Office of Special Investigations

Fraud Awareness Brief

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Overview

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OSI Overview

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The **Air Force Office of Special Investigations** is a U.S. federal law enforcement agency that conducts criminal investigations and counterintelligence activities for the Department of the Air Force.

Established in 1948 – Stemmed from Fraud investigation

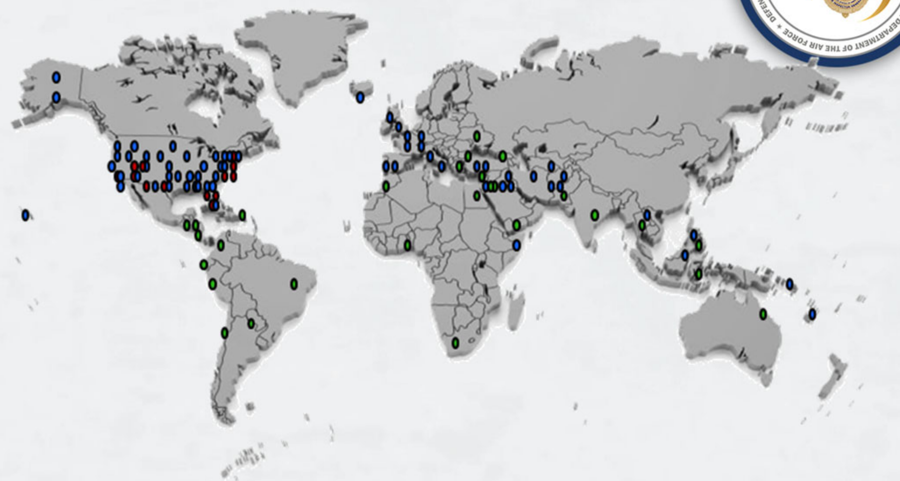
- War Time Contracts during WWII
- U.S. General Bennett Meyers
- Silent owner of company that received more than a million dollars in war time contracts

Procurement Fraud:

The Office of Procurement Fraud Investigations delivers specialized investigative techniques upholding the integrity of the Air and Space Force's acquisition systems by rooting out corruption, protecting resources, and preserving warfighter safety and capabilities.

Contingency Mission:

Maintain a mobile force to rapidly deploy in support operations in various crises situations to conduct counterintelligence and force protection activities.



Global Reach

- Over 230 units worldwide.
- Seat of Government
  - Embassies or other government locations outside AF installations
- Procurement fraud offices
  - Germany
  - Japan
- International Contract Corruption Task Force (ICCTF)
  - Investigates contract fraud and public corruption related to US government spending, particularly in Southwest Asia and overseas contingency operations

What is Fraud?

- Four simple elements to the legal definition of fraud:
  1) Misrepresentation
  2) of a Material Fact
  3) with the Intent to Deceive
  4) to Obtain a Benefit
- Includes:
  - Deliberate omission of material facts
  - False/misleading statements/actions
  - Single act or combination

Fraud Investigative Mission

- Safeguard the Integrity of DAF Expenditures - Identify Losses Due to Fraudulent Schemes, Diversion, and Misuse of Resources

- **Safety issues**
  - Flight Safety is the primary concern with all new fraud allegations

- Two Main Focuses
  - Procurement Fraud of Major Weapon System Platforms
    - Airframes and Armaments (US & Allied Equities)
    - National Security Issues
    - Public Corruption
  - Base Level Fraud - Installation Fraud Working Groups
    - Services and Construction Contracts
    - Environmental Crimes
    - Healthcare Fraud

OSI PF Overview

- **Investigate allegations of significant procurement fraud affecting DAF assets and personnel**
- **Major/Significant PF as defined by SAF/AQ:**
  - Alleged loss of $500,000 or more
  - Corruption involving bribery, gratuities, or conflicts of interest
  - Defective product, non-conforming product, counterfeit materiel, or product substitution investigations that involves a serious hazard to health, safety or operational readiness
  - Otherwise determined to be significant

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OSI PF Overview

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Procurement Fraud Detachment Locations

