of interest statute. The conflict of interest statute prohibits a former officer or employee who was personally and substantially involved with a contract while a Government employee, from giving expert testimony on behalf of a party other than the United States concerning the contract, unless the testimony is pursuant to a court order. The bottom line for former officers and employees contacted by a party in litigation concerning official information is the same as that for current employees. Don’t go out on a limb, but “CYC”—“Call Your Counsel.” (b)(6)

### **STOPPING “TRUNK CONTRACTORS” IN THEIR TRACKS**



What should you do when you have a habitually poor performing contractor? What if they are creating CAGE Codes by the dozen, using other suppliers' addresses to cover up the fact that they do not have their own facility? We may be able to pursue a performance-based debarment to stop what is sometimes referred to as a “trunk contractor” -- since the contractor runs their business out of a car!

Take the case of USAC. USAC presented itself as an established manufacturer but did not control (own/lease/rent) a manufacturing facility or equipment. In order to avoid detection, USAC repeatedly changed CAGE codes and modified its place of performance to one of its supplier’s facilities. Over the course of several years, multiple contracts were cancelled without performance. A number of these contracts were awarded as Small Business Set Asides which USAC, as a distributor, could not perform in accordance with FAR clause 52.219-14 (Limitations on Subcontracting) *because at least 50% of the manufacturing must be performed by the small business concern.*

Armed with the contracting facts, a DCMA team and CIC Counsel assembled a performance-based debarment recommendation and submitted it to the DLA Suspension & Debarment Official. As a result, DLA debarred USAC and 37 of its affiliates for consistently failing to perform or deliver on multiple DLA and TACOM contracts.

**DCMA Santa Ana IS** (b)(6) was instrumental in providing support for this effort. Teaming with **DCMA Santa Ana QARs** (b)(6), along with **DCMA Los Angeles QAR** (b)(6) and **IS** (b)(6), the group provided critical information about USAC's present responsibilities and poor performance to the CIC. These hard-working DCMA personnel should be congratulated for their efforts.

**Lessons Learned:** Are you tired of spending hours dealing with chronically poor performing contractors who have many contracts? Well, folks, there is a SOLUTION. Contact your local CIC Counsel to discuss whether these bad performers are potential candidates for a performance-



based debarment recommendation. You provide the facts and the CIC prepares the debarment recommendation.

A separate Lesson Learned is that DCMA personnel need to pay particular attention to their Small Business contracts. We have recently seen several cases where contractors that do not qualify as small businesses are deceiving the Government into awarding them Small Business contracts. If you suspect a company identified as a small business is playing fast and loose with the rules, please contact your local CIC Counsel. (b) (6)

## **A TALE OF FALSIFIED COCs, CHINESE SOURCED ITEMS AND FAILING PRODUCT**



When a contract requires a Qualified Product List (QPL) approved source, that means the contractor must use those qualified sources to supply items to DoD. Sounds simple enough. But what happens when a contractor decides it's more profitable to use a non-QPL source thinking the Government won't know the difference?

The difference is a nonconforming item, and in the case of Electrical and Electronic Controls, Inc. (EEC), the difference was field failures of an electrical tie-down strap. EEC was a distributor of motor controls, magnetic motor starters, contactors, lighting contactors, and other electronic components, that supplied defective parts and willfully made material misrepresentations to DoD representatives regarding the source of the suspect goods. The investigation began when DLA Aviation issued a GIDEP AAN-L stating that EEC supplied suspect nonconforming electrical tie-down straps, which are critical application items. The tie-down straps were found to break under the slightest stress and did not conform to specifications. The tie-down straps were failing in the field.

The investigation revealed that EEC had a history of product substitution. Many of the contracts awarded to EEC required materials from vendors on a QPL. The investigation focused on EEC's Government Sales Manager, David Holland, who stated that the materials provided by EEC were obtained from approved sources and provided Certificates of Conformance (COCs).

Investigators contacted the approved sources, who stated that they had never sold to EEC and the COCs were not authentic. Documents provided in response to an Inspector General subpoena clearly showed that *all electrical tie-down straps EEC supplied were purchased from Chinese manufacturers, and were purchased at a much lower price than available from QPL vendors. Mr. Holland faxed falsified COCs to make it appear as though the parts were obtained from approved sources.* Interestingly, EEC terminated Mr. Holland's employment prior to the investigation. He then found a position at another Government contractor, who also terminated Mr. Holland for product substitution and for representing the contractor as a small business when it was not and receiving contract awards on that basis.

Mr. Holland pled guilty to one count of making False Claims, and was sentenced to time served, 2 years of supervised release, 250 hours of community service, a \$100 special assessment and \$29,

974 in restitution. DLA debarred Mr. Holland until 2019. EEC executed a Settlement Agreement in which the contractor agreed to pay \$250,000 in damages.

Excellent investigative efforts were provided by **DCIS Special Agent** (b)(6) and **Army CID Special Agent** (b)(6). Also, thank you for the support of **DCMA ACO** (b)(6), **DCMA QAR** (b)(6), and **Team Leader** (b)(6).

