

**Appendix II: Summary of GAO Review of
Cases Adjudicated or Settled from Calendar
Years 2012 through 2018**

Table 1: Summary of GAO Review of 32 Court Cases of Department of Defense (DOD) Contractor Ownership–Related Fraud Adjudicated or Settled from Calendar Years 2012 through 2018

Case number: type of fraud (year adjudicated or settled)	Summary of fraud scheme	Amount awarded or received^a (dollars)	Affected government agencies
Case 1: Circumventing debarment (2017)	<p>A DOD contractor and its owner were debarred from doing any business with the United States from 2013 through 2016 for supplying defective and nonconforming aircraft parts to DOD.</p> <p>The debarred company’s owner created three shell companies to circumvent debarment and to continue contracting with DOD between 2013 and 2016. He concealed his involvement in the contractors by using the names of relatives and fictitious individuals as the responsible individuals at these companies.</p> <p>Defective aircraft parts continued to be provided to DOD by the shell companies.</p>	2.8 million received	DOD
Case 2: Concealing relationship to foreign manufacturer (2017)	<p>An individual established a shell company in the United States to bid on DOD contracts that required parts to be manufactured in the United States. This contractor fraudulently received 346 government contracts from 2010 until 2015.</p> <p>The contractor falsely stated to DOD that the contractor was a U.S.-based manufacturer in order to be eligible for the awards while a foreign company manufactured the parts.</p> <p>The contractor’s owner was able to access and download thousands of technical drawings, including those subject to U.S. export control regulations that require a license from the State Department while not in the United States, by falsely stating he was a U.S. citizen.</p> <p>In multiple instances, parts supplied by the contractor were unusable due to design flaws and nonconformities.</p>	7.3 million awarded	DOD
Case 3: Concealing relationship with foreign manufacturer (2016)	<p>Two shell companies misrepresented domestic manufacturing to bid for DOD contracts that the companies were not eligible to receive from 2010 to 2012.</p> <p>The shell companies provided spare parts manufactured in a foreign production facility co-owned by the contractor’s owner. The companies exported drawings of military technology and sensitive military data to an individual in a foreign country without the proper license or approval.</p> <p>There were quality-control issues with the parts that were ultimately provided to DOD that led to the grounding of 47 fighter aircraft.</p>	Not stated in court documents	DOD

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Case 4: Concealing relationship with foreign manufacturer (2015)	<p>A shell company was created in the United States for the purpose of contracting with the government and obtaining DOD contracts that foreign-based manufacturers were not permitted to receive. This shell company received payments from DOD from June 2011 to September 2013.</p> <p>The contractor's owner was a foreign citizen who was also president of a foreign manufacturing company. The foreign company was used to manufacture replacement aircraft parts and other defense items against the terms of the contract.</p> <p>Despite claiming to be a domestic company, contract payments were wired to a foreign bank account, the majority of which were transferred to the bank account of the foreign manufacturing company.</p> <p>The contractor's owner used an alias to receive access to military critical technical data that he was not eligible to access as a foreign citizen.</p>	Over 635,000 received	DOD
Case 5: Concealing relationship with foreign manufacturer (2015)	<p>Two shell companies were created in the United States for the purpose of contracting with the government and obtaining DOD contracts that foreign-based manufacturers were not permitted to receive. The shell companies received payment from the government from 2009 to 2014.</p> <p>An owner of the shell companies used an alias when submitting bids for contracts and when corresponding with the government.</p> <p>Parts supplied to the government were nonconforming and were unable to be used.</p>	1.3 million received	DOD
Case 6: Concealing company ownership for illicit financial gain (2018)	<p>A Navy officer used his relationship with Navy prime contractors to instruct them to subcontract with and steer funds to three shell companies.</p> <p>The Navy officer registered one of the shell companies, along with two other individuals, and approached other individuals to set up the other two companies. These three shell subcontractors operated in 2014 and 2015 and did not provide the prime contractor or the Navy with any goods or services.</p> <p>As part of the scheme, the individuals distributed funds among themselves for personal gain rather than provide the Navy with any value.</p>	2.7 million received	DOD

