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CONTRACTING FOR NAVY HUSBANDING SERVICES: AN ANALYSIS OF THE FAT LEONARD CASE

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For over 25 years, the U.S. Navy contracted with Glenn Defense Marine Asia (GDMA) to provide husbanding services. In 2013, the Justice Department announced an investigation alleging that for years, GDMA had engaged in procurement fraud.

The purpose of this research is to analyze Navy husbanding service contracting using the Fat Leonard case through the lens of auditability theory, applying contract management and internal control frameworks. This research analyzes each alleged act of fraud in the Fat Leonard case and aligns the act with the contract management phase in which the alleged act occurred and with the internal control component that most contributed to and allowed the alleged act to be perpetrated.

The research findings identified collusion as the primary fraud scheme in the Fat Leonard case. Research findings show that the alleged acts of fraud occurred primarily in the buyer's contract administration and procurement planning phases and in the seller's pre-sales activity and contract administration phases. Furthermore, the findings indicate that the internal control deficiencies were in the control environment and information and communication components. Based on these findings, recommendations are provided to improve the auditability of husbanding service contracting.

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TABLE OF CONTENTS

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LIST OF FIGURES

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LIST OF TABLES

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LIST OF ACRONYMS AND ABBREVIATIONS

ACO	Administrative Contracting Officer
AOR	Area of Responsibility
CHT	Collection, Holding, and Transfer
CICA	Competition in Contracting Act
CNO	Chief of Naval Operations
COSO	Committee on Sponsoring Organizations
COR	Contracting Officer's Representative
CPRG	Contract Pricing Reference Guide
DAU	Defense Acquisition University
DCAA	Defense Contract Audit Agency
DFAS	Defense Finance and Accounting Service
DOD	Department of Defense
DOJ	Department of Justice
EMRM	Equipment Maintenance and Repair Money
FAR	Federal Acquisition Regulation
FISC	Fleet Industrial Supply Center
FLC	Fleet Logistics Center
GAO	Government Accountability Office
GDMA	Glenn Defense Marine Asia
GPE	Government Point of Entry
HSP	Husbanding Service Provider
IDIQ	Indefinite Delivery, Indefinite Quantity Contract
LOGREQ	Logistics Requirements
LPTA	Lowest price technically acceptable
MAC	Multiple Award Contract
NAVSUP	Naval Supply Systems Command
OPNAV	Office of Chief of Naval Operations
OSBP	Off-Ship Bill Pay
PACFLT	United States, Pacific Fleet
PVCR	Port Visit Cost Report

QAE	Quality Assurance Evaluator
QAR	Quality Assurance Representative
QASP	Quality Assurance Surveillance Plan
RFP	Request for Proposal
SEC	Securities and Exchange Commission
TF NOCS	Task Force Navy Operational Commanders Support
TYCOM	Type Commander
USFF	United States, Fleet Forces Command

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I. INTRODUCTION

A. BACKGROUND

For over 25 years, the U.S. Navy contracted with a Singapore-based firm, Glenn Defense Marine Asia (GDMA), to provide husbanding services for Navy ships making port calls in the Asia/Pacific region (Indictment, United States of America v. Simpkins, 2015). The firm was led by a Malaysian national, Leonard Glenn Francis, also known by Navy personnel as "Fat Leonard" because of his large stature.

Since Navy ships routinely make visits to ports of call that lack organic Navy support, husbanding support providers (HSPs) are typically contracted to provide support. HSPs arrange for and provide items such as force protection equipment and services, food and water, and fuel. They schedule tugboats to shepherd ships in and out of port, facilitate the removal and disposal of oily and human wastes, provide water taxi services, and provide vehicles and transportation services, as well as a host of other incidental services associated with a ship's port visit (Naval Audit Service, 2014). Husbanding services are particularly hard to manage as they involve large volumes of liquids such as wastewater or fuel. These services are often rendered in remote locations where competition is limited, and where barriers, such as language and cultural differences, exist. Personnel who are not experts in contract management typically monitor these contracts. Furthermore, the majority of Navy vessels lack technology (such as flow meters) to measure the movement of various liquids to and from the ship.