**Lessons Learned:** If the contract requires items from QPL vendors, then it is not permissible to substitute products from non-QPL vendors. Also, always be vigilant in examining COCs and if in doubt, contact the vendor to confirm the authenticity of the COC. (b)(6)

### ***THE MANDATORY CONTRACTOR DISCLOSURE RULE – AND SMALL DOLLAR LABOR MISCHARGING***

FAR 52.203-13, Contractor Code of Business Ethics and Conduct, required in contracts exceeding \$5 M, mandates that contractors self-report criminal and civil violations of law to the DoD-IG. Specifically, the clause requires contractors to:

...timely disclose, in writing, to the agency Office of the Inspector General (OIG) with a copy to the contracting officer whenever, in connection with the award, performance, or closeout of this contract or any subcontract thereunder, the contractor has credible evidence that a principal, employee, agent, or subcontractor of the contractor has committed a violation of Federal criminal law involving fraud, conflict of interest, bribery, or gratuity violations found in Title 18 of the US Code or a violation of the civil False Claims Act.

In its recent DoD-IG Semiannual Reports to Congress, the Inspector General reported that the large majority of Contractor Disclosures received concern Labor Mischarging. Other disclosures include Significant Overpayments, False Claims, Non-conforming Parts and False Certifications. Most of the Labor Mischarging disclosures are small dollar value.

What is the ACO's responsibility in these matters? If the ACO has been notified that a criminal or civil case will not be pursued and the matter should be handled contractually, the ACO then has a responsibility to determine whether a Contract Debt is due under DCMA [Policy Instruction 104](#) and [FAR Subpart 32.6](#). The ACO is responsible for Debt Determination under paragraph 3.1.1, which states: "If the ACO has any indication that a contractor owes money to the Government under a contract, the ACO shall promptly determine whether an actual debt is due and the amount." The Contractor Disclosure may provide enough information for the ACO to make this determination, but, if not, the ACO will need to seek additional information from the contractor and inform the DoD-IG of the determination. (b)(6)

### ***CONTRACTOR GETS 6 MONTHS PRISON FOR SUBPAR F-15 WING PINS, FALSIFYING RECORDS***

Action Machine provided nonconforming pins used to secure wings on the F-15 aircraft. The wing pins, critical aircraft parts, were manufactured with the wrong material and failed to meet hardness

requirements. The investigation determined that Malcolm Markson, the owner of Action Machine, knowingly sold the defective wing pins to the DoD and created bogus dye penetration certifications.

Markson pled guilty to Fraud Involving Aircraft Parts and Obstruction of an Investigation. He was sentenced to six months in federal prison, two years' probation, and \$5,732 in criminal penalties. Markson, his wife Michelle, and Action Machine were all debarred by the Air Force Suspension and Debarment Official.



Thank you to DCIS Pheonix Special Agent <sup>(b) (6)</sup>, Pheonix Assistant United States Attorney <sup>(b) (6)</sup>, USAF F-15 Chief Engineer <sup>(b) (6)</sup>, Air Force Research Laboratory Team Leader, <sup>(b) (6)</sup> and DCMA Pheonix QARs <sup>(b) (6)</sup>. Their hard work and dedication removed these nonconforming materials from the supply chain.

**Lessons Learned:** Coordination/teamwork is key in product substitution investigations. Air Force testing and the DCMA QAR provided critical assistance to DCIS. This coordination led to a successful fraud prosecution and eliminated an untrustworthy supplier from the supply chain. Following up with the company that had purportedly done the dye penetration inspections established that the certifications supplied by the contractor were false.

<sup>(b) (6)</sup>

# Focus On Fraud

DCMA Contract Integrity Center Initiative

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***“We are the independent eyes and ears of DoD and its partners, delivering actionable acquisition insight from the factory floor to the front line...around the world.”*** And just in case you don’t already know that you make a difference, read the following Focus on Fraud articles highlighting the contributions of conscientious and hardworking DCMA employees, just like you, using their eyes and ears while aiding the fraud fighting mission. You are not just the eyes and ears, but also the face of the Government to those who would cut corners to make a profit at warfighter and taxpayer expense. Whether it’s a story about a QAR who follows through after hearing that a company president is ordering his employees to falsify documents, or an ACO ensuring unallowable costs are not charged to the Government, or a Pilot on the flight line helping an ACO and Contract Price/Cost Analyst determine fuel usage overcharges, YOU are at the front line to protecting the warfighter and the taxpayer coffers in the acquisition process. Keep up the good work DCMA employees. **YOU** make a difference every day.

## CAHN’s CON UNCOVERED THANKS TO DCMA QAR

A former Michigan contractor wasn’t counting on the sharp eyes and ears of a DCMA QAR when he ordered his employees to ship defective products and falsify conformance documents. Thanks to a DCMA presence in plant, Aerospace Manufacturing Services Inc. (AMS) owner, Howard B. Cahn, aka, Jack Cahn, can no longer provide defective machine gun parts to the Government.

