

Contract and Procurement Fraud Investigation Guidebook

Charles E. Piper, CFE



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TESTIMONIALS

CONTRACT & PROCUREMENT FRAUD INVESTIGATION GUIDEBOOK

"No organization operates in isolation. In order to function, every entity must procure goods and services. Large organizations negotiate contracts worth hundreds of millions each year; therefore, the potential losses due to fraud, collusion and corruption can be enormous—if you don't know what to look for. Charles Piper is a seasoned fraud examiner. In this book, he breaks down the common schemes, how to spot them, and how to conduct effective investigations. Piper's *Contract and Procurement Fraud Investigation Guidebook* is a vital resource for fraud investigators as well as businesses and government organizations that want to ensure the integrity of their acquisition systems."

James D. Ratley, CFE, CEO & President, Association of Certified Fraud Examiners

"I served over 40 years conducting investigations, including white collar and major fraud, for the U.S. Department of Defense. Charles Piper's *Contract and Procurement Fraud Investigation Guidebook* is the ultimate investigation guidebook on all things related to contract and procurement fraud, collusion and corruption. I wish such a manual was available when I first started. This book should be required reading for all current and future fraud fighters, contracting officials, business owners and politicians worldwide."

Richard L. Messersmith

**(Retired) Resident Agent in Charge, Defense Criminal Investigative Service,
Department of Defense, Office of Inspector General
& (Retired) Special Agent, Air Force Office of Special Investigations**

"Charles Piper's *Contract and Procurement Fraud Investigation Guidebook* describes the contract, procurement and acquisitions process and the types of schemes that take place before, during and after contracts are awarded. It also provides a step-by-step process on how to thoroughly investigate these matters. Had this book been written years ago, a lot of governments and businesses would have saved money and many bad individuals and vendors would have been brought to justice. 'The Piper Method' of conducting thorough and complete investigations needs to become the preventive remedy to stamp out procurement fraud, collusion, and corruption. This book should be required reading in any class or lecture on contracting and it will greatly assist investigators and others in the field."

**Scott Amey, J.D. General Counsel
Project on Government Oversight
Washington, D.C.**

"Investigators should put Charles Piper's *Contract and Procurement Fraud Investigation Guidebook* front-and-center on their resource shelf. Piper's described investigative techniques and personal 'War Stories' make this book an enjoyable and informative read."

Andy Wise

Chief Consumer Investigator, WMC Action News 5

Memphis, Tennessee

"Whether you are new to white collar crime investigations or a seasoned professional, you will find Charles Piper's *Contract and Procurement Fraud Investigation Guidebook* is an educational, fascinating and useful read. Most experts agree that investigating white collar crime (especially contract and procurement fraud and corruption) can be extremely challenging even for the most experienced investigators. Readers will find Piper's expertise in this field is unparalleled and his shared personal investigative 'War Stories' are educational, entertaining and inspiring. In this writing, he identifies the schemes and shares his proven successful, 'Piper Method of Conducting Thorough and Complete Investigations' so that fraud fighters can solve more cases and prevent future fraud, waste and abuse. I highly recommend this book for veteran, new and upcoming fraud investigators, examiners, auditors, business owners and others."

Gregory Mohr, CFS

(Retired) Federal Special Agent

Security Consultant, Licensed Investigator & Adjunct Professor

Owner: Criminal Justice Training & Consulting, LLC

Scottsdale, Arizona

"While serving as federal special agents, Charles Piper and I worked several cases jointly. I consider him an expert on investigating contract and procurement fraud. He's investigated multi-million dollar fraud cases, some of which involved high profile players. His integrity is beyond reproach and he fights for justice regardless of the source or power of the resistance—and he gets results! Piper's *Contract and Procurement Fraud Investigation Guidebook* details the contracting, procurement and purchasing process; the schemes used before, during and after acquisitions; and describes in detail how to thoroughly investigate these matters. The 'War Stories' he provides are based on his firsthand experiences and make this book an especially enjoyable read. Piper's *Contract and Procurement Fraud Investigation Guidebook* should be considered 'the go to book' on investigating contract and procurement fraud, collusion and corruption."