In 2013, the Department of Justice publicly revealed that, for years, Fat Leonard had secured Navy husbanding service contracts and conducted business through illicit procurement fraud schemes such as bribery, bid rigging, and fraudulent invoice submission (Whitlock, 2016b). This research study reviews the Fat Leonard case through the lens of auditability theory to provide lessons learned to the Navy. Specifically, Power (1996) states that processes must be made auditable. Rendon and Rendon (2015) introduce the Auditability Triangle that establishes a conceptual framework, which

asserts that procurement fraud can be mitigated through having competent personnel, developing capable processes, and establishing effective internal controls.

B. PURPOSE OF RESEARCH

The purpose of this research is to analyze Navy husbanding services contracting using the Fat Leonard case through the lens of auditability theory, applying contract management and internal control frameworks. Findings from this research will be used to develop recommendations that seek to improve Navy husbanding services contracting by enhancing the competency of all process stakeholders, improving contract management process capabilities, and strengthening internal controls.

C. RESEARCH QUESTIONS

This research addresses the following research questions:

1. In which contracting processes did the alleged acts of procurement fraud occur in the Fat Leonard case relating to Navy husbanding services?
2. What internal controls were deficient that permitted the alleged acts of procurement fraud to occur in the Fat Leonard case relating to Navy husbanding services?
3. What were the specific alleged procurement fraud schemes that occurred in the Fat Leonard case relating to Navy husbanding services?

D. METHODOLOGY

This research study analyzes the Fat Leonard case through the lens of auditability theory, using contract management and internal control frameworks. This study specifically analyzes alleged procurement fraud incidents, the phase of the contract management process in which the fraud scheme occurred, and which internal control component was associated with each fraud scheme. This methodology includes the development of a database that consists of publicly available criminal indictments and other court documents related to the Fat Leonard case.

E. IMPORTANCE OF RESEARCH

Procurement fraud is an ongoing issue within the DOD. An analysis of real world fraud cases can provide insight through which the DOD can gain lessons learned to develop individual competencies, improve contract management processes, and strengthen internal controls. This research study is important because it seeks to develop recommendations rooted in auditability theory that can be employed by Navy leadership to deter fraud in Navy HSP contracting.

F. LIMITATIONS OF RESEARCH

This study has several limitations. One limitation is that this study is based on allegations of fraud that were extracted from publicly available criminal indictments and other court documents related to the Fat Leonard case that were available as of September 30, 2017. While several personnel have pleaded guilty as of the date of this report, those plea agreements remain sealed. As a result, the public is not able to determine the specific acts of fraud to which each person actually pled guilty.

Another limitation is that the alignment of each alleged act of fraud to a contract management phase and internal control component is subjective in nature. In many cases, there was an overlap between contract management phases and internal control components. Each act of alleged fraud was aligned with the contract management phase in which the preponderance of activity took place. Additionally, each alleged act of fraud was aligned with the primary internal control component that had deficiencies that most contributed to and allowed the fraudulent act to occur.

G. ORGANIZATION OF REPORT

This report consists of six chapters, including this introduction chapter. Chapter II provides a literature review of the Navy's husbanding contracting environment to include past and current problems and actions taken by the Navy to address those problems. The chapter also discusses auditability theory, contract management processes, internal control components, and fraud schemes. Chapter III provides a history of GDMA, a timeline of its contracting activity with the United States Navy, and a timeline of its

ultimate demise. Chapter IV provides the methodology by which this research study was conducted and describes a database of allegations of fraud that was developed to conduct the research. Chapter V presents the research findings, provides the analysis, and explains the implications of the findings. Chapter V also provides recommendations to enhance the competency of HSP contract process stakeholders, improve HSP contract management process capabilities, and strengthen internal controls. Chapter VI provides a summary of the research and presents the conclusions and areas for further research.