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Case 7: Concealing company ownership for illicit financial gain (2017)	<p>Members of a contractor's management engaged in a scheme to ensure that their company's bids would be selected by DOD as the supposed low bidder.</p> <p>The contractor's management submitted fraudulent bids that were either entirely fictitious, contained falsified prices supposedly from actual businesses, or fraudulently stated that the business shown on the letterhead could not provide the items or services requested.</p> <p>Individuals involved with the scheme admitted that submitting the fraudulent bids allowed the company to control and inflate the prices charged to DOD without any true, competitive bidding, as required.</p> <p>This contractor was also involved with bribing government officials in exchange for the approval of fraudulent invoices, steering contracts, and covering up the contractor's overcharging practices that has led to at least 22 individuals pleading guilty.</p>	Not stated in court documents. 34.8 million estimated loss to the government	DOD
Case 8: Concealing company ownership for illicit financial gain (2016)	<p>A whistleblower alleged that a contractor used shell companies to fraudulently bill the government for unlawful profits and work it did not perform in 2004 and 2005.</p> <p>The government alleged in court that this company created two shell affiliates, to which it subcontracted work related to a U.S. Army contract. One of the shell companies had no employees to perform the services under the contract.</p> <p>These shell companies further subcontracted the work to other companies, and later billed the contractor for the cost of this work, plus additional, undisclosed profits.</p>	Not stated in court documents	DOD
Case 9: Concealing company ownership for illicit financial gain (2015)	<p>An employee of a DOD subcontractor formed two shell companies for the purpose of profiting from government contracts.</p> <p>The employee used his position as a project manager on a construction project for a government contract to instruct two of his employer's vendors to subcontract with the companies he created and owned. This individual did not disclose that he was associated with the company and informed the vendors that it was not necessary to reference his companies in paperwork submitted to his employer.</p> <p>No materials or services were ever provided to the vendor by the two shell companies.</p>	Approximately 600,000 awarded	DOD

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Case 10: Concealing company ownership for illicit financial gain (2014)	<p>An employee of a DOD contractor and his wife formed a company and concealed their names on company formation documents. Instead, these individuals listed the names of family members as company managers. The company was formed with the purpose of doing business with a DOD contractor.</p> <p>The contractor employee, in his official position, wrote letters justifying awards of purchase orders for parts to his own company without competitive quotes and, in instances in which there had been competitive quotes, approving recommendations that the awards be made to his company.</p> <p>The co-owner of the subcontractor signed contracts as the subcontractor's agent using her maiden name knowing that the use of her married name could reveal the DOD contractor employee's involvement in the company and affect the awards.</p>	At least 9.7 million awarded	DOD
Case 11: Concealing company ownership for illicit financial gain (2014)	<p>The contractor purchased goods from a company that its owners created and controlled, and instructed the company to fraudulently mark up prices on items that were resold to DOD from 2005 to 2009.</p> <p>The contractor and its owners made efforts to conceal its relationship with its subcontractor to appear to make the fraudulent markups appear legitimate.</p> <p>Contractor personnel were responsible for hiring individuals to work for the subcontractor, and subcontractor employees were paid from a bank account controlled by the prime contractor and its owners.</p> <p>In 2014, the contractor pled guilty to major fraud against the United States and agreed to pay \$434 million in criminal penalties.</p>	48 million received	DOD
Case 12: Concealing company ownership for illicit financial gain (2013)	<p>Two employees of a government prime contractor created a sham company to act as an additional subcontractor between prime contractors and subcontractors.</p> <p>The true nature of the ownership and control of the sham subcontractor was concealed by omitting facts and purportedly transferring ownership of the company to another individual that did not actually control the company.</p> <p>The sham subcontractor added no value to the government and carried no inventory, but still submitted invoices for payment, causing prime contractors to overcharge DOD by including these fraudulent charges in the prime contractor invoices.</p>	Approximately 33.5 million awarded	DOD