Bruce Durbin

(Retired) Federal Special Agent

U.S. Department of Homeland Security

“In today’s world of billion-dollar international government and private sector procurements, there is a dire need for Charles Piper’s *Contract and Procurement Fraud Investigation Guidebook*. The author exposes the many different types of fraud schemes and wrongful actors that can beset contracting and procurements. He also provides a step-by-step list of protocols to be followed while investigating, which provides readers with a distinct advantage. Truly, every fraud investigation should incorporate ‘The Piper Method of Conducting Thorough and Complete Investigations.’ Procurement and contracting, whether in government or in the private sector, stands to be greatly and positively affected by this book and its adoption by investigation authorities. It should be used as core course and be required reading for every fraud investigator.”

Gilbert R. Jimenez, JD, CIG, LPD
Licensed Illinois Private Investigator
Principal—Insight Investigation Services of Chicago, Illinois
Attorney
Former Deputy Inspector General—Illinois

“I’ve personally worked cases jointly with Charles Piper. He’s all about hard work, integrity and accomplishing objectives. He conducts investigations with enthusiasm and passion. Those same qualities along with his expertise are shared in his latest book, *Contract and Procurement Fraud Investigation Guidebook*. It is a must read for all fraud fighters as well as all business owners and government officials that are responsible for expenditures involving contracting, procurements, purchases or acquisitions.”

Thomas Terry, CFE, Private Investigator & Consultant
(Retired) U.S. Postal Inspector
Founder and Owner of Silent Service Financial Investigations
Memphis, Tennessee

“For over 20 years, Charles Piper and I both previously investigated contract and procurement fraud, collusion and corruption while serving as Federal Special Agents. Piper was one of the most thorough and determined agents I had the pleasure of working with and he epitomized the agency’s slogan of ‘dogged pursuit of the truth’, wherever it may lead. His *Contract and Procurement Fraud Investigation Guidebook* illustrates the meticulous way he pursued his cases and the theoretical meets the practical in his *War Stories*. This book should be considered the ‘new tool’ for those responsible for investigating and prosecuting contract, procurement or vendor fraud and I highly recommend it.”

Craig A. Brueckman, CFE-Retired
(Retired) Special Agent
Defense Criminal Investigative Service,
Office of Inspector General, Department of Defense

Contract and Procurement Fraud Investigation Guidebook

Contract and procurement fraud, collusion, and corruption are worldwide problems. Such wrongdoing causes federal, state, and local governments, as well as private-sector corporations and businesses, to lose funds and profits, while the wrongdoers unjustly benefit. Bid riggers conspire to eliminate fair and open competition and unjustly increase prices, allowing some to monopolize industries. Too often, contracting officials and others responsible for placing orders or awarding contracts compromise their integrity and eliminate fair and open competition to favor vendors offering bribes or gifts. This results in unfair playing fields for vendors and causes financial losses for businesses, government agencies, and taxpayers.

Charles Piper's *Contract and Procurement Fraud Investigation Guidebook* educates readers on fraud and corruption schemes that occur before, during, and after contracts are awarded. This book teaches not only how to identify such wrongdoing, but also how to investigate it and prevent reoccurrence. Piper shares *The Piper Method of Conducting Thorough and Complete Investigations*,* his innovative and proven method of investigating contract and procurement fraud, and demonstrates its principles with personal, on-the-job examples (which he calls "War Stories") woven throughout the text. Intended for criminal justice students as well as investigators, auditors, examiners, business owners, policy-makers, and other professionals potentially affected by fraud, this book is a must-read guide to effective procurement and contract fraud investigations from inception to testimony.