H. SUMMARY

This chapter provided an introduction and background on Navy husbanding relating to the Fat Leonard case. It discussed the purpose of analyzing the Fat Leonard case to produce recommendations that improve the auditability of husbanding service contracting. Next, the chapter presented the research questions that will be addressed in this study. It also presented the methodology, as well as the importance and limitations of the research. Finally, this chapter presented the organization of the report. The next chapter presents a literature review that covers the Navy's husbanding contracting environment to include past and current problems, actions taken by the Navy to address those problems, auditability theory, contract management processes, internal control components, and fraud schemes.

II. LITERATURE REVIEW

A. INTRODUCTION

The literature review includes peer-reviewed articles, newspaper articles, and government documents related to contracting management processes, internal controls, and procurement fraud schemes. This chapter first reviews the literature on husbanding processes used in the Navy (both pre- and post-GDMA) and husbanding processes used in the private sector. Next, the chapter discusses auditability theory and its associated components of competent personnel, capable processes, and effective internal controls. Next, the contract management framework is discussed and is presented from both the buying and selling perspective. A discussion of the Integrated Internal Control Framework is then presented. Finally, this chapter ends by presenting the six most common procurement fraud schemes. The Navy husbanding process is discussed in the following section.

B. NAVY HUSBANDING PROCESS

U.S. Navy vessels (ships and submarines) routinely sail into foreign ports for various reasons while away from home to include liberty, multi-national exercises, and resupply efforts. Ships require a myriad of support functions during port visits, such as tugboats, pilotage, fuel, trash removal, rental vehicles, and cargo drayage. For many years, the U.S. Navy has relied on husbanding support providers (HSPs) to provide these services during port visits and liaison with the local port and community on their behalf. The next section includes a discussion of the husbanding service support process employed by the Navy prior to the Fat Leonard case.

1. Pre-Fat Leonard Case Husbanding Processes

Four commands were involved in the husbanding process, including the numbered fleet commander, the Naval Supply Systems Command (NAVSUP), the servicing Fleet Industrial Supply Center (FISC, now Fleet Logistics Center [FLC]), and the unit's respective type commander (TYCOM). The numbered fleet commander was in

charge of each vessel operationally when a unit sailed into their area of operations (AOR), and the TYCOM had administrative command and issued governing supply and financial policy. NAVSUP and FISC performed support roles. NAVSUP developed and implemented the overarching contracting policy, while FISC awarded husbanding contracts (Burson, 2011). The TYCOM was responsible for providing operating funds to the ship, including funds to pay for port visits. TYCOM provided funding to ships in two categories: Equipment Maintenance and Repair Money (EMRM) and "Other" money for consumable items and services, to include husbanding. A specific fund code designated each service so ships could identify what they purchased with "Other" funding. Upon completion of a port visit, TYCOM directed the ship's supply officer to prepare a port visit cost report (PVCR) and submit via naval message to their respective TYCOM no later than five days after leaving port. The PVCR was broken into categories via the different fund codes that TYCOM specified ships use to pay for different line items (e.g., passenger vehicle rental, communications, and charter & hire (Commander, Naval Surface Forces [COMNAVSURFOR], 2008). The supply officer maintained a separate port visit folder for each port visited over a two-year period. The folder contained the original Logistics Requirements (LOGREQ) message (as well as any supplemental LOGREQs), copies of all DD Form 1155s (Order for Supplies or Services), invoices provided by the husbanding agent, and a copy of the port visit cost report (COMNAVSURFOR, 2008).