AMS had contracts to provide the Army parts for the M-249 5.56mm machine gun (M-249) and Mark 19 40mm grenade-machine gun (Mark 19), until he was recently indicted and convicted. A DCMA QAR reported fraud indicators when AMS failed to meet quality control criteria by not measuring to ensure the parts (pawls) met contractually-required specifications. The pawls are a critical application item in the M-249. A joint investigation by DCIS and CID exposed that Cahn coerced his employees into submitting falsified documents to the Government and to include defective components in multiple shipments to the Army. Over 5000 M-249 and Mark 19 machine gun parts, which had failed testing and been marked as scrap, were shipped to the Army for fielding. Cahn also presented false Certificates of Conformance to DCMA relating to both the M-249 and Mark 19. The astute and vigilant work of **QAR** <sup>(b) (6)</sup> [REDACTED], who was assigned to the AMS contract, protected the Government’s interests and ensured a successful prosecution. Also, special thanks to **DACO** <sup>(b) (6)</sup> [REDACTED] and **QA System Specialist** <sup>(b) (6)</sup> [REDACTED] for their outstanding support to the Investigation and timely efforts to protect the Government’s interests.



On March 25, 2014, Cahn was indicted on one count of covering a material fact by trick or scheme, two counts of making and using false documents, and one count of wire fraud. On April 16, 2014, Cahn appeared before the court and pled not guilty to the charges. A jury in Kalamazoo, MI, found Cahn guilty of all charges. On

February 9, 2015, Cahn was sentenced to 30 months imprisonment, \$400 fine, and 2 years' probation. On April 22, 2015, Jack Cahn and known affiliates; Colorado Aerospace, Inc., Aerospace Manufacturing Services, Inc. and AMS Corporation, were all debarred until November 26, 2019. Kudos to **Army CID Special Agent** (b) (6) and **DCIS Special Agent** (b) (6) for their tenacious and unwavering investigative commitment to bring Jack Cahn to justice.

**Lessons Learned:** There are contractors such as AMS and Cahn who are willing to send U.S. Troops into battle with defective weapons just to make a dollar. Often the source of information involving schemes like this is a company employee who has been ordered to do something wrong. You are not only the eyes and ears of the Government, but the face of the Government to company employees who may relay their concerns. Report employee provided information on fraud to the CIC. This brazen fraud is also a reminder for QARs and others to review the *Red Flags* on the [CIC website](#), especially those relating to non-conforming material. (b) (6)

### ***DO YOU PREFER YOUR GAS PISTONS MEDIUM RARE OR WELL DONE?***

As crazy as that sounds, a recently closed investigation contained allegations that a contractor was heat treating gas piston cylinders on a BBQ grill. Alpha Machining Products & Development, Inc., San Diego, CA, submitted false certifications for heat treatment of parts for the M-249 saw machine gun on a TACOM contract. Picatinny Army Depot reported that multiple gas piston cylinders made by Alpha had failed after firing approximately 100 rounds. **QA Tm Supervisor** (b) (6) indicated there was strong evidence Alpha was heat treating weapons parts on a grill at the Alpha facility.



An investigation was initiated into these allegations against the company and its owners, Ildiko Pinero and her father Gyula Kis-Benedek.

A GIDEP AAN-L was released alerting Government agencies of the ongoing investigation of Alpha Machining and the recent failures of the gas piston cylinder assemblies made by that company. It was recommended that all Gas Piston Cylinder Assemblies produced by Alpha Machining be vigorously tested before use in an operational environment.

The Criminal and Civil Assistant US Attorneys opined there was probable cause to believe Alpha committed the offense of false claims and false statements. However, the company had completed Chapter 7 Bankruptcy proceedings and the Department of Justice determined that there were stronger grounds to pursue the matter for tax fraud. Ms. Pinero was indicted by a Grand Jury in a 10-count Federal indictment for violating Title 26 USC 7202, Failure to Pay Employment Taxes. Ms. Pinero ultimately pleaded guilty to one criminal information count charging her with willful failure to pay to the U.S. payroll taxes she withheld from the paychecks of Alpha employees. Ms. Pinero was sentenced to two months confinement in prison followed by three years of supervised release, which included four months of home confinement. Additionally, Ms. Pinero was ordered to pay restitution of \$168,200.01.

Finally, the Army debarred Ms. Pinero, Mr. Kis-Benedek and Alpha Machining from Government contracting.

DCIS SA (b) (6) and Army CID SA (b) (6) did a thorough job conducting this investigation. DCMA San Diego QAS (b) (6), Tm Supervisor (b) (6) and former QAS (b) (6) (now Tm Supervisor) provided significant support on the investigation and the Army debarment determination.

**Lessons Learned:** DCMA personnel should carefully review certifications for evidence that documents are falsified. In addition, DCMA personnel should randomly check with outside testing and heat treating houses to verify that the certs are accurate. Finally, if you see suspicious or inappropriate activities at a contractor facility, please contact your CIC Counsel. (b) (6)

### ***COUNTERFEIT BATTERY UPDATE: CEO SEES PRISON TIME***

Some of you may remember the article in [FoF 62](#) concerning former Powerline CEO Didier DeNier's conviction for his scheme selling cheap, knock-off batteries that the USN used for emergency back-up power aboard nuclear aircraft carriers, minesweepers and ballistic missile submarines. The former CEO of Powerline was ultimately sentenced to 87 months in prison and ordered to pay more than \$2.7 million in restitution. In addition, on June 1, 2015, DLA debarred Powerline, Mr. DeNier and affiliates through January 13, 2025. (b) (6)

### ***THE PRICE WASN'T RIGHT!***

When does best price mean best price? Siemens Medical Solutions USA, Inc. (Siemens), a healthcare technology company, found the answer recently as part of a civil settlement with the Government. Siemens was awarded DoD contracts for the purchase of medical imaging equipment and support products. It was alleged that Siemens failed to provide the best price for certain DoD purchases made pursuant to the contract. Specifically, Siemens did not give the DoD the largest discount that a private or commercial customer had received for a "like system," and in doing so, overcharged the DoD. Siemens also withheld information about this overcharging and kept money that it was not entitled to retain. After Siemens uncovered evidence of the overcharging, Siemens issued mass discounts on multiple occasions to address the overbilling on a prospective basis. Siemens did not correct the overcharging that had already occurred.