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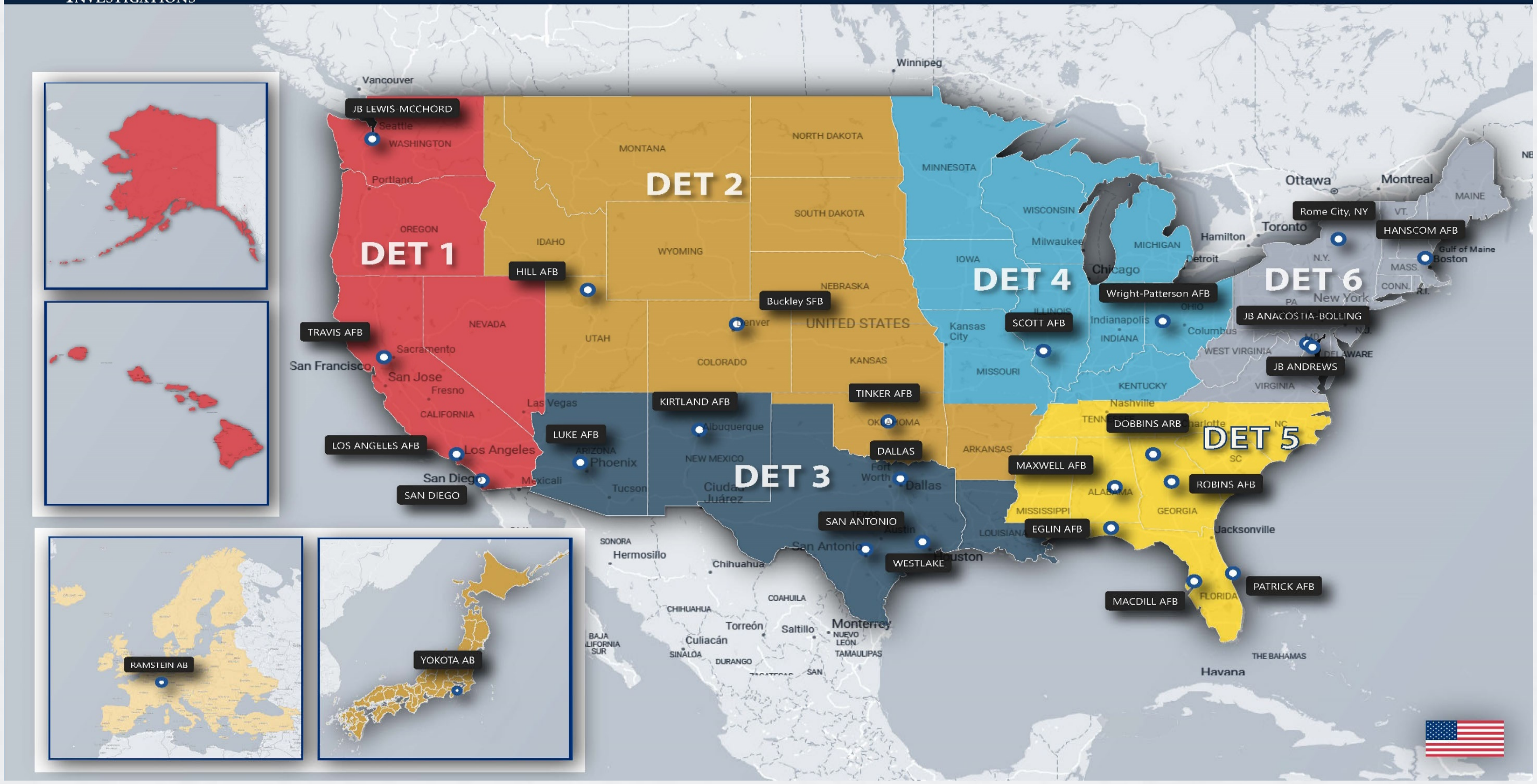
Department of the Air Force



Who Commits Fraud?

- People Do!
  - Employees or Management
  - Contractor Personnel or Government Employees
  - Military or Civilian

- Believe they are smarter or better than their peers
  - Can “get away” with things
- Likely to commit small fraud, then move to bigger frauds
- Believe that “the ends justify the means”
- All subjects had an underlying motivation--not all motivations are obvious:
  - financial distress, greed, control/power, malice, thrill seeking, etc.

Fraud Triangle

- **HIGH** risk within federal Government

1. **Pressure**
   - i.e. Urgency to award
2. **Opportunity**
   - Ambiguity of specifications
   - Less oversight/ weak controls
3. **Rationalization**
   - Cultural aspects
   - No one will care
     - Warfighter got goods/services
     - Weak controls means fraud is not priority

Remedies

Fraud Remedies

- **Criminal**
  - Prison &/or:
- **Civil**
  - Damages &/or Penalties
- **Administrative**
  - Suspension & Debarment
- **Contractual**
  - FAR

**A single case can result in multiple remedies*

Common Fraud Schemes

Cost Mischarging – Labor or Materials

- False costs billed to gov for labor or material (During contract performance)

Example	Indicators
Misallocation of charges from one contract to another	Claims that are missing/altered supporting documentation
Phantom employee timecards	Contractor submits several billings for the same expenses under different contracts
Lower-level technicians doing work but billing at senior/advanced-level rates	Corporate overhead costs being billed as direct costs
Charging unallowable costs to overhead	Modification to contract shortly after award to make material changes in the scope of work
	Excessive or unusual labor charges by home office personnel

Cost Mischarging

- Balfour Beatty, military housing contractor falsified work order data at bases across DoD to receive bonuses tied to performance
- Company received bonuses based off hitting performance metrics
- Former Employees admitted they were instructed on a quarterly basis to change the numbers to ensure they achieved their bonuses
- Company's Local and Regional Managers pleaded guilty to Conspiracy to Defraud the Government
- Contractor paid $65 million in damages and restitution

Common Fraud Schemes

Defective Pricing

- Failure to provide accurate pricing data (During contract award process)

Example	Indicators
Falsifying vendor invoices	Failure to update cost and pricing data
Proposing inflated or fictitious labor costs	Indications of altered supporting data
Submitting higher costs when planning to purchase at lower costs	Denial by contractor of the existence of historical records that are subsequently found
	Delay in releasing data to the Gov't

Defective Pricing

- A DCMA Quality Assurance Representative identified during a routine acceptance inspection that Boeing had significantly marked up prices on 19 aircraft parts, charging $1.2 million for parts that cost them $69,900.12.
- Boeing had provided defective pricing for the parts during negotiation
- A DoDIG audit found Boeing had overcharged $13.7 million in spare parts.
- Boeing settled in pretrial, refunding $3.2 million in parts and debt cancellation to the Air Force.
- Civil Fraud is the most common type of fraud investigated by OSI, generally resulting from negligence, lack of oversight, or corporate pressure

Common Fraud Schemes

Product Substitution

- Providing goods that do not conform to contract specifications

Example	Indicators
Representing old parts as new	Early, unexpected failure
Falsely Certifying Test Results	Failure to provide documentation
Delivery of counterfeit parts	Unusual or generic packaging
Substitution of foreign – made parts	Testing/compliance certifications missing
Delivery of used or surplus parts	Contractor behind schedule but quickly catches up

Product Substitution

- Robert Klein Case – DLA Contractor
- Began providing defective parts in 1997
  - 1997 – 2019: DLA debarred 50+ of his companies and fake names
- Serial "cage hopper"
- Parts Included: Mainly for US Navy ships
  - Critical application items, weapon systems
- Had parts made in China and India
- Millions of dollars in government contracts
- October 2020 – Pled Guilty
  - Criminal restitution of $1.6 million to DLA and $640K to IRS

Common Fraud Schemes

Anti-Trust

- Agreements between contractors to limit competition and/or increase pricing.

Example	Indicators
One vendor is always winning bidder	Drop in bid prices when a new or infrequent bidder competes
Unexplained gap between winning bidder and all others	Losing bidders submit the same bid on different jobs
Pattern of winning (area, product/service, sequence)	Unusual patterns such as bids too high, too low or too far apart
Winner subcontracts to competitor/loser	Bidders frequently change prices at the same time and to the same extent

Common Fraud Schemes

Public Corruption

- Public official unlawfully utilizes their position to procure benefit for themselves or others

Example	Indicators
Bribery	Unreported poor performance of contractors
Gratuities	Unusually high volume of purchases; high stock and inventory req’s
Embezzlement	Living beyond one’s means
	Procurement official insists on certain suppliers, contractors or subcontractors

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Red Flags

- Red Flags – Circumstances which identify that something needs further investigation

- Only one in seven fraud schemes is identified by chance, ***so we rely on you to be vigilant to prevent fraud!***

- If you have the slightest suspicion that something may be wrong, notify someone! ***WE PROVE AND DISPROVE ALLEGATIONS!***

- This is no different than insider threat awareness!
  - Coworkers and contractors are the most common initial complaint that leads to allegations of fraud

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