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Case 13: Set-aside contracting fraud (2018)	<p>A contractor falsely represented itself as a service-disabled veteran-owned small business and obtained 20 government construction contracts from 2005 to 2013. The contractor was a front company for another company owned by a nonveteran that performed the work on the contract.</p> <p>Federal regulations require that to be eligible as a service-disabled veteran-owned small business to receive government set-aside contracts, the small businesses must be at least 51 percent owned and controlled by an eligible service-disabled veteran and service-disabled veterans must control the daily operation and long-term decision-making of the company.</p> <p>The contractor falsely certified that the disabled veteran was involved in the daily operations of the contractor.</p>	13.8 million awarded	DOD, Department of Veterans Affairs
Case 14: Set-aside contracting fraud (2018)	<p>A joint venture was created between a company owned by a service-disabled veteran and a nonveteran to appear qualified to receive contracts set aside for service-disabled veteran-owned businesses. The joint venture fraudulently obtained contracts from 2010 to 2015.</p> <p>Federal regulations require that an eligible joint venture be managed by a service-disabled veteran-owned small business and at least 40 percent of the joint venture's work must be performed by the eligible service-disabled veteran-owned small business.</p> <p>The service-disabled veteran status was used to bid on contracts while the nonveteran-owned small business performed the work and retained 98 percent of every payment from the government. The nonveteran also owned and controlled the day-to-day operations of the joint venture while the service-disabled veteran worked full-time for another entity.</p>	11 million awarded	DOD, Department of Veterans Affairs
Case 15: Set-aside contracting fraud (2018)	<p>An individual formed a company and listed a service-disabled veteran as the majority owner and president even though he was physically incapable of managing the company due to illness.</p> <p>The company was registered as a service-disabled veteran-owned small business for the purpose of bidding on contracts set aside for this type of company, despite the service-disabled veteran not managing the company's day-to-day activities.</p> <p>The company was managed and controlled by a nonveteran who continued to claim the veteran was the majority owner even after his death and forged his signature in documents submitted to the government. Another company, ineligible for set-aside contracts and owned by the nonveteran, performed all of the work on 11 contracts fraudulently obtained from calendar years 2009 to 2013.</p>	11.6 million awarded	DOD

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Case 16: Set-aside contracting fraud (2018)	<p>The contractor self-certified that it met the small-business size requirements for eligibility to receive small-business innovation and research funding between 2008 and 2015 and was awarded multiple small-business innovation and research contracts by the Air Force, Army, and Navy.</p> <p>The small-business innovation and research program is designed to stimulate technological innovation by funding small businesses to engage in federal research and development efforts. According to a Department of Justice press release discussing this case, a contractor must not be majority owned by another company to be considered a small business for the purpose of small-business innovation and research awards.</p> <p>The contractor was not eligible for the small-business innovation and research contracts it was awarded because it was a majority-owned subsidiary of another company at the time it was awarded and performed on small-business innovation and research contracts.</p> <p>The contractor paid \$12.1 million to the government to resolve these allegations.</p>	Not stated in court documents	DOD
Case 17: Set-aside contracting fraud (2018)	<p>An eligible contractor bid on and obtained small business set-aside contracts while having an agreement with two separate companies that performed the majority of the work against the set-aside contracting program rules. The eligible contractor was paid a kickback by the companies performing the work as part of this agreement.</p> <p>The contractor paid \$7.8 million to the government to resolve these allegations.</p>	Not stated in court documents	DOD
Case 18: Set-aside contracting fraud (2018)	<p>Two contractors fraudulently claimed they were owned and controlled by eligible individuals in order to win government contracts set aside for a particular type of business.</p> <p>One contractor claimed it was owned by a service-disabled veteran who essentially had no involvement in the company. The other contractor claimed to be owned by an economically disadvantaged individual that worked full-time for another entity and did not control the contractor.</p> <p>A third company not eligible for government set-aside contracts performed the majority of the work awarded to the service-disabled veteran— and economically disadvantaged—owned firms.</p>	Over 200 million received	DOD, Department of Veterans Affairs