The first step initiated by shipboard personnel in the Navy husbanding contracting process was for a ship to identify a requirement for support during a port visit. In this process, the numbered fleet commander in charge of the ship and the relevant U.S. Embassy located in the host country approved these visits. For example, if a ship sailed into the 7th Fleet (Western Pacific Ocean) Area of Responsibility (AOR), 7th Fleet would be the final approval on all the ship's port visits with the U.S. Embassy of the proposed country providing diplomatic clearance.

Once a ship secured approval from the fleet commander and diplomatic clearance from the U.S. Embassy, the ship was required to submit a LOGREQ. The LOGREQ contained essential requirements for the ship to conduct a visit, whether moored pier-side

or anchored offshore. Items common to a LOGREQ included required tugboats (number and size); fender requirements; harbor pilot services; brow services; liberty boat services; trash removal; Collection, Holding, and Transfer (CHT) disposal; ship's vehicles; and others (Commander, Naval Supply Systems Command [NAVSUP], 2015). Force protection requirements evolved over time and, especially since 9/11, impress a large burden on the crew and husbanding agent to support ever-growing numbered fleet security requirements. LOGREQs were difficult to standardize across the fleet given the Navy's myriad ship and submarine classes (Burson, 2011). Once the ship's Commanding Officer approved the LOGREQ, the ship released it via Classified Naval Message to their supporting numbered fleet and servicing FISC (COMNAVSURFOR, 2006). Since the message and its contents were classified, the ship could not send the message directly to an HSP to begin coordination. A representative from the ship, most often the supply officer, would copy the unclassified portions into an e-mail message and send it to the HSP to begin coordination efforts.

As part of this process, each FISC operated independently regarding the award of HSP contracts. Some FISCs awarded contracts on a case-by-case basis per each port visit, while others would award task orders against existing Indefinite Delivery, Indefinite Quantity (IDIQ) contract instruments. IDIQs are contract instruments that provide for individual task orders or delivery orders for the procurement of supplies or services within the scope of the IDIQ. IDIQs are used when there is a known requirement for services/material, but the exact delivery dates, quantities, or methods are unknown (National Contract Management Association, 2017). HSP IDIQ contracts allowed individual units to order directly from the HSP rather than ordering through a servicing FISC/FLC. Since the contracting officer had already negotiated prices, the ship's supply officer, who acted as the ordering officer on FISC-awarded husbanding contracts, was not required to research requirements ordered via IDIQ or to determine if port services costs were "fair and reasonable." All orders against IDIQs were required to be documented on DD Form 1155 and signed by the supply officer (NAVSUP, 2005). It is important to note the distinction between an ordering officer and a contracting officer in this case. The commanding officer did have the option to designate their supply officers as contracting

officers on a SF 1402, but this did not apply to awarding husbanding service contracts. In the instance where an established husbanding service IDIQ was not available, the local FISC would take action based upon the ship's LOGREQ to execute a contract for that particular port visit. After a contract was awarded, the ship's supply officer would act as an ordering officer on the contract.

After the ship ordered against an IDIQ for husbanding services, or after FISC awarded a contract for that particular visit in the absence of an IDIQ, the HSP subcontracted out all required services or provided them organically if they possessed the capability. During the port visit, the ship's supply officer maintained contact with the HSP throughout the port visit and was required to maintain receipts and invoices from subcontractors provided for services rendered throughout the port visit (COMNAVSURFOR, 2008). At the conclusion of the port visit, the HSP would meet with the supply officer onboard the ship to discuss final invoices and resolve any disputes regarding invoice totals. The supply officer verified all DD 1155s against receipts and delivery tickets, then signed and passed the package to the ship's disbursing officer to make payment via U.S. Treasury check or cash (COMNAVSURFOR, 2008).

