

**STATEMENT
PAUL J. McNULTY
UNITED STATES ATTORNEY
EASTERN DISTRICT OF VIRGINIA**

**BEFORE THE
COMMITTEE ON ARMED SERVICES
SUBCOMMITTEE ON AIRLAND**

UNITED STATES SENATE

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Mr. Chairman and Members of the Subcommittee: As the United States Attorney for the Eastern District of Virginia, it is my privilege to appear before you today to discuss the initiative that my Office has undertaken to increase the prevention and prosecution of fraud in the Federal procurement process. This is obviously an extremely important topic, and I commend you, Mr. Chairman, for holding this hearing.

I. Introduction

At this critical time in the life of our country, our national defense and homeland security resources are especially precious, and criminals who cheat the Government must be identified, stopped and punished. It is imperative that we take action to detect, prosecute and deter those unscrupulous government contractors and corrupt government officials whose theft of critically needed resources threaten America's safety and defense. We must ensure that our fighting men and women are getting well-made weapons and equipment and that the taxpayers are getting their money's worth when the Government buys goods and services.

Eastern Virginia is home to a large number of government contractors providing highly beneficial goods and services to the Federal government. In addition, many of government's national security assets and contracting offices and agencies are located in Eastern Virginia. The law enforcement community in this region must do all it can to strengthen the integrity of the procurement system. An energized and well coordinated law enforcement effort that includes a broad group of investigative agencies is critical, especially because the FBI, which traditionally has played a significant role in combating procurement fraud, has shifted its resources away from this type of white collar crime since the events of September 11th, 2001.

For these reasons, I have established a procurement fraud initiative to promote the early detection, prosecution and prevention of procurement fraud. In partnership with various Federal law enforcement agencies and IG offices, I have formed the Procurement Fraud Working Group. This working group will concentrate on Federal law enforcement efforts to combat procurement fraud. Through collaboration and exchange of ideas, the working group will make law enforcement more effective in defeating, prosecuting and deterring procurement fraud.

II. Background

The Challenge

Part of the cost of keeping America safe from terror and combating threats at home and abroad is increased procurement. Many of the Government's contracts are negotiated, signed or processed in Eastern Virginia because it is home to large procurement offices, including, among others, the Pentagon and Norfolk Naval Base, the largest navy base in the world.

Moreover, many defense contractors and subcontractors are located in Eastern Virginia or have offices here. In addition to increasing DoD contracts, these businesses are expanding operations to acquire and service contracts from the State Department, Department of Homeland Security (DHS), and other Federal agencies. For example, the President and Chief Operating Officer of one of DHS's top ten contractors recently announced the company's intent to grow 15 per cent each year. With increased procurement, including a rise in the outsourcing of particular services, there is also the potential for an increase in procurement fraud, which includes product substitution, defective pricing or other irregularities in the pricing and formation of contracts, misuse of classified or other sensitive information, labor mischarging, accounting fraud, fraud involving foreign military sales, bribery, kickbacks and ethical violations.

As the potential for procurement fraud has increased, however, the agencies responsible for investigating this crime remain relatively small. Defense Department investigative agencies, Inspectors General, and the Postal Inspectors are assigned enforcement responsibility for large geographical areas but have a limited number of agents. And, as I mentioned earlier, the FBI's comparatively large resources are now principally devoted to counter-terrorism efforts. This circumstance places a greater burden on the United States Attorney's Offices to provide leadership and encourage greater law enforcement cooperation.

The Eastern District of Virginia Track Record

The Eastern District of Virginia (EDVA) has a proven track record of fighting contract fraud. Last year alone, our Office obtained at least 15 convictions in cases involving procurement fraud. Dating back almost 20 years, our Office played a pivotal role in "Operation

Ill Wind,” which uncovered a major procurement fraud scandal. “Operation Ill Wind” resulted in about 70 convictions, including the convictions of half a dozen major defense contractors, some smaller defense contractors, employees, consultants and approximately a dozen Government officials. Most were given sentences of incarceration. The highest-ranking Government officials were an Assistant Secretary of the Navy, a Deputy Assistant Secretary of the Navy and a Deputy Assistant Secretary of the Air Force. The defendants paid significant fines, restitution and civil settlements. Since “Operation Ill Wind,” EDVA has continued to prosecute major DoD fraud and corruption cases, including:

- *Darlene Druyun*: She was a senior Air Force official, who obtained jobs with Boeing for her daughter, her daughter’s fiancé, and herself while negotiating contracts with Boeing on behalf of the Air Force. Druyun claims to have given Boeing a “parting gift” by agreeing to a higher price than she believed appropriate for Boeing’s tanker aircraft. Boeing’s former Chief Financial Officer, Michael Sears, also pleaded guilty for his role in this scandal.
- *Robert Lee Neal, Jr., and Francis Delano Jones, Jr.*, were convicted of extortion, bribery, money laundering and other crimes in 2003. Neal and Jones were senior DoD officials who used their official positions to obtain bribes, extortion payments and gratuities.