Charles E. Piper, CFE, CRT, is an award-winning investigator and author. He served for over 30 years in law enforcement, including 20 years as a special agent-criminal investigator with the U.S. Department of Defense (DoD). He has successfully conducted numerous internal and external contract and procurement fraud investigations, as well as investigations involving collusion and public corruption (bribes and kickbacks). As a federal agent, he led interagency investigations and worked jointly with some of the most experienced and well-trained fraud fighters in the world. His investigations have resulted in millions of dollars in recoveries as well as criminal convictions and civil judgments against fraudsters. Piper also served seven years in the U.S. Army in the Military Police Corps and additional years as a city police officer and supervisory detective.

Currently the owner of Charles Piper's Professional Services, which provides investigative, consulting, and training services, Piper is a Certified Fraud Examiner (CFE), Certified in the Reid Technique of Interview and Interrogation (CRT), and a graduate of three law enforcement-investigative academies (federal, state, and military).

Charles Piper, CFE, CRT, has received numerous awards and recognition while serving in law enforcement, including *Special Agent of the Year*. He was also the recipient of the 2014 Association of Certified Fraud Examiners' (ACFE) *Hubbard Award* and has written several antifraud and investigative articles for the ACFE's *Fraud Magazine* and for other publications.

In 2014, Piper authored *Investigator and Fraud Fighter Guidebook: Operation War Stories** to assist investigators around the globe. The book introduced *The Piper Method of Conducting Thorough and Complete Investigations.** This unique methodology assists investigators in solving more cases and detecting, preventing, and reducing criminal activity and other wrongdoing as well as waste and abuse. This method is also used in Piper's approach to investigating contract and procurement fraud, collusion, and corruption and is provided in this *Contract and Procurement Fraud Investigation Guidebook*.

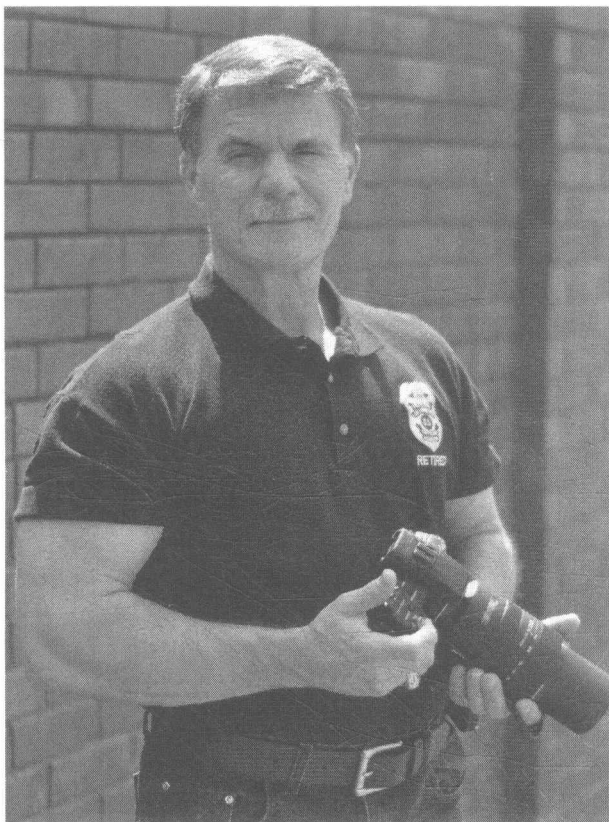
In 2016, Piper authored the *Healthcare Fraud Investigation Guidebook* (published by CRC Press), which is currently being used by others to fight fraud, waste, and abuse in the healthcare industry.

Charles Piper is a member of:

- The Association of Certified Fraud Examiners;
- The Federal Law Enforcement Officers Association;
- The Reid Institute;
- The Tennessee Association of Investigators.

For more information, visit www.piper-pi.com.

**Investigator and Fraud Fighter Guidebook: Operation War Stories* by Charles E. Piper, Copyright © 2014 by John Wiley & Sons, Inc. All rights reserved.



Charles E. Piper, CFE, CRT (Retired Federal Agent)

Photo Credit: Ben Hubbard

Preface

Theodore Roosevelt once said, “A man who has never gone to school may steal from a freight car; but if he has a university education, he may steal the whole railroad.” Things haven’t changed much since Roosevelt’s time, except more people now have college degrees and the dollar amount of fraud, waste, and abuse across the globe has skyrocketed.