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Case 19: Set-aside contracting fraud (2018)	<p>An ineligible individual sought to form a service-disabled veteran–owned small business to seek contracts set aside for this type of business and sought a disabled veteran to form the company with him.</p> <p>The contractor’s owner made false statements to DOD, the General Services Administration, and the Small Business Administration from 2008 to 2015 stating that the contractor qualified as a service-disabled veteran–owned small business when he knew that it did not.</p> <p>The disabled veteran acted as a figurehead who was paid for allowing his name to be used by the business, worked full-time for another company in a different state from the contractor, and according to a witness was rarely in the office and did not approve any business decisions.</p>	32.5 million awarded	DOD
Case 20: Set-aside contracting fraud (2017)	<p>Three contractors reached a settlement agreement with the government to resolve the allegations below.</p> <p>The contractor was a shell company that did not perform work on contracts awarded to it and did not qualify for the service-disabled veteran–owned small business contracts that it received from 2008 to 2011.</p> <p>It was alleged in a civil complaint that the contractor was not managed or controlled by a service-disabled veteran and did not have any employees or capacity to perform at least the 15 percent of the contract work required by law.</p> <p>The contracting company was created for the purpose of bidding and obtaining government contracts that were set aside for service-disabled veteran–owned small businesses while two other ineligible companies performed the work. The headquarters listed as belonging to the contractor was actually the corporate office of another company.</p>	Approximately 21 million awarded	DOD, Department of Veterans Affairs
Case 21: Set-aside contracting fraud (2017)	<p>The contractor was a shell company with no full-time employees and was used to bid on and receive a contract under the Small Business Administration’s 8(a) program intended for businesses owned by minority or disadvantaged individuals from 2011 to 2014.</p> <p>A company that was ineligible for 8(a) contracts, because its revenue was too high, reached an agreement with the contractor to perform substantially all of the work. The contractor’s owner submitted false statements to the Small Business Administration when answering questions regarding the work to be performed by the company.</p> <p>According to the criminal complaint in this case, the terms of the contract required the eligible 8(a) contractor to perform 35 percent of the work on the contract and not subcontract any of the requirements without prior written approval.</p>	Over 1.1 million awarded	DOD

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Case 22: Set-aside contracting fraud (2016)	<p>An individual utilized two shell companies to receive 27 government set-aside contracts for small disadvantaged businesses that his company was not eligible to receive from 2008 to 2013.</p> <p>Two contractors were certified to participate in the Small Business Administration's 8(a) program for disadvantaged businesses. The contractors partnered with an ineligible company and allowed it to have access to its contracts.</p> <p>Even though it was not eligible to receive set-aside contracts, the company performed all the work on the contracts awarded to the two shell companies.</p>	Over 70.2 million awarded	DOD, General Services Administration, Department of the Interior, Department of Homeland Security
Case 23: Set-aside contracting fraud (2016)	<p>A contractor acquired government contracts between 2006 and 2010 by falsely representing to federal contracting officers that the company was owned and operated by service-disabled veterans.</p> <p>When the contractor was formed in 2006, a disabled veteran was recruited to act as the company's straw owner for the sole purpose of obtaining federal contracts set aside under the service-disabled veteran-owned small-business program. A second disabled veteran was added to serve as the figurehead owner of the contractor after the initial veteran's health deteriorated.</p>	Over 113 million awarded	DOD, Department of Veterans Affairs, General Services Administration
Case 24: Set-aside contracting fraud (2016)	<p>An individual utilized the stolen name and Social Security number of a service-disabled veteran to create a fraudulent service-disabled veteran-owned small business for the purpose of obtaining government contracts set aside for small businesses that are majority-owned and controlled by a service-disabled veteran.</p> <p>This individual first used the stolen information to obtain certification as a service-disabled veteran-owned small business in October 2009 and fraudulently obtained 14 government contracts and received funds from the government from 2013 to 2015.</p>	2.7 million awarded	DOD, Department of Veterans Affairs
Case 25: Set-aside contracting fraud (2016)	<p>A company and its employees created a shell company for the purpose of obtaining contracts set aside for service-disabled veterans from 2009 to 2012.</p> <p>A service-disabled veteran was hired as a figurehead to allow the shell company to bid on and obtain set-aside contracts from the government while allowing the other company to perform the work on the contracts.</p> <p>The veteran did not have any significant management over the company, and instead was responsible for overseeing tools and plowing snow for the company that improperly performed the work on the contracts.</p>	Approximately 14.4 million awarded	DOD, Department of Veterans Affairs