Since submarines do not possess a disbursing officer function, nor do they have the ability to write checks against the U.S. Treasury, the husbanding process for U.S. Navy submarines varied from that of surface ships. The Submarine TYCOMs (Commander, Submarine Forces, U.S. Pacific Fleet; and Commander, Submarine Forces, U.S. Atlantic Fleet) worked with the numbered fleets to determine future port visits for their submarines. Once the numbered fleet finalized port visit schedules for a particular submarine, the Submarine TYCOM Comptrollers reviewed previous PVCRs from these visits to estimate costs and augmented that amount to the submarine's budget. When the submarine completed the port visit, the supply officer was required to submit the PVCR no later than five days after completion. The Submarine TYCOM Comptrollers would initiate payment to the HSP through Defense Finance Accounting Service (DFAS) based on the PVCR (Burson, 2011).

This section discussed the process formerly used by the Navy to contract for and arrange for husbanding service support prior to the Fat Leonard case. In the next section,

the industry's use of husbanding service support is discussed, and key differences between the Navy's and the industry's use of HSPs are explained.

2. Differences between Navy and Industry Husbanding Processes

The commercial shipping industry, specifically freight transport, requires similar services as that of U.S. Navy vessels when conducting visits away from home ports. However, there are several differences between Navy and industry practices. In terminology, the freight industry utilizes a "port agent," also known as a ship's agent or agent, instead of HSPs. An "agent" being distinguishable from husbanding service "provider" in that an agent is contracted to act on behalf of the ship's owner, where a husbanding service provider can only coordinate for the ship (to the extent of the contract), but cannot obligate the ship or the U.S. government financially (Verrastro, 1996). Similar to how the Navy relies on HSPs, the commercial shipping industry relies on port agents to coordinate and deliver all required services and supplies during a port visit. These services include tugs, pilotage, trash removal, cargo drayage, and brow service, as well as all port tariffs and fees (Verrastro, 1996).

One of the differences between Navy and industry practices is the level of ownership delegated to the ship's agent. A ship's agent exercises fiduciary responsibility on behalf of the ship's owner, or principal, while the ship is conducting business away from home. The Navy places this responsibility on each ship's commanding officer, who delegates the business of husbanding to the ship's supply officer. Another difference between the Navy and industry practices regarding husbanding is that the industry goal is to minimize the amount of time that a vessel is in port, thereby saving money and increasing profits. In the commercial shipping industry, a ship is not making money for its owner if it is in port waiting to get underway or waiting to arrive in port. Conversely, the length of a Navy ship's port visit is specifically designed to support the mission of the ship and the ship's operational commander. Readiness is the primary factor that drives port visit length. For example, a ship may conduct a seven-day port visit following extended operations at sea. This port visit is designed to provide the crew with downtime, support re-supply and maintenance efforts, and also fulfill diplomatic objectives. For

example, if the United States has a desire to promote cooperation between the Navy and the navy of a foreign government, the ship's operational commander might strategically execute a port visit in that country. By conducting this port visit, sailors are given the chance to decompress from rigorous at-sea operations and recharge, in-port maintenance and resupply can be completed, and diplomatic objectives are fulfilled. Unlike the commercial industry, there is no profit objective assigned to the length of a port visit; however, increased time in port by Navy ships can lead to readiness shortfalls.

Perhaps the greatest difference between Navy and industry practices is that shipping firms tend to establish long-term relationships with a particular ship's agent. The Competition in Contracting Act (CICA) implemented through the Federal Acquisition Regulation (FAR) requires full and open competition for every contract and typically limits the length of a service contract term to a maximum of five years, to include option periods (FAR, 2017). Industry is able to develop relationships and trust with particular ship agents over a much greater time span than is the case with Navy husbanding practices. A ship's agents must have a unique understanding of the port in which their principal's ship is calling as well as close relationships with all businesses that will provide services for the ship (Cardona, 2011). Cardona, a member of the Association of Shipbrokers and Agents, emphasized the importance of the principal to ship agent relationship in a study conducted by a major global oil firm in 2011. The study demonstrated that shipping firms could receive an "annual savings of $5,000,000 if it could enjoy just a 30-minute reduction of the worldwide turnaround of vessels in port" (Cardona, 2011, p. 40). Industry ship's agents also take their relationship with their principal (ship's owner) further. They are responsible for not only husbanding, but for all business transactions conducted during each port call, such as unloading cargo, stevedoring and resolving any delays in offloading or loading cargo due to weather, equipment malfunctions, union issues, and so forth (Verrastro, 1996).