Siemens entered into a civil Settlement Agreement and agreed to pay \$5.9 million to resolve the overcharging issue. Approximately \$3.2 million was returned to DLA, the victimized DoD agency, with other funds returned to the Department of Veterans Affairs. Excellent investigative efforts on behalf of the DoD were provided by DCIS Special Agent (b) (6). Also, thank you for the support of former DCMA ACO (b) (6) and DCMA ACO (b) (6).

**Lessons Learned:** DCMA plays a significant role throughout the investigative process, including enforcement of the terms of a civil Settlement Agreement. In this case, the DCMA ACO coordinated with DCAA to ensure that the terms of the Settlement Agreement identifying the settlement sum and costs related to this matter were unallowable costs, which the contractor accounted for separately. This is standard language in most civil Settlement Agreements and DCMA plays a pivotal role to ensure contractor compliance. (b) (6)

## **QUI WHAT?**

DCMA is often asked to assist the United States Department of Justice with the investigation of civil and criminal violations of the False Claims Act, 31 U.S.C. §§ 3729(a)(1)(A) and (B), and 18 U.S.C. § 287, respectively. Generally, the False Claims Act establishes liability for any person who knowingly submits a false claim to the Government, or causes another to submit a false claim to the Government, or knowingly makes a false record or statement to get a false claim paid by the Government. Private individuals may file suit for violations of the False Claims Act on behalf of the Government. A suit filed by an individual on behalf of the Government is known as a “*qui tam*” or whistleblower action, and the person that brings the action is called the “relator.” *Qui tam* is an abbreviation for the Latin phrase *qui tam pro domino rege quam pro se ipso in hac parte sequitur*, meaning “he who sues in this matter for the king as well as for himself.”

*Qui tam* complaints are filed with the court “under seal.” The complaint and a written disclosure of all the relevant information known to the relator are served on the local U.S. Attorney so that the Government can conduct an investigation. Congress adopted the seal provision in response to concerns that *qui tam* complaints filed in open court might tip off targets of ongoing criminal investigations. The Government is required to investigate the allegations in *qui tam* complaints and then notify the court whether it intends to proceed with or “intervene” in the action. Requiring *qui tam* complaints to be filed under seal protects confidentiality and allows the Government time to conduct an investigation using whatever techniques it deems appropriate. If the Government intervenes in the action, it takes responsibility for going forward with the case. If the Government declines, the relator must decide whether to proceed alone, or dismiss the case. Ordinarily, the seal is lifted once the Government either declines or decides to intervene.

**What does this mean for you?** DCMA employees can assist Government investigators in fulfilling their obligations under the False Claims Act by providing documents and testimony to help determine whether the allegations in a *qui tam* complaint are factually accurate. Recognizing that these matters are filed under a court-ordered seal, DCMA employees that are contacted to assist investigators should exercise caution. While the matter is under seal, it is important not to discuss any aspect of a False Claims Act case, or the underlying allegations, with anyone other than CIC Counsel and the Government agents assigned to the case. (b) (6)

## **CHEAP GAS?: LOCKHEED SETTLES FUEL OVERBILLING**

Lockheed Martin Corporation (“Lockheed”) has agreed to pay \$2 million to settle allegations that it overbilled the Government for JP-8 fuel it used while manufacturing C-130J aircraft for the United States Air Force. Between 2006 and 2013, Lockheed manufactured C-130Js at its Marietta, GA facility. Pursuant to the underlying contracts, the Government provided Lockheed with up to 22,000 gallons of fuel per aircraft, which could be used for the engine runs, fuel operations, and test flights necessary to manufacture C-130Js. Once Lockheed exhausted its 22,000-gallon allotment on a particular aircraft, Lockheed, not the Government, was financially responsible for any additional fuel. However, a joint AFOSI and DCIS investigation indicated that between 2006 and 2013, Lockheed routinely used fuel in excess of the 22,000 gallons, but failed to reimburse the Government for the excess.

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Thank you for the detailed and thorough investigation conducted by **AFOSI Special Agents** (b) (6) and (b) (6) and **DCIS Special Agent** (b) (6). **Assistant United States Attorney** (b) (6) handled the matter on behalf of the Department of Justice. Also, thank you for the support of **ACO** (b) (6) and **Lead Contract Price/Cost Analyst** (b) (6) who sifted through and unwound dense and complicated data to reveal the overcharges. Also, **Lt Col** (b) (6), **Chief Flight Operations**, was instrumental in determining fuel usage based on his experience as a pilot.

