

We write quite a bit about alleged and/or admitted fraud by Government contractors. We have posted many articles about alleged and/or admitted fraud by military and civilian government officials. We'd post links but, frankly, there are already too many corruption stories here and all you have to do is visit the News Archive to find them for yourselves.

But today we take a different slant on things. Today we look at fraud, alleged and/or admitted, outside the Governmental arena. Why do we do that? We do that because we hope it will be instructive. Generally and broadly speaking, internal controls are largely the same whether one is a defense contractor or a manufacturer of consumer electronics. The need for segregation of duties, for example, is largely the same—as is the need for an involved senior management and board of directors.

So let's peek outside our box of government contracting; let's look up from perusing the FAR and trying to interpret CAS for just a few minutes, and let's see what the rest of the world is up to—in terms of fraud and corruption—courtesy of daily Department of Justice press releases.

First we look at two stories of international corruption.

Technip S.A. Resolves Foreign Corrupt Practices Act Investigation and Agrees to Pay \$240 Million Criminal Penalty – There have been bigger FCPA penalties, but not very many. According to this [DOD press release](#)

, the Paris-based “global engineering, construction, and services company” agreed to pay that ginormous penalty in order to resolve FCPA charges related to “its participation in a decade-long scheme to bribe Nigerian government officials to obtain engineering, procurement and construction (EPC) contracts.” The DOJ release stated, “At crucial junctures... a senior executive of Technip, KBR’s former CEO, Albert “Jack” Stanley, and others met with ... the executive branch of the Nigerian government to ... designate a representative with whom the joint venture should negotiate bribes to Nigerian government officials. The joint venture paid approximately \$132 million to a Gibraltar corporation controlled by

Tesler and more than \$50 million to the Japanese trading company during the course of the bribery scheme.”

Continuing our theme of international corruption, we offer the following.

Italian Executive Extradited from Germany to the United States to Face Foreign Bribery Charges – Another DOJ [announcement](#) stated, “Italian citizen Flavio Ricotti, a former executive of Rancho Santa Margarita, Calif.-based valve company Control Components Inc. (CCI), has been extradited to the United States from Germany in connection with his alleged participation in a conspiracy to secure contracts by paying bribes to officials of foreign state-owned companies as well as officers and employees of foreign and domestic private companies.” Allegedly, “*Ricotti, who served as CCI’s vice president and head of sales for Europe, Africa and the Middle East from 2001 through 2007,” oversaw more than \$1 million worth of “corrupt payments” that were allegedly designed to secure work for his company.* In addition, five other CCI executives were charged in the 16-count indictment, including, “five former CCI executives also charged are Stuart Carson, CCI’s former chief executive officer; Hong (Rose) Carson, CCI’s former director of sales for China and Taiwan; Paul Cosgrove, CCI’s former director of worldwide sales; David Edmonds, CCI’s former vice president of worldwide customer service; and Han Yong Kim, the former president of CCI’s Korean office.”

Next, looking at the domestic U.S. commercial marketplace, we bring you the final story of corruption, as abetted by stupidity and naïveté.

Former Koss VP of Finance Pleads Guilty to Embezzling Millions and Millions -- We have been following the tale of Koss Corporation and its former Vice President of Finance, Sujata Sachdeva, for some time. On July 17, 2010, Ms. Sachdeva

[pleaded guilty](#)

to six counts of wire fraud for embezzling roughly \$34 million from her employer over a period of approximately 11 years. Ms. Sachdeva (or “S-Squared” as she’s called on

www.goingconcern.com

, where one can find quite a few stories on this topic), faces anywhere from 6 to 20 years in prison. According to

[this story](#)

, “she stole the money from the headphone maker to pay for extravagant shopping sprees and lifestyle amenities that included using Koss funds for clothes, cars, trips, china, statues and home furnishings.”

According to the stories linked-to above, S-Squared admitted that, "During the 12-year span she authorized the issuance of more than 500 cashier's checks costing Koss about \$17.5 million. That figure includes \$10 million to American Express, plus payments to high-end retailers, including Neiman Marcus and Saks Fifth Avenue. Payments also went to charitable groups." In addition, "From February 2008 to December 2009, she authorized 206 wire transfers totaling \$16 million from Koss accounts to American Express to cover items she bought with the credit card." The plea agreement stated that Koss employees worked 'in concert with Sachdeva or at her direction' to make fraudulent entries to the company's books to conceal the embezzlement. 'These entries would falsely overstate assets, understate liabilities, understate sales, overstate cost of sales, and overstate expenses,' and the false entries 'concealed the actual receipts and profitability of Koss,' allowing the scheme to continue.

S-Squared knew how the company's auditors worked. According to the plea agreement, "Sachdeva did not fraudulently take money from Koss accounts at Park Bank during the month of June, because transactions during that month were reviewed by outside accountants."

According to the news reports, the scheme “came to light in December when American Express told Michael Koss - who at the time held five high-level titles at the company, including CEO and chief financial officer - that money was being transferred from company accounts to pay for Sachdeva's luxury shopping bills.”

This [blog post](#) by Francine McKenna at www.retheauditors.com makes some good points about Sachdeva and Koss. Here are a few of Ms. McKenna's comments—

- Listing standards for the NYSE require an internal audit function. NASDAQ, where Koss was listed, does not.

- Management oversight of the financial reporting process is severely limited by Mr. Koss Jr.'s lack of interest, aptitude, and appreciation for accounting and finance. Koss Jr., the CEO and son of the founder, [held the titles of COO and CFO, also](#). Ms.

Sachdeva, the Vice President of Finance and Corporate Secretary who is accused of the fraud, has been in the

[same job since 1992](#)

and during one ten year period

[worked remotely from Houston](#)

!

Despite the foregoing, the Koss Corporation has filed suit against American Express (contending that it should have alerted the company earlier), against former auditors Grant Thornton (contending that it should have detected the embezzlement during performance of audit procedures), and against Ms. Sachdeva herself (d'oh).

Conclusion

Each of the stories included herein describe unfortunate actions of a corporate executive management team, actions that violated law as well as ethical standards. In some instances, the executives colluded with each other, or with executives of other companies, in order to carry out their schemes. DCAA audit

It's Not Always Government Contractors ...

Written by Administrator

Thursday, 22 July 2010 00:00

procedures direct that an assessment be made of management integrity and “tone at the top.” We don’t know, exactly, how one does that. But we do know that these stories reinforce the importance of doing so.