A ship's principals may advance up to 90% of the funds required to conduct business for a ship in a particular port. Before the port visit, they expect agents to provide the principal with an itemized list of projected expenses based on the agent's knowledge of historical port costs. A ship's agents are generally not liable for expenses incurred

during a port visit, but they may voluntarily intervene in payment disputes between the principal and a service provider (Verrastro, 1996).

In this section, industry's use of husbanding service support was discussed, and key differences between Navy and industry use of HSPs were explained. The next section discusses findings from the Naval Audit Service related to shortcomings in the Navy's husbanding and port services contracting processes.

3. Naval Audit Service Findings: Navy Husbanding and Port Services Contracts

Following the exposure of the Fat Leonard case, the Secretary of the Navy ordered an audit of the Navy's husbanding processes. Later chapters will discuss details of the Fat Leonard case. Secretary of the Navy Ray Mabus ordered the Naval Audit Service to review these processes in December 2013 under the guidance set forth in SECNAV Instruction 7510.7F, Department of the Navy Internal Audit. The audit's purpose was to identify weaknesses in internal controls and propose ways to improve the overall husbanding process, from identifying the port visit, soliciting proposals, awarding contracts, administering the contracts, and closing out the contracts. The audit focused on various port calls across several ship and submarine classes in both the 5th and 6th Fleets from 2012 to 2014 (Naval Audit Service, 2014).

The audit results provided evidence for the Naval Audit Service to infer that the U.S. Navy's contracting processes regarding husbanding were lacking in areas to deter and prevent fraud. Failures highlighted in the audit include (but are not limited to) failure by ship's personnel to verify contractor charges for volumetric services, numbered fleets and administrative commanders not properly monitoring funds' execution in various port calls, lack of segregation of duties in the ordering and receipt process, and ship's supply officers not holding current contracting training or carrying insufficient training. Overall, the contracts that Naval Audit Service reviewed were valued at over $650 million (Naval Audit Service, 2014). The next paragraph will discuss several specific failures noted in the Naval Audit Service report.

The audit team found that NAVSUP utilized a prohibited cost-plus-percentage-of-cost contract in the United States Africa Command AOR. FAR 16.102 prohibits this type of contract, which FLC awarded without explicitly stating a ceiling on markups. The vendor in this case invoiced the Navy for more than $87,000 in markup fees over a two-year period of business (Naval Audit Service, 2014).

The auditors noted deficiencies in the receipt and payment of volumetric services on multiple occasions. The majority of these instances involved a disconnect between the person signing invoices for these services (Collection, Holding, and Transfer [CHT]; potable water; etc.) and the ship's supply officer who paid the bills. Another instance was the failure of sailors to verify invoiced amounts visually or with installed volumetric equipment (e.g., tank level indicators or engineering tank logs) and accepting contractor invoices at face value. Another volumetric failure involved a ship's visit to the Kingdom of Bahrain. A contractor placed two 4,000-gallon liquid trucks on the pier next to the ship to empty its CHT tanks continually without having to wait for each individual truck to arrive. A third 4,000-gallon capacity truck arrived at intervals throughout the day to empty the other two trucks and dispose of the CHT. Auditors observed the single truck arrive and empty both stand-by trucks that were visually not full. Even though the trucks were not full, and the receiving truck had only a 4,000-gallon capacity, ship's company signed a receipt for disposing of 8,000 gallons of waste. The receipt process in all instances lacked consistency and procedural compliance. All persons receiving material must circle the quantity, sign the document, and date the document per the NAVSUP P-485, Paragraph 6188 (Naval Audit Service, 2014). The ship's force personnel involved in the audit could not produce all relevant receipt documents to match each purchase order DD 1155, and in one case, a sailor admitted that "if no one asks for the delivery tickets once the ship departs from port, he throws them away" (Naval Audit Service, 2014, p.13).