Contract and procurement fraud cause tremendous dollar losses worldwide in all industries and also cost consumers directly and indirectly. From an investigative standpoint, contracts and procurements often go hand in hand with collusion and corruption. When it comes to getting awarded contracts, there are lots of people and entities fighting for the same pieces of pie and some will do almost anything to get their share. Yes, greed plays a big role in it all.

For 20 years, I served as a federal special agent with the U.S. Department of Defense (DoD), Office of Inspector General (OIG) investigating contract and procurement fraud and related collusion and corruption. The DoD spends billions of dollars annually and purchases everything from paper clips to planes, from glue to guns and from hammers to Humvees. They also award contracts for services, supplies, goods, research and development, construction, manufacturing, and other needs.

Today, large corporations, small businesses, as well as governments worldwide—including federal, state, and local—fall victim to many of the same fraud and corruption schemes involving their own procurements and acquisitions. As a result of those schemes, taxpayers’ funds and many profits go down the tube, or perhaps more accurately, go into the pockets of unscrupulous individuals.

This book describes contract and procurement fraud schemes as well as the often-related collusion and corruption. The pages also include many of my own firsthand relevant experiences, which I call “War Stories.” You’ll probably find many of the stories enlightening as they share insight into the real world of white-collar investigations. There’s some light humor and sarcasm in the book which will hopefully also keep you entertained.

I’ve included much information about U.S. federal and DoD contracting in this book. But the schemes, information, and investigational guidance should prove beneficial to those responsible for the integrity in contracting and procurements in all government agencies and industries in both the public and private sectors.

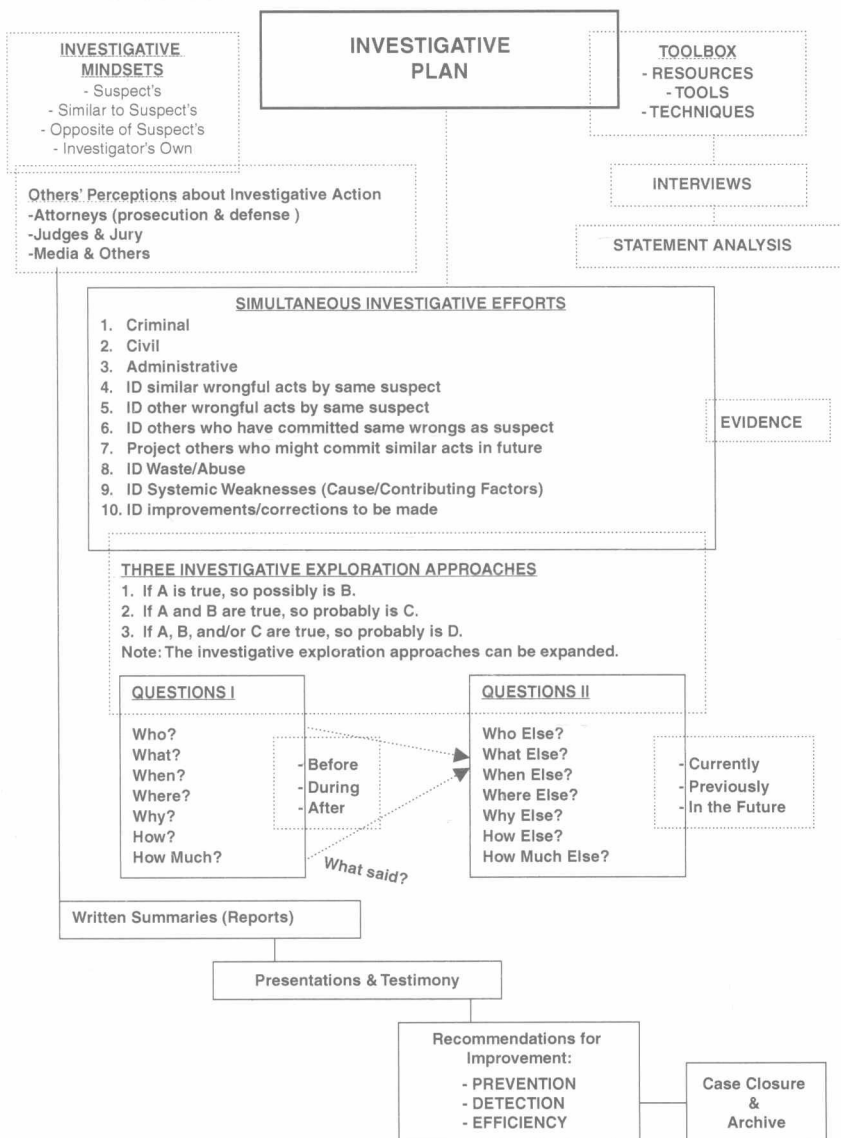
You may have read another crime-fighting book I wrote, titled *Investigator and Fraud Fighter Guidebook: Operation War Stories*.^{*} If not, I highly recommend that you consider reading it because those pages detail how to conduct thorough and complete investigations and actually solve more cases—even with fewer resources. It details my own unique method of conducting investigations, called *The Piper Method of Conducting Thorough and Complete Investigations*,^{*} and includes a one-page diagram that outlines the method.

