



United States Naval Criminal Investigative Service



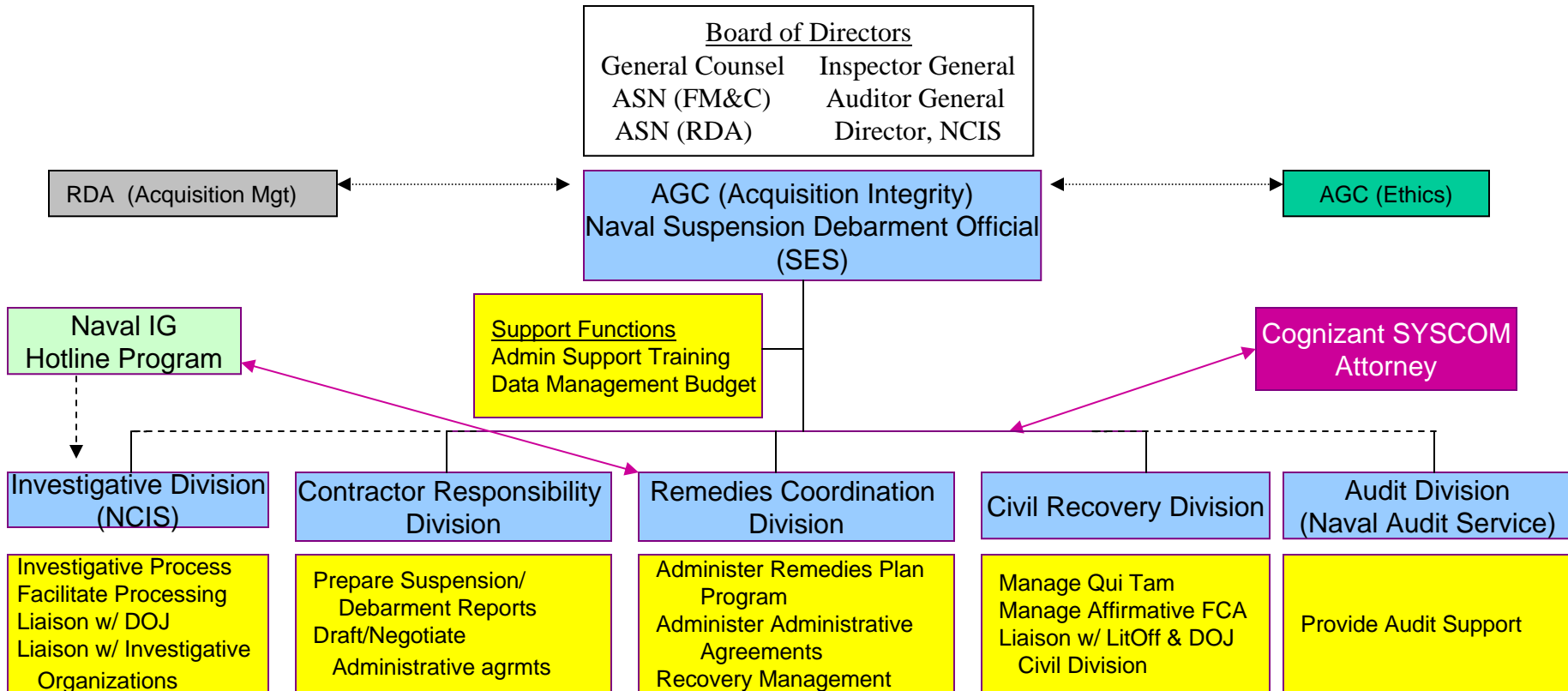
Fraud Brief

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Naval Acquisition Integrity Organization





Office

The mission of the Acquisition Integrity Office is to provide a Department of the Navy wide program that will deter acquisition fraud to the maximum extent possible, detect acquisition fraud when and where it occurs, protect the Department from the effects of acquisition fraud, take appropriate action against those who commit acquisition fraud and recover fraudulent gains.

- 12 attorneys
- Resident NCIS agent
- Naval Auditor member Senior Staff
- Office Manager
- Three Support Staff
- Investigative Support from NCIS
- Audit Support from Naval Audit Service



Fraud Facts

- Association of Certified Fraud Examiners
Estimates U.S. Corporations Lose 5% Annually to Fraud
- NCIS Estimates Government Loss is Higher than Corporate Loss
- DLA Activity Estimates 10-15% Product Non-Compliance During Critical Testing (includes failure from fraud and contractor mistakes)
- 5% Loss to DoN = Approximately \$4B annually
- GAO Report Estimates Government Loss at 10%
- 1990's/Early 2000's Dramatic Cuts in Oversight



Fraud Facts cont.