**Lesson Learned:** This settlement reflects the resolve of DoJ, AFOSI, DCIS, DCAA, the USAF and DCMA to ensure that contractors that overcharge the Government will be identified and held responsible for their actions. (b) (6)



# Focus on Fraud Newsletter

## DCMA Contract Integrity Center Initiative

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*Paperwork.* That's the word that comes to mind from the stories below in this edition of Focus on Fraud. Paperwork is not exciting in and of itself, until an unscrupulous contractor uses it to cover its trail. For DCMA employees, paperwork is often where you will find classic *fraud indicators*. And that's just where the sharp eyes of DCMA employees all over the world find them, such as the two QARs who discovered falsifications when they noted questionable signatures and stamps on Certificates of Conformance from two separate contractors relating to the same scheme (*SOMETIMES TRUST BUT ALWAYS VERIFY*). Paperwork was also the culprit when two Florida scientists sealed their fate of jail time for obtaining small business awards using fabricated endorsement letters (*IDENTITY THEFT PLUS BATHROOM LABORATORY EQUALS JAIL TIME FOR HUSBAND AND WIFE SCIENTISTS*). In California, a test engineer found himself on the wrong side of the law when he falsified test data for circuit boards (*DON'T LET A SCORPION TESTER STING YOU*). The fraud indicators were right there...*in the paperwork*. You are the eyes and ears of the Government. Keep looking hard at the paperwork and *report those fraud indicators*.

## DON'T LET A SCORPION TESTER STING YOU



When you think of a scorpion, you might picture a spider-like creature with a stinger on its tail. But if you're a DCMA employee working at DCMA NG El Segundo (ES), you know that Scorpion is a test machine used in electronics assembly and testing to verify that circuit boards have the correct resistors, capacitors, and diodes. You never want to feel the sting of bogus Scorpion test data.

That's what happened in September 2014 when Northrop Grumman Aerospace Systems (NGAS) disclosed to DCMA personnel that a former NGAS contract employee, Matthew Kotch, falsified Scorpion test data. As an NGAS contract employee, Kotch performed testing on electrical components associated with the Advanced Extremely High Frequency Space Vehicle System, and the James Webb Space Telescope. Since the parts Kotch was testing were considered low risk, DCMA personnel were not actively monitoring the testing. NGAS explained Kotch tested 221 boards manufactured for classified and unclassified programs. NGAS determined the **test data for 33 of the boards was suspicious or had been duplicated**. NGAS stated the affected hardware was not delivered prior to containment and corrective action.

AFOSI and NASA OIG conducted an investigation into the matter. The investigation substantiated the allegations against Kotch. Specifically, the investigators found that, while there were concerns about NGAS management oversight and employee training, Kotch apparently believed the Scorpion test was a useless test utilizing old technology and decided he did not need to perform the testing. The Los Angeles County District Attorney's Office accepted the matter for prosecution.

Last February, Judge Mark Windham, California Superior Court, Los Angeles County, concurred with the investigative findings and issued an Arrest Warrant for Kotch, for violation of California Penal Code 487(a) - Grand Theft by Embezzlement. Kotch was located and apprehended without incident at his residence in Everett, WA.

In May 2015, Kotch entered a plea of "nolo contendere" to the one count felony violation. Kotch was found guilty, and the judge imposed the following sentence: three years probation; two days in the LA County Jail; 45 days community service; payment of restitution in the amount of \$20,353.14 to NGAS; and fines/court fees in the amount of \$210. The AF debarred Kotch from federal contracting until May 2018.

**DCMA NG El Segundo ES Deputy Commander [REDACTED] Lead Engineer [REDACTED] and Commander [REDACTED]** are lauded for their efforts in making the CIC aware of these issues and for supporting the AFOSI and NASA OIG investigation. **AFOSI SA Al Pleasant and NASA OIG SA [REDACTED]** conducted a thorough and comprehensive investigation leading to a successful prosecution.

**Success Story:** DCMA NGES worked with NG to verify their findings and gather supporting data and documents for Government investigative authorities. Prompt reporting to the CIC of the contractor's disclosure and coordination and cooperation with AFOSI and other agencies enabled them to build upon data and ultimately arrest and prosecute Kotch. It also serves as a reminder that mission failure is not the only consequence for failing to do the right thing. [REDACTED]

## **IDENTITY THEFT PLUS BATHROOM LABORATORY EQUALS JAIL TIME FOR HUSBAND AND WIFE SCIENTISTS**



The Government paid for a laboratory, not a bathroom, according to the prosecutor's closing arguments in a trial of two Florida scientists, a husband and wife. And after evidence was presented in a month-long trial in Federal Court, the jury agreed, finding both guilty of wire fraud and identity theft in securing \$10 million in Small Business Innovative Research (SBIR) contracts. The U.S. District Court in Tampa, Florida sentenced Mahmoud Aldissi and Anastassia Bogomolova for conspiracy to commit wire fraud, wire fraud, aggravated

identity theft, and falsification of records. On September 10, 2015, Aldissi was sentenced to 15 years in federal prison and Bogomolova was sentenced to 13 years. As part of their sentences, the court ordered them to pay \$10.6 million in restitution.