That same diagram of *The Piper Method*^{*} follows the preface of this book. My unique method of conducting thorough and complete investigations is also detailed in this *Contract and Procurement Fraud Investigation Guidebook*. It's my hope that you'll consider using this methodology (or at least elements of it) in your future investigations so that you might enjoy the same investigative success that I have, or even better results.

One of the great pleasures I take in this book's publication is that, after reading it, you and all the other readers should be able to deter, detect, and successfully identify and investigate contract and procurement fraud and related schemes as well as collusion and corruption. As a result of this knowledge and your hard work, the "bad guys" are going to wonder in frustration why the heck they are all of sudden getting caught and why they can't get away with their misdeeds the way they previously did. I applaud your efforts!

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THE "PIPER METHOD" OF CONDUCTING THOROUGH AND COMPLETE INVESTIGATIONS



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Acknowledgments

I was only able to write this book because of the many opportunities I've had serving others, first as a member of the U.S. Army as a military policeman and investigator, then as a city police officer, a supervisory detective, for 20 years as a Federal Special Agent—Criminal Investigator, and now as a private investigator and consultant. During my career, I've had the pleasure of working with some of the finest law enforcement officers and investigators in the world. I'm grateful for the camaraderie we shared and the many friendships we developed.

Because of lessons learned over the years and my continued determination to stop criminal activity and other injustices, I've enjoyed a tremendous amount of success in the investigative profession. I've been lucky because, more often than not, I've had fun doing the job.

In my post—law enforcement career, I've written books and articles which share my knowledge so that others might benefit from the lessons I learned over the years. The positive feedback and recognition received led me to write this book, for which I'd like to express my sincere appreciation to the following:

The Association of Certified Fraud Examiners (ACFE), including Dr. Joseph Wells, Jim Ratley, Dick Carozza, and the entire crew at the ACFE.

All of the dedicated fraud fighters I've had the pleasure of working with over the years, including federal agents and auditors from various law enforcement agencies (particularly the Department of Defense, the Federal Bureau of Investigation, the U.S. Postal Inspection Service, the many Federal Offices of Inspector General, and many others), state and private insurance investigators, federal prosecutors in both the criminal and civil divisions (particularly in Orlando and Tampa, Florida; Las Vegas, Nevada; Nashville and Memphis, Tennessee; and attorneys with the Department of Justice in Washington, D.C.).

My wife and daughters, older brother, and other family members for all of their support and encouragement along the way.

I thank the publisher of this book, Routledge, a subsidiary of the Taylor & Francis Group, particularly Ellen Boyne, acquisition editor; Eve Strillacci, editorial assistant; and all others who assisted in putting this book together.

