

Far-Ranging Navy Fraud “Rocking the Pentagon”

Written by Nick Sanders

Monday, 16 December 2013 00:00



Have you been following this one?

Let's start with [the report](#) that John Beliveau II, a Senior Investigator with the Naval Criminal Investigative Service (NCIS), will plead guilty in Federal Court “to bribery and conspiracy to commit bribery.” Allegedly, the bribery charges relate to “accepting prostitution services and expensive trips in exchange for providing information and advice to an Asian defense contractor at the center of a multimillion-dollar fraud probe.”

What would Leroy Jethro Gibbs say about *that*?

Beliveau is reported to be “one of three Navy officials who have been arrested” and the first to cop a guilty plea. (The other two, Navy Commanders each, have pleaded not guilty.) Two employees of GDMA (including its President, Leonard Francis, and Mr. Francis' cousin) have been arrested, and have also pleaded not guilty. Allegedly, NCIS Senior Investigator Beliveau provided advice and assistance to Mr. Francis as the probe progressed.

What probe? What's the story here?

The case reportedly involves Glenn Defense Marine Asia, Ltd. (GDMA) and allegations of bribery to Navy personnel “in return for confidential information” that may have included shipping routes and schedules. According to the news story (link above)—

Far-Ranging Navy Fraud “Rocking the Pentagon”

Written by Nick Sanders

Monday, 16 December 2013 00:00

The accusations signal serious national security breaches and corruption and have set off high-level meetings at the Pentagon with the threat that more people, including those of higher ranks, could be swept up as the investigation continues. Other unnamed Navy personnel are mentioned in court documents as getting gifts from Mr. Francis, who is known in military circles as "Fat Leonard" because of his wide girth. ...

Prosecutors say Mr. Francis bribed Navy commanders to give him confidential ship route information or even move Navy vessels like chess pieces, diverting aircraft carriers, destroyers and other ships to Asian ports with lax oversight, where GDMA could inflate costs and invent tariffs by using phony port authorities. In exchange, Mr. Francis lined up prostitutes, luxury hotel stays and tickets to shows for the Navy officials, including a Lady Gaga concert in Thailand, according to the complaint.

The company bilked the Navy out of \$10 million in just one year in Thailand alone, U.S. Attorney Laura Duffy [alleged]. [GDMA] serviced Navy ships in the Pacific for 25 years. [Its] contracts have now been suspended.

The Washington Post [characterized](#) this as “the biggest fraud case in years for the Navy” and notes that seven Naval officials (including [two Admirals](#)) have been suspended to date.

In addition to uncovering a surprisingly large number of allegedly corrupt Naval officers, WaPo [also reported](#) that “the investigation has pinpointed systematic weaknesses in the Navy’s worldwide contracting bureaucracy.” It reported—

According to affidavits filed by agents from the Pentagon’s Defense Criminal Investigative Service, Francis and other executives from Glenn Defense Marine cheated the system with ease by forging hundreds of invoices, price quotes and other documents to overcharge for fuel, food and port services.

The firm made little effort to conceal the fraudulent nature of the paperwork, repeatedly submitting the same false forms for reimbursement, the affidavits show. Navy contracting officials in Singapore and Japan rubber-stamped many of the claims, even though a cursory check could have exposed the scam, according to the agents’ statements. ...

To win a bigger share of the Navy’s business, Glenn Defense Marine submitted bids that were sometimes so low that competitors formally complained there was no way it could cover its costs, let alone turn a profit, a review of contracting records shows.

In an attempt to minimize expenses, the Navy negotiated fixed prices for many port services

Far-Ranging Navy Fraud “Rocking the Pentagon”

Written by Nick Sanders

Monday, 16 December 2013 00:00

in advance. While Glenn Defense Marine was stuck with its low bid for those fixed services, the contracts contained major loopholes that the company was able to exploit, according to prosecutors.

Under certain conditions, Glenn Defense Marine could charge higher prices for fuel, ‘incidental services’ and port tariffs, or fees charged by local port officials. To do so, the company was required to submit paperwork justifying the added expenses, such as quotes from multiple subcontractors or invoices from port officials. In case after case, however, federal investigators found that Glenn Defense Marine simply made up those bills and bids.

As a result of the investigation, arrests, and other associated allegations of systemic fraud and abuse, Secretary of the Navy Ray Mabus ordered a complete review of how husbanding and port service contracts are handled. According to the [Stars and Stripes](#) —

In a Dec. 5 memo, Mabus instructed Assistant Secretary of the Navy for Research, Development and Acquisition Sean Stackley to review “all acquisition strategies” worldwide and determine whether proper procedures are being followed. He also told the Navy auditor general to audit the contracts to improve internal controls.

Husbanding and port service contracts assist Navy ships and sailors when they pull into a foreign port and include everything from goods and services such as fuel or docking, to water and sanitation. Mabus’ memo is in addition to guidance laid out in September after investigations by the Naval Criminal Investigative Service and audits by the Naval Audit Service raised concerns.

As we reported recently, the Honorable Shay Assad, DOD Director of Pricing, recently wrapped-up a multi-year campaign against those contractors who included the premiums of ineligible dependents in their medical insurance costs billed to the Dept. of Defense. The DAR Council wrote that it thought as much as three percent of all dependents might be ineligible, and called inclusion of such costs in contractors’ indirect rates a matter of fraud.

It’s perhaps a cheap shot, but let’s take it anyway: While DOD Leadership was focused on solving a problem that had already been “largely corrected” (in Mr. Assad’s words), they have ignored a massive, obvious, systemic, criminal activity that was allegedly occurring right under their noses, during their watch. Why was Mr. Assad’s organization not evaluating the pricing of Naval husbanding and port service contracts?

Why did it take—quite literally—*years* for the alleged perpetrators of this scheme to be brought to justice? Perhaps one of the reasons it took so long is that the people who should have been looking inward at the military service anti-corruption controls and evaluating the relationship between price and quality for the Navy were focused elsewhere, such as on beating up

Far-Ranging Navy Fraud “Rocking the Pentagon”

Written by Nick Sanders

Monday, 16 December 2013 00:00

contractors for the relatively trivial amount of healthcare costs associated with ineligible dependents.

Why did the Directorate of Pricing not care about prices paid by the Navy for its port service contracts? Of, if they in fact did care, why did they not care enough to identify pricing anomalies that, in the words of WaPo, were “obvious”?

We’ve [written](#) about the “Price Fighters” and suggested they were focused on fighting the wrong enemy. The story of GDMA confirms what we have asserted in that article (and others). The DOD Leadership is focused on beating up its industrial base, because it simply cannot face the fact that its own house is in slipshod repair and in desperate need of attention. It’s clear that the Department of Defense needs a thorough house-cleaning, from top to bottom.