According to testimony and evidence presented during trial, Aldissi and Bogomolova fraudulently obtained approximately \$10.5 million of small business research awards from the Government, through their two companies, Fractal Systems, Inc., and Smart Polymers Research Corp. Bogomolova was born in Russia and has been described as belonging to a family of scientists. Recruited to work at Tufts University, she came to the United States, and in 1997 married Aldissi, who was born in Jordan and raised in France. Both eventually became United States citizens.

In order to be awarded contracts, they submitted proposals using the ***stolen identities of real people to create false endorsements*** of, and for, their proposed contracts. In the proposals, they also lied about their facilities, costs, the principal investigator on some of the contracts, and certifications in the proposals. Prosecutors said that as far back as 1999 ***the couple had fabricated letters of support, cutting and pasting the signatures of more than 50 researchers***, some of whom had once endorsed their work but were entirely unaware their names and reputations were being recycled and added onto new grant applications. In one instance presented at trial, the couple forged the signature of a deceased man on an endorsement letter. The Government presented letters with outdated logos or a company name misspelled.

The couple also was accused of lying about having a laboratory and spending long stretches of time in France while they were being paid to do research in the United States. The couple used their home as the address for their two companies, yet proposed a 2,400 square foot laboratory to perform the work. ***While they represented they were performing experiments in a laboratory, they were actually performing them in a bathroom.***

This case was investigated by DCIS, NASA OIG, Army CID, NSF OIG, EPA OIG, the Department of Energy's OIG and the Department of Homeland Security's OIG. It was prosecuted by Assistant United States Attorney Thomas N. Palermo.

**Lesson Learned:** This sentencing serves as a reminder that fraud in the Small Business Innovation Research Program will not be tolerated. Grant programs rely on the truthfulness of small businesses. This case is a prime example of various investigative agencies working closely together to solve a suspected crime and how their varying investigative skills, knowledge and expertise complement one another to bring those responsible to justice. The lessons learned are many as they are classic fraud indicators DCMA employees may encounter - a forged signature on fake letterhead of an endorsement letter; outdated logos; misspelled names and the use of a home as place of performance. Report those fraud indicators. <sup>(b) (6)</sup> [REDACTED]

## PRICE IS WHAT YOU PAY. QUALITY IS WHAT YOU GET. WELL, NOT ALWAYS...

Getting what taxpayers paid for is something the Government expects, but doesn't always happen. In the case of defense contractor Pole Zero Corporation (PZC), a Qui Tam complaint alleged that the subcontractor supplied substandard communications equipment. Following a joint investigation by DCIS, AFOSI and NCIS, PZC recently paid \$2.8 million dollars to settle the allegations under the Civil False Claims Act.



PZC provided radiofrequency filters and integrated co-site equipment to the United States Air Force for use in its E-3 AWACS (Airborne Warning and Control System) Aircraft program. AWACS is a system that is deployed to provide early-warning and command and control functions. The complaint filed in Maryland alleged that PZC supplied equipment that failed to meet contractual requirements. More specifically, the complaint alleged that despite multiple malfunctions with the equipment including overheating and failure of quality control tests, PZC failed to correct the defects and applied temporary fixes, all the while continuing to bill the Government for the devices.

**Lessons Learned:** Contract requirements are not just suggestions. They are literally, requirements. Providing substandard product or failure to strictly follow the requirements of the contract can not only cost the Government money but in many instances can place our troops in dangerous situations. (b) (6)

## ONE TEAM: THANKS DCMA EMPLOYEES FOR BEING PART OF THE FRAUD FIGHTING TEAM



YOU are one of the main ingredients of a successful fraud team. The mission of the Contract Integrity Center is to provide legal advice and services to DCMA organizations and customers, DOD investigative agencies, and the Department of Justice, on fraud, waste, abuse and corruption issues involving defense contractors and their employees. As part of that mission, we are often asked to provide support to the Department of Justice when the attorneys are preparing for civil or criminal trials. ***This support comes in many forms including gathering contract documents, finding DCMA employees that can provide expertise regarding technical aspects of contracts, and working with employees that are needed to provide testimony in the litigation.*** Sometimes employees are asked to testify in court, depositions, or before a grand jury. If you are called to testify, we are happy to work with you and walk you through the particularities of testifying in the different forums.

Recently we were asked to gather documents for civil litigation involving the Department of Justice, and the documents were needed ASAP. Special thanks to (b) (6) (DCMA Dallas ABQ), (b) (6) (DCMAW NPO Houston), (b) (6) (ACO, DCMA Dallas, ABAA) and (b) (6) (Business Team Supervisor, DCMA Dallas, ABAA) for going the extra mile to help gather those documents. DCMA and DOJ counsel appreciate your support! (b) (6)

## SOMETIMES TRUST BUT ALWAYS VERIFY



The fraud indicators came in the paperwork: suspect signatures and stamps in Certificates of Conformance (COCs). And, not one, but two, sharp DCMA employees noticed. During unrelated contract document reviews for Turkish contractors ZGR INSAAT PLASTIK METAL MAKINA (ZGR) and ERON SAVUNMA PLASTIK MAKINA (ERON), two separate DCMA QAS's noted discrepancies with COCs submitted by each company. ***In both instances, ZGR and ERON submitted COCs to DCMA***

***which had questionable signatures and stamps*** indicating that the Turkish Ministry of Defense (TMND) had conducted Government Quality Assurance (GQA) activities (such as inspections) at each of the respective companies. In some instances, when supplier performance is in a foreign country, in lieu of DCMA performing these services, DOD *may* enter into international agreements with counterparts in foreign governments (in this case the TMND) for the reciprocal exchange of GQA.