I'd also like to thank the readers of this book. I hope my suggested investigative guidance, tips, and shared experiences will benefit you and all those that you strive to assist.

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1 Introduction to Contracts, Procurements, and Related Fraud

One of the most gratifying experiences as a fraud fighter is identifying and proving cases against white-collar criminals. Although it's also gratifying to prevent and deter such wrongdoing, catching bad guys is just downright fun. Interviewing and confronting the suspects about their misdeeds is also enjoyable. During the two decades I served as a U.S. federal agent with the Department of Defense (DoD) investigating contract and procurement fraud, collusion, and corruption, I found that just about every wrongdoer I confronted with evidence of their misdeeds attempted to rationalize their illegal and/or improper actions. Common excuses offered by the suspects included:

- “There was no harm in what I did;”
- “Everyone else does it;”
- “We needed the items ASAP;”
- “I deserve this because...;”
- “It’s just the way the game is played;”
- “If I don’t pay, I can’t play;”
- “I did what I was told to do.”

Author’s Note: Throughout this book, I’ll often use the words *vendor* and *contractor* interchangeably.

WAR STORY 1.1

The evidence showed that a government contracting officer accepted bribes in return for eliminating competitors’ bids, thereby circumventing contract award procedures. The contracting officer then awarded purchase orders to a favored vendor. When I confronted the contracting officer about his corrupt activity, he replied, “But I made sure the Government always paid the lowest prices when I awarded those purchase orders to that vendor.”

The contracting officer told me that he slept well at night because he could rationalize his contract award decisions. What the contracting officer didn’t realize was that after that vendor was awarded the government purchase orders, the vendor submitted invoices and got paid for goods that the vendor never actually shipped.

Well, the contracting officer didn't sleep very well after my investigation was completed because he got sent to prison! In fact, the idiot even involved his stay-at-home wife in a scheme to launder the bribe payments, so his wife ended up pleading guilty to felony offenses too.

What about the vendor that paid the bribes and submitted false invoices for payment? Well, that knucklehead also got sent to prison and two of his companies eventually went belly-up. The local press wasn't very forgiving either, so the criminals had to also face public humiliation. The vendor's fall from grace was especially hard because he was very well respected in his community as a generous donator to various charitable causes and his children all attended prestigious schools and universities.

A few years later, after the vendor had served his time in prison, he unexpectedly knocked on my office door. To be honest, when I first saw him, my first reaction was to grab my handgun because I assumed he was angry with me. But he actually extended his hand to shake mine and thanked me for doing my job. He said his time spent in prison changed his life and he was a better person because of it. Well, that made me feel pretty good. But I still locked the door after he left, just in case he changed his mind.

Although this book will not focus entirely on government contracting, before we move on, I'll provide some general background information about how the federal government awards contracts and some of the problems encountered. I'll also provide a few basic definitions about contracts, procurements, fraud, collusion, corruption, etc. This chapter will not provide all of the intricate details about every type of contract that can be awarded and/or what rules and regulations might dictate how and when contracts can be awarded or modified, etc. (*Yes, that means you should be able to stay awake.*)

Corporate executives and even small business owners should especially find this book interesting because all too often greed plays a role in diminishing business owners' profits, even among those entities that don't award many contracts. For example, before World War II, my grandfather owned a small meat market on the southside of Chicago. Business was pretty good but he found profits weren't what they should be. What was the reason for the losses? He learned that some of his own employees were stealing meat out the back door! Later, during World War II, the U.S. Government rationed meat, which forced my grandfather to look for a new line of work. He closed his meat market business and became an investigative auditor for the state of Illinois. Even back then there was a need for fraud fighters.

Depending on what entity or organization you work for and/or are investigating, it's worth noting that the rules for acquisitions can range from being simple to complex or may not exist at all. Maybe whoever provides the best lunches, dinners, or use of condos gets awarded the contracts and orders. Maybe whoever retired from the buyer's enterprise and opened their own business gets priority