

Boeing Buyer Charged with Receiving Kickbacks

Written by Nick Sanders

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Mark Allen, age 60, lived in Fresno but worked in El Segundo, California. Mr. Allen worked for Boeing Space and Intelligence Systems (BSIS) where he was a “procurement officer” (which we take to mean he was a buyer). Mr. Allen took kickbacks (which may or may not have been bribes) and, in return, provided certain bidders with “confidential information” that gave them “an improper advantage in bidding” and “ensured” they would receive Purchase Orders (POs) from Boeing.

That’s a kind of confusing story, we know, but it’s certainly not good.

The problem (well, besides the whole ethics thing) is that suppliers who need to pay money to win work probably aren’t the ones you want performing the work in the first place. If they could win the work based on the quality of their performance and their pricing, they would have done so. The fact they have to resort to paying money is your tip-off that they have deficiencies in other areas besides ethics and compliance.

Eventually Boeing got wise and “decided to stop doing business” with one of the companies “due to work quality and performance issues.” That might have solved the immediate problem, but the supplier created a new “front company” and told Boeing that the front company was ready to do the work. Unfortunately the front company was performing work at the old place of business of the first supplier. Basically they just changed the name and continued to perform – poorly.

According to the Department of Justice [press release](#), seven individuals have been charged and four of them (including Mr. Allen) have already pleaded guilty and “are awaiting

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sentencing.” Meanwhile (according to the DoJ)—

Alfred Henderson, 60, of Pico Rivera, who is the vice president of A&A Fabrication and Polishing, Inc., which operates in Whittier and Montebello – was arrested on Monday and arraigned on a 15-count grand jury indictment that was unsealed after his arrest. A&A is also charged in the indictment. Henderson pleaded not guilty on Monday, was released on a \$25,000 bond, and was ordered to stand trial on May 26. Representatives of A&A will appear on behalf of the company in federal court on April 13.

Also named was Norberto Martinez, of Alhambra, CA. Mr. Martinez allegedly “owns and controls” Zenitram Engineering and Manufacturing, Inc. The DoJ reported that “Martinez has signed a plea agreement and is scheduled to make his first court appearance on April 13.”

Candidly, it’s difficult to detect procurement corruption such as the situation reported by the DoJ press release. Assuming the people are smart about their dealings, evidence of wrongdoing can be hard to come by. On the other hand, a buyer who keeps awarding work to poorly performing companies should be a red flag for further investigation.

There was this one case we worked on where a supplier was charged with bribing the buyer of a large prime contractor. We were hired by the supplier to show that prices were not inflated as the result of the payments. (Normally the assumption is that the corrupt payments are recovered through inflated pricing.) Indeed, we were unable to see a statistically significant variance in margins between prices charged to the general market and the prices charged to the prime contractor. That fact may have helped the supplier in the sentencing phase, but it did not lead to an acquittal of the charges. Anyway (to make a long and somewhat tawdry story shorter), we asked the supplier how the corrupt payments were made.

“We wrote they guy a check,” was the reply.

Yes, they made their corrupt payments to the buyer via check. Obviously that made it a great deal easier for the government to prove its case.

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“What were you thinking?” we asked. The reply surprised us: “We needed the checks for our tax returns, so we could deduct the payments as business expenses.”

What’s the moral of this story?

There are good businesspeople and bad businesspeople. There are smart businesspeople and obtuse businesspeople. There are ethical businesspeople and corrupt businesspeople. Sometimes it’s difficult to tell with whom you’re dealing unless you ask some questions and dig into the situation a little bit.