A key component of the indictments in the Glenn Defense Marine Asia (GDMA) case (details discussed later) is the mishandling and distribution of classified information. The Naval Audit Service observed that during the period of the audit (2012–2014), U.S. 5th and 6th Fleets did not regard classified ships' schedules as "need to know"

information. All ship's schedules were readily available to anyone who had a Secret clearance and a Secure Internet Protocol Router Network (SIPR-Net) access. Various military personnel and contractors within each fleet could easily access this information although their job descriptions did not require them to know ships' schedules (Naval Audit Service, 2014).

Most relevant to this research, the auditors discovered several failures on the part of NAVSUP Fleet Logistics Center (FLC) Sigonella in the awarding and administering of port visit contracts. The audit revealed that FLC Sigonella had designated FLC Sigonella personnel as contracting officer's representatives (CORs) on numerous occasions, despite DOD contracting policy dictating that the COR be a person of the requiring command (the customer). The FLC Sigonella CORs did not travel to each port visit to determine whether the contractor performed the services. Similarly, FLC Sigonella failed to enforce Quality Assurance Surveillance Plans (QASP) in two of the five contracts they awarded during the audit's timeframe. The auditors found the remaining three contracts to contain deficient QASPS, with no requirement for accuracy in volumetric services, no prohibition of markups for unpriced "emergent" customer requirements, and no requirement for the service provider to verify they actually possessed the capacity and capability to carry out the contract. Furthermore, neither the FLC Sigonella contracting office nor the ship maintained a complete contract administration file as required by the FAR 4.8. Specifically, FLC contracting files were missing several DD 1155 order documents in all 12 contracting files that were sampled (Naval Audit Service, 2014).

Naval Audit Service ended its report with an unfavorable evaluation of the ability of U.S. Fleet Forces Command (and its components) and NAVSUP to reassure Navy leadership and the American taxpayers that they had sufficient internal control practices in place to deter and prevent fraud in Navy husbanding contracts. The auditors mentioned three specific areas where the Navy was lacking, which included "effectiveness and efficiency of operations, including the use of the entity's resources, reliability of financial reporting, and compliance with applicable laws and regulations" (Naval Audit Service, 2014, p. 18).

This section discussed findings from the Naval Audit Service related to shortcomings in the Navy's husbanding and port services contracting process. The next section discusses the current husbanding process employed by the Navy and changes made to account for the shortcomings highlighted by the Naval Audit Service in its September 2014 report and based on lessons learned from the GDMA case.

4. Husbanding of the Future: Off-Ship Bill Pay

During the Naval Audit Service's audit of Navy husbanding processes, the Chief of Naval Operations concurrently ordered that the Navy conduct research on alternative methods to procure husbanding services that were both measurable and auditable. Subsequently, NAVSUP rescinded afloat supply officer authority to negotiate contract terms and conditions, establish contract line item pricing, or place orders for any line item not specifically priced under existing contract vehicles (NAVSUP, 2014). The Naval Audit Service's results further reinforced the Secretary of the Navy's position that the process must change. He created a Task Force Navy Operational Commanders Support (TF NOCS) to explore the process improvement of Navy HSP contracting. Rear Admiral Grafton Chase led TF NOCS while he served as Reserve Director, Logistics and Business Operations in the Office of the Chief of Naval Operations. The task force incorporated elements of myriad Navy commands, including the Undersecretary of the Navy for Financial Management and Comptroller, Office of the Chief of Naval Operations (OPNAV), United States Fleet Forces Command (USFF), United States Pacific Fleet (PACFLT), NAVSUP, and Defense Finance and Accