In November, 2010, we **wrote** a piece about the Louis Berger Group's $69 million dollar settlement with the Dept. of Justice and the guilty pleas of its former CFO and former controller. For at least 16 years, LBG "manipulated" its overhead rates by shifting costs from private, commercial, clients to state and Federal clients. Apparently DCAA missed the allocation manipulations in its audits of LBG's annual proposals to establish final billing rates (also known as incurred cost proposals), and it took a *qui tam* relator's suit under the False Claims Act to get the government involved.

But get involved the government did, as only it can when it suspects it's been bilked out of millions of dollars. In December, 2014, the former Louis Berger Group CEO, President and Chairman of the Board (Derish Wolff) pleaded guilty to "conspiring to defraud the U.S. Agency for International Development (USAID) with respect to billions of dollars in contracts over a nearly 20-year period." We noted that plea in passing but didn't dwell on it.

Just to update the story and put some closure to it, we wanted to report that on May 8, 2015, Mr. Wolff was "sentenced today to 12 months of home confinement and fined $4.5 million." Mr. Wolff is 79 years old.

The DOJ **press release** provided some more details of LBG's scheme. It reported—

From at least 1990 through July 2009, LBG, through Wolff and other former executives, intentionally overbilled USAID in connection with these cost-reimbursable contracts. The scheme to defraud the government was carried out by numerous LBG employees at the direction of Wolff.

Wolff targeted a particular overhead rate, irrespective of what the actual rate was, and ordered his subordinates to achieve that target rate through a variety of fraudulent means. From at least as early as 1990 through 2000, Wolff ordered LBG's assistant controller to instruct the accounting department to pad its time sheets with hours ostensibly devoted to federal government projects when it had not actually worked on such projects.

At an LBG annual meeting in September 2001, Salvatore Pepe, who was then the controller and eventually became chief financial officer (CFO), presented a USAID overhead rate that was significantly below Wolff's target. In response, Wolff denounced Pepe, called him an 'assassin' of the overhead rate and ordered him to target a rate above 140 percent, meaning that for every dollar of labor devoted to a USAID contract, LBG would receive an additional $1.40 in overhead expenses supposedly incurred by LBG.

In response, Pepe and former controller Precy Pellettieri, with Wolff's supervision, hatched a fraudulent scheme from 2003 through 2007 to systematically reclassify the work hours of LBG's corporate employees, including high-ranking executives and employees in the general accounting division, to make it appear as if those employees worked on federal projects when they did not. At his plea hearing on Dec. 12, 2014, Wolff admitted that Pepe and Pellettieri, at Wolff's direction, reclassified these hours without the employees' knowledge and without investigating whether the employees had correctly accounted for their time, and at times did so over an employee's objection.

In addition to padding employees' work hours with fake hours supposedly devoted to USAID work, Wolff instructed his subordinates to charge all commonly shared overhead expenses, such as rent, at LBG's Washington, D.C., office to an account created to capture USAID-related expenses, even though the D.C. office supported many projects unrelated to USAID or other federal government agencies.

The foregoing description is not as clear as we'd like. It seems that LBG had two different overhead pools: one that supported state and Federal work and another that supported commercial work. Employees may have had two different charge numbers and charged their time based on the type of work they were supporting. Then, unbeknownst to the employees, hours charged to the commercial overhead pool were shifted into the state/Federal pool.

Alternately, the employees charged time directly to all projects, and overhead was allocated to projects based on recorded labor dollars (or hours). Hours charged to commercial projects were shifted to state/Federal projects, which then attracted a higher proportion of indirect costs.

Either scenario is possible; or perhaps there's a third scenario we didn't think of. The point is, after many years the scheme came to light, and the company had to cough-up a whopping fine. Executives were charged. Executives were fined and sentenced. Life was made unpleasant for many.

Meanwhile, LBG keeps on winning work, performing engineering projects around the globe. Only now it does so with a 36 page Code of Business Conduct **policy** that helps to guide LBG employees as they make day-to-day business decisions.