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Case 26: Set-aside contracting fraud (2015)	<p>Two contractors falsely represented to the government that they were two separate and distinct entities, but operated from the same location and comingled employees and assets.</p> <p>The contractors used aliases and false identities to communicate with DOD and also fabricated the companies' performance history by using fictitious references.</p> <p>The companies also made false representations to the government regarding ownership and eligibility for service-disabled veteran-owned small-business contracts in order to receive contracts they were not eligible to receive from 2007 to 2013.</p>	Over 30 million awarded	DOD
Case 27: Set-aside contracting fraud (2015)	<p>Two companies used legitimate disadvantaged businesses as shell companies to obtain government set-aside contracts between 2008 and 2014 by using the disadvantaged businesses names when bidding for contracts.</p> <p>Noneligible companies actually performed the work covered by the contracts, and paid the owners of the bidding companies a percentage of the contract value.</p>	Over 2.6 million awarded	DOD, Department of the Interior
Case 28: Set-aside contracting fraud (2015)	<p>The contractor was a front company that used a service-disabled veteran as a figurehead to obtain contracts set aside for service-disabled veteran-owned small businesses. This contractor fraudulently received 45 government contracts from calendar years 2007 to 2010.</p> <p>When making bids for government contracts, the service-disabled veteran represented himself as the president of the company, but a nonveteran actually controlled the company and listed himself as the president and 100 percent owner in other company documents not submitted to the government.</p>	23.4 million awarded	DOD, Department of Veterans Affairs
Case 29: Set-aside contracting fraud (2014)	<p>An ineligible company bid on and was awarded contracts that had been set aside for service-disabled veteran-owned small businesses from 2007 to 2009.</p> <p>The company claimed that a service-disabled veteran was the majority owner, but the veteran had no affiliation or involvement in the company and was really the receptionist at another company controlled by the founder of the ineligible company.</p> <p>The veteran's signature was forged on letters submitted to the government.</p> <p>This company did not pay some of its 31 veteran employees a total of approximately \$100,000 in wages that were required under the terms of the contract.</p>	1.9 million awarded	DOD, Departments of Homeland Security and Veterans Affairs

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Case 30: Set-aside contracting fraud (2014)	<p>The contractor used a figurehead owner to obtain Small Business Administration 8(a) contracting preferences by falsely claiming that a minority individual was the majority owner. A noneligible individual actually exercised complete and undisclosed control over the contractor's operations, including the day-to-day management and long-term decision-making.</p> <p>The contractor was awarded contracts that it was not entitled to receive from 1999 to 2013 based on the fraudulent 8(a) application and annual updates to the Small Business Administration stating that the company was controlled by a socially and economically disadvantaged individual.</p>	52.9 million awarded	DOD, Department of Commerce, Department of the Interior, Social Security Administration, General Services Administration
Case 31: Set-aside contracting fraud (2013)	<p>The contractor used a figurehead owner to fraudulently obtain Small Business Administration 8(a) contracting preferences by falsely claiming that this individual, with a history of social disadvantage, formed and founded the company and was the only member of its management.</p> <p>The contractor also used its funds to bribe a U.S. government official who agreed to help the company win contracts.</p>	31.8 million received	DOD, National Aeronautics and Space Administration, General Services Administration, Department of Homeland Security, U.S. Nuclear Regulatory Commission, Department of the Interior, National Oceanic and Atmospheric Administration, Department of Health and Human Services
Case 32: Set-aside contracting fraud (2012)	<p>A DOD contractor became ineligible to receive contracts set aside for small businesses after receiving a \$50 million contract. To continue bidding on such contracts, the owner and Vice President of the contractor formed a new company and recruited a sham owner to appear as its owner on legal documents.</p> <p>The owner and Vice President always maintained true ownership and control over the new company and were the only signatories on the new company's bank accounts.</p> <p>In 2007, the new company fraudulently bid on and was awarded a 5-year \$100 million small-business set-aside contract. The company received payment from DOD for the contract until 2011 with its owners profiting approximately \$10.9 million.</p> <p>The true owners of the company repeatedly lied to the government, submitted material misrepresentations, and omitted critical facts about their true ownership and control over both companies.</p>	100 million awarded	DOD

Source: GAO analysis of federal court records and DOD and Department of Justice information. | GAO-20-106

^aThe amount included was the amount available in the court documents or Department of Justice press release for each case. This amount represents the amount awarded or the amount received due to false misrepresentations, as noted throughout.