Upon inquiring with the TMND as to whether the requisite GQA activities had been conducted, the TMND responded in both cases indicating that the products at issue had never been presented to its representatives for inspection and that the stamps and/or signatures were fraudulent. As a result, both QAS' issued corrective action requests, but never received acceptable responses. The misconduct was also reported to DLA which issued debarment actions against ZGR and Eron. Furthermore, the Turkish government has initiated an investigation and is in the process of prosecuting ZGR and ERON.

Thanks to DCMA QAS (b) (6) DCMA QAS (b) (6) and ACO (b) (6) for not only proactively reporting these issues but also for all of the support in gathering additional information and documentation to support the DLA debarment action.

**Lesson Learned:** As the eyes and ears of the agency, always contact your respective CIC counsel if you see something that doesn't add up. Paperwork anomalies are a classic fraud indicator. Even if it seems small, it doesn't hurt to have a conversation about your concerns. Who knows, it may turn into something substantive that rids the Government of one more non-responsible contractor. (b) (6)

# Focus on Fraud Newsletter

## DCMA Contract Integrity Center Initiative

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“Not on my watch.” Don’t alter dates on markings on critical safety parts and expect to get away with it. Not on my watch. Don’t represent parts that were manufactured in Turkey as “Made in America,” and expect to get away with it. Not on my watch. Don’t charge for time you didn’t work and expect to get away with it. Not on my watch. And don’t bill the United States for parts you don’t deliver. Not on my watch. The articles in this edition of Focus on Fraud highlight schemes and lessons learned from recent fraud cases. They also highlight the important role DCMA plays as the independent eyes and ears of DoD, in protecting the warfighter and ensuring the integrity of the contracting process. Whether it’s a QAR who discovers falsified markings on a part or a DCMA team following up on a contractor’s failure to deliver an item, DCMA is on the front line in ensuring contractor’s meet their obligations under the terms of the contract. Falsify documents to deliver bad product to the warfighter? Not on DCMA’s watch.

## DCMA QAR FINDS “TACKY” PRODUCT LEADING TO “SHOCK”ing DISCOVERY

“*Tacky to the touch.*” That’s how a sharp DCMA QAR described markings on shock mounts for part number, manufacturer, and cure date. And that’s the fraud indicator that eventually led to a St. Louis contractor admitting to defrauding the Government by altering markings on equipment he was supplying.



James Matthew Alexander, President of Matthews Manufacturing, Incorporated (MMI), pleaded guilty to one count of mail fraud in connection with a scheme to defraud the United States related to the construction of shipping containers. MMI provides specialized shipping containers that are Critical Application Items for sensitive aircraft parts. Shock

mounts are used in the construction of F414 High Pressure Turbine Module Shipping Containers. A DLA contract with MMI specified and required that the shock mounts be no older than one year old when installed in the container. According to court documents, Alexander, as part of a scheme to defraud the Government, altered the original white alpha-numeric marking indicating the actual cure date of the shock mounts MMI received from the manufacturer. Original dates were “buffed” off and modified stamps were used to re-stamp the mounts with a cure date to comply with the contract specifications. Alexander and MMI then shipped the containers with the altered shock mounts bearing false and forged cure dates to the Government until the scheme was uncovered, thanks to a DCMA presence in plant.

**DCMA QAR** <sup>(b) (6)</sup>, who was assigned to the MMI facility, observed a fresh date stamp that conflicted with the machined cure date code on the shock mount and immediately notified the regional fraud counsel. His prompt notification led to a ***joint DCIS and NCIS investigation that exposed a scheme to remove expired shock mount cure dates and replace them with false compliant dates.*** The investigators pulled 24 non-conforming shipping containers from the field and confiscated 80 plus shock mounts during execution of a search warrant at MMI's facility. **Kudos to** <sup>(b) (6)</sup> **for recognizing and reporting the fraud indicators and job well done to DCIS and NCIS Special Agents** for their outstanding investigation.

Co-defendant Larry Charles Maxwell, MMI's Quality Manager, was indicted and pled not guilty to related charges. Alexander was indicted in June 2015 on one count each of Title 18 USC 1341 (Mail Fraud) and Title 18 USC 1001 (False Statements) and pled guilty to one count of Title 18 USC 1341 (Mail Fraud). On December 4, 2015, the District Court Judge, Eastern District of Missouri, sentenced Alexander to 4 months confinement and 3 years supervised probation. Additionally, Alexander was ordered to pay \$124,636.79 in fines, special assessments, and restitution. Stay tuned for trial outcomes on Maxwell.

**Lesson Learned:** DCMA QARs remain at the forefront of DoD's fight against fraud. Recognizing and reporting fraud indicators is essential to uncovering product substitution schemes, such as the one in this case. Stay alert and report those "tacky" fraud indicators. <sup>(b) (6)</sup>

## **"MADE IN THE UNITED STATES" OR TURKEY??**

When does "Made in the United States" mean manufactured in Turkey? It doesn't. And it may not be too "bright" to represent that it is. Bright Manufacturing Group Inc. (BMM), a defense contractor in New Jersey, allegedly obtained hundreds of contracts by falsely claiming that the military parts it contracted to produce would be manufactured in the United States.

Ferdi Murat Gul, a/k/a Fred Gul, principal owner, chief executive officer and general manager of BMM, allegedly routinely submitted electronic bids that contained false representations about BMM's purported domestic manufacturing operations. He submitted quotes claiming that BMM would provide military goods manufactured in the United States, when in fact, the company relied almost exclusively on Gul's Turkish-based production facilities. Gul routinely and unlawfully exported drawings and technical data, some of which were subject to U.S. export control laws, in order to secretly manufacture military parts in Turkey. Gul then supplied those foreign-made parts to unwitting DoD customers in the United States.

Mr. Gul was charged with one count of wire fraud conspiracy, one count of conspiring to violate the Arms Export Control Act and five counts of violating the Act. Two other

employees of BMM, including the production manager and the sales/purchasing manager, were also charged with wire fraud conspiracy and conspiring to violate the Arms Export Control Act for their roles in conspiring with Gul to defraud the DoD and to export military technical drawings to Turkey without prior approval from the U.S. Department of State.

Excellent investigative efforts were provided by DCIS Special Agent (b) (6) and the special agents of the Department of Homeland Security. Also, thank you for the support of DCMA Quality Assurance Specialists (b) (6) and DCMA Quality Team Leader (b) (6).

**Lesson Learned:** DCMA plays a significant role in detecting whether the contractor has the manufacturing capability needed to produce the procured item and whether the items provided for inspection are potentially foreign-made. If you have doubts regarding the country of origin or the authenticity of certifications, contact your Contract Integrity Center Counsel. (b) (6)

## CONTRACTOR PAYS FOR FUDGING ON TIMEKEEPING AT CONUS REPLACEMENT CENTERS

Inaccurate labor billings were at the core of a recent False Claims Act civil settlement. L-3 Communications Corporation, Vertex Aerospace LLC and L-3 Communications Integrated Systems LP (collectively L-3) agreed to pay \$4.63 million to resolve allegations that they inflated labor hours for time spent by independent contractors at the military's Continental U.S. Replacement Centers (CRC) in Fort Benning, Georgia, and Fort Bliss, Texas, preparing to deploy to overseas posts to support U.S. military operations abroad. The CRCs prepare individuals for deployment by providing orientation briefings, training, health screenings and payroll processing.

L-3 performed rotary aviation maintenance and support services for the U.S. Army in Afghanistan, Iraq, Egypt and Kuwait under contracts with the U.S. Air Force. From 2006 through November 2011, L-3 knowingly overcharged the government for time their independent contractors spent at the CRCs by ***billing for each individual not based on the actual time that individual spent at the CRC, but based instead on the earliest arrival or latest departure time of any other individual who also processed through the center that same day.***



The cost mischarging allegations arose from a lawsuit filed by a whistleblower, Robert A. Martin, a former L-3 independent contractor, under the ***qui tam*** provisions of the False Claims Act. Under the act, private citizens can bring suit



on behalf of the Government for false claims and share in any recovery. Mr. Martin received \$798,675 from the recovery.

The case was handled by the Department of Justice and the U.S. Attorney's Office of the Northern District of Georgia, with the assistance of **DCIS** and the **U.S. Army Criminal Investigation Command's Major Procurement Fraud Unit**. Special thanks to retired **ACO** [REDACTED] of the Contract Field Team Contracts Office at DCMA Dayton for his support during the investigation.

**Lesson Learned:** Be on the look-out for cost mischarging fraud indicators. Contractors owe a duty to the taxpayers to accurately bill the United States for the actual work performed. This settlement demonstrates the Government's commitment to hold contractors accountable for false billing and restore wrongfully taken funds to the military. [REDACTED]

## **PARACHUTE PARTS NOT LANDING AT THEIR DESTINATION RESULTS IN DOUBLE DAMAGES**

It goes without saying that when the Government pays for supplies, it expects to receive them. Innovative Parachute Technologies ("IPT") had several contracts to provide the Army with harnesses used to manufacture parachutes. They presented the products to DCMA for inspection, and invoiced the DoD via WAWF, but the parts failed to reach their destination. **The Government never received them.** Upon questioning by **DCMA Phoenix** personnel, IPT was unable to produce any documentation evidencing shipment. Following an Army CID investigation, Rachel and Kenneth Sego, the owners of IPT, entered into a civil settlement agreement and will repay double the damages back to the Government.

It was a total team effort uncovering the fraudulent activities of this supplier. A big thank you to **DCMA Industrial Specialists** [REDACTED] and [REDACTED], **QAR** [REDACTED] and **Technical Lead** [REDACTED] for their exemplary work in this case. **Army CID, Major Procurement Fraud Unit, Resident Agent in Charge** [REDACTED] and **Special Agent** [REDACTED] conducted a thorough and comprehensive investigation leading to a successful result.

**Lesson Learned:** Even when parts meet quality requirements, asking questions and following up on document requests can uncover other types of fraud. Remedies like this can provide a deterrent effect so that the next time a contractor will think "double", before accepting payment for product it doesn't intend to provide. [REDACTED]