- *Kevin Hawkins*: He accepted over \$47,000 in bribes for his participation in a scheme to use DoD “IMPAC” credit cards to make over \$200,000 in fictitious purchases for the Pentagon.
- *Bobby Gilchrist*: He received over \$200,000 in bribes for his participation in a credit card scheme, resulting in \$400,000 in Government losses.
- The *Ebersole* dog case, focused on fraudulent procurements involving untrained bomb detection dogs used by the IRS, State, Federal Reserve and FEMA.
- The case against *Jeffrey Bochesa*, and several others, involved \$300,000 in gratuities and a \$1.33 million fraud committed by Bochesa and his company in connection with a National Reconnaissance Office subcontract.
- The *Dutta* case involved more than \$800,000 in overcharging on USAID contracts.
- The *Photogrammetrics* case involved more than \$500,000 of overcharges on major DOT road projects in Northern Virginia.
- *Northrop Grumman* paid \$60 million in connection with defective pricing on a major DoD contract in Norfolk.

III. Description of the Initiative

In an effort to address the problem of procurement fraud, the USAO in EDVA, in partnership with a large segment of the Federal law enforcement community, has formed the Procurement Fraud Working Group. Some of the principal players on the Working Group are the Defense Criminal Investigative Service, Naval Criminal Investigative Service, National Reconnaissance Office-IG, DHS-IG, Department of State-IG and Department of Transportation-IG.¹ This working group will provide a novel and much needed mechanism to encourage and facilitate the sharing of strategies to prevent and detect procurement fraud and information associated with targets of procurement fraud investigations. Some members of the working group historically have operated independently and without any formal means of sharing information relevant to procurement fraud enforcement. Indeed, it is not unusual, for example, for two agencies to be pursuing the same target of a procurement fraud investigation, without the other agency's knowledge. The working group will encourage both the concentration of law enforcement resources, and, in appropriate cases, the adoption of a "task force" approach to investigating criminal and civil cases.

In addition, the working group will assist participant agencies in developing new strategies to combat procurement fraud. Some of the working group participants already have

¹Notwithstanding its shift in priorities towards counter-terrorism, the FBI will participate on the task force in a limited capacity. Other agencies that will participate on the working group include the National Science Foundation-OIG, Department of Treasury-OIG, Coalition Provisional Authority-OIG, IRS, Air Force Office of Special Investigations, NASA-OIG, Department of Education-OIG, Department of Interior-OIG, General Services Administration-OIG, Army-CID, Department of Commerce-OIG, CIA-OIG, and Department of Veterans Affairs-OIG, among others.

adopted strategies that we believe must be shared. Examples of these strategies include the following:

- Collaboration between special agents and prosecutors at early stages of procurement fraud investigations to assure successful prosecutions and civil recoveries.
- Education of Government contracting officers, program managers and other agency personnel on issues relating to the detection and prevention of procurement fraud.
- Placement of agency investigators at major procurement offices to work with agency employees who are directly involved in the negotiation of Government contracts.
- Use of computer data-mining and other programs to uncover and detect procurement fraud.
- Enhanced efforts to detect ethics violations and conflicts of interest by current and former agency officials.
- Improved training of special agents and auditors to assist them in conducting investigations of procurement fraud, bribery and conflicts of interest.

The working group will meet periodically to facilitate exchange of information and ideas. The working group also will continue to expand its membership to maximize positive impact on the procurement process.

IV. Conclusion

In short, it is our hope that with increased communication among the participant agencies, there will be greater collaboration in investigative efforts and increased prosecutions of procurement fraud in the Eastern District of Virginia. An energetic and substantial attack on this criminal activity will send a strong message of deterrence to Government officials and the private sector.

Again, Mr. Chairman, we appreciate your support in this endeavor. I would be pleased to answer any questions you may have. Thank you.