- 88% of people who commit fraud have never been in legal trouble
- Fraudsters start small
- Fraudsters are balancing the risks
- Fraud as Factor of Fear



Fraud Schemes

- Collusive Bidding
- Bribery/Kickbacks
- Conflict of Interest
- Commingling Contracts
- Cost Mischarging
- Defective Pricing
- Failure to Meet Specifications



Fraud Schemes cont.

- False Statements/Claims
- Product Substitution
- Process Substitution
- Phantom Vendors



Fraud Indicators

- Duplicate Documentation
- Failed Tests
- Poor Product Quality
- Insistence on a Certain Contractor/Subcontractor
- Questionable Sole Source
- Weak Internal Controls
- Contractor Financial Problems
- Vast Differences in Prices
- Lack of Competition
- Lesser Skilled Labor
- Payments to Secondary Address
- Subcontractor Complaints
- Offers of Bribes



Possible Actions

- Criminal Prosecution
 - Prison
 - Fines
- Civil Prosecution
 - Fines
- Administrative Actions
 - Suspension
 - Proposed Debarment
 - Debarment
 - Administrative Agreement
- Role of the SDO



DoN Case Success Stories

- The Parent Company vs. the Subsidiary
 - Who is responsible?
- Product Substitution
 - Fastener replacement
- Conflict of Interest Case
 - Retired Navy Admiral violated 18 U.S.C. 207
 - U.S Attorney/NCIS investigation
 - Retired Admiral prosecuted
 - Company and Admiral Debarred
- Non-Conforming Parts Case
 - AIO Coordinated efforts among interested parties
 - Contractor will pay \$11.5m



Case Success Stories cont.

- Cost Mischarging Case
 - Naval Audit Service uncovered case
 - AIO worked with DCAA Forensic Auditor to determine Navy share
 - Contractors will pay Navy \$1m
- Collusive Bidding
 - Multiple contractors prosecuted/debarred
- Wire Fraud Case
 - Company and individuals prosecuted
 - President suspended/debarred
 - Company suspended/administrative agreement
 - Company awakening



Case Success Stories cont.

- Spy Case
 - Passing secrets to Chinese
 - Individuals prosecuted/Debarred
- Bribery/Kickback Case
 - Involved government and contractor employees
 - Individuals prosecuted
 - Individuals/contractor debarred
- Process Substitution Case
 - Contractor moved approved process without telling government
 - Paid \$7M fine
 - Administrative Agreement
- Illegal Alien Cases



Administrative Problems

- Facts are Complex and Convolutated
- Mistake vs. Fraud
- He Said---She Said
- Time to Gather Information
- Conflicting Agendas
- Sole Source
 - Compelling Need
- Preponderance of Evidence
- Adequate Evidence



Ongoing Cases/Projects

- Consolidated Database
- Fraud Operations
 - Working with NCIS, FBI, US Attorney Offices
- Incorporating Counter Intelligence Programs
- Data Mining
 - Working with Naval Audit Service to mine Standard Procurement System
 - Looking for anomalies, irregularities, inconsistencies for audit potential
- Integrated Fraud Agents
 - NCIS Project to place trained fraud agents in major activities
- Training
 - Fraud Indicator Training of the Department work force
- SECNAV Project



Case Data

- 788 Cases in the Office
- Approximately 500 Contractors with cases before AIO
- Caseload up 19% over last year
- 15% More Fraud Referrals in FY 2008 than FY 2007
- Administrative Actions up over 150% since creation of AIO



What Organizations Can Do?

- Tone at the Top
- Strengthen Internal Controls
- Enterprise Fraud Assessment
 - Review Vulnerabilities
 - Test Internal Controls
- Make Ethics Part of Your Life
 - Evaluation
 - Culture Assessment



What Lies Ahead?

- Rules, Rules, and More Rules
 - New FAR Rule
 - “Credible Evidence” Standard
 - “Bad Boy List”
 - Conflict of Interest Statute
 - OFPP must issue rule
 - “I am going to clean up Washington!”
 - Pick a politician