

MEMORANDUM

Date: Oct 15
~~September 28, 1998~~

To: File No. 198080025

From: [REDACTED], Audit Advisors, Audit Section

Through: [REDACTED] Special Agent-in-Charge, Investigations Section

Re: Case Closeout - [REDACTED]

Background

Informal Notification

While at [REDACTED] in August 1998 participating in the South Pole Station Modernization reviews, [REDACTED] spoke with [REDACTED] Quality Assurance Manager, [REDACTED]. He related that [REDACTED] had received an allegation (he did not say who made the allegation) regarding one of its employees, the "second in command" at its shipping/receiving operation in [REDACTED]. The allegation was that this employee had received gifts from a freight forwarding company with which [REDACTED] does business at [REDACTED]; some of the examples he gave were color TV, satellite dish, and tickets to sporting events. Apparently, though, the employee is not directly involved in awarding contracts to the company in question.

[REDACTED] stated that he and [REDACTED] internal auditor [REDACTED] went to [REDACTED] to investigate and that they had evidence to support the allegation (he did not relate the extent of the investigation - i.e., with whom they spoke or what evidence they uncovered). The allegation was disclosed to [REDACTED] Contracting Officer, NSF/CPO).

[REDACTED] also stated that the employee in question had been put on administrative leave very soon after the allegation was made, and he believed that the employee would be terminated.

Formal Notification

to add information re: conversations with CPO and

Initial Steps

We requested and received documentation from

1. Copies of trip reports written by QA, Internal Audit and Human Resources. These reports contained notes from interviews conducted with: employees; Manager, the employee alleged to have solicited and accepted gifts from a vendor; and All-Ways, the vendor alleged to have given the gifts. There were also notes from visits to some of other transportation vendors.

2. Vendor payment histories for all vendors with which does business at its location.

After reviewing the documentation provided in Item 1 above, we briefed OIG Legal on the facts of the case. researched the applicable law and found that the Anti-Kickback Act of 1986, 41 U.S.C. §§ 51-58, applied to the facts of our case and we determined that an OIG investigation was warranted.

Investigation

On 31 August 1998 we met with Deputy Project Director and the Manager, USAP Logistics at office in. They told us that personnel, worried that the allegations might be an indication of a larger problem at, took some additional investigative/audit steps after we had been notified of the allegations. traveled to and secured all files. He also, along with a employee, conducted a mini-audit of a sample of freight forwarding invoices; a review of 72 invoices revealed a less than 3% error rate. and said they were confident that there were no other problems at the operation.

At various times throughout the day we also met with the following individuals – Manager, Finance, Manager, Quality Assurance and Manager, Human Resources. Interviews with these personnel did not reveal anything not already noted in the trip reports.

At our request, provided copies of invoices selected from the vendor payment histories referenced in Item 2 above. We reviewed these and other invoices, but the invoice review process was not an efficient use of time as all back-up documentation remains at and is not forwarded to with the invoices for payment; we noted that some invoices were not approved prior to payment, but did not see anything else of significance.

Interviews

Manager,

On 1 September 1998 we met with [redacted] direct supervisor. We questioned [redacted] about the [redacted] operation, [redacted] employment history and job duties, [redacted] relationship with [redacted] and [redacted] relationship with [redacted]. Other than using [redacted] FedEx account for personal use, we found no indication that [redacted] was involved in any improprieties and no evidence that [redacted] knew of or approved of [redacted] alleged activities with [redacted]. [redacted] will reimburse [redacted] for personal use of the account.)

We reviewed the flow of goods and documentation throughout the receiving/shipping operation and concluded that there are sufficient controls in place to make it highly unlikely that [redacted] is paying more for services received than it should, that [redacted] is paying for services not received, or that [redacted] business was inappropriately diverted to [redacted].

We did note some administrative weaknesses in the [redacted] operation: freight forwarding services are procured without having been subject to a competitive bid process; freight forwarding invoices are approved for payment without having been verified against back-up documentation, and employees may not have been aware of [redacted] policy re: accepting gifts. These were discussed with [redacted] and [redacted] resolution will be handled by OIG Audit.

Distribution Services, Inc.

On 2 September 1998 we interviewed the principals of [redacted], [redacted] and [redacted] regarding their relationship with [redacted] and [redacted] employees. [redacted] is responsible for [redacted] freight forwarding, and his biggest customer is [redacted]. [redacted] handles [redacted]'s domestic trucking and has little or no relationship with [redacted].

It is common practice in the transportation industry for vendors to give gifts to their customers (e.g., hats and t-shirts, notepads and pens, Christmas gifts). Both partners admitted that they had given gifts to [redacted] and that they had received gifts in return. [redacted] gifts always came/went through [redacted] and were of relatively minor value. [redacted] gave Christmas gifts to [redacted] over 3 consecutive years; each gift was worth several hundred dollars. Although [redacted] evidenced a great deal of interest in the USAP and a high level of knowledge about the program and its needs, he claimed that he did not know that his company had violated any federal laws by giving gifts in excess of allowable amounts to an employee of a government contractor.

Based on what we learned in our interview with [redacted] and our review of the [redacted] operation, we did not believe that [redacted] had benefited from the giving of gifts. Rather, it was our impression that [redacted] got "carried away" in his efforts to acknowledge the amount of business [redacted] gave his company, and that he lacked any intent to influence [redacted].

[REDACTED]

On 3 September 1998 we interviewed [REDACTED]. We discussed [REDACTED] job responsibilities at [REDACTED] the influence he had over the selection of vendors, and the allegations regarding soliciting/accepting gifts from [REDACTED] and personal use of [REDACTED] assets and accounts.

[REDACTED] confirmed that he had no influence over vendor selection. He denied that he had ever solicited gifts, but was fairly forthcoming regarding the gifts he received. [REDACTED] stated that he knew he was now allowed to accept gifts worth more than \$25, but he characterized his relationship with [REDACTED] and [REDACTED] as personal and said that it was a gift exchange, which he did not believe was contrary to [REDACTED] gift policy.

We did not believe that [REDACTED] was being completely truthful, and thought that his characterization of the relationship and the gifts was an attempt to deflect the legal consequences of his actions. [REDACTED] agreed to swear out an affidavit describing his version of the events and his interpretation of [REDACTED] gift policy.

Findings

We referred our investigative findings to the AUSA, which declined the case. We are in agreement with the AUSA because: [REDACTED] did not incur additional costs on account of the actions of [REDACTED] or [REDACTED] we do not believe that [REDACTED] was acting with the intent to influence [REDACTED], and [REDACTED] is no longer employed by [REDACTED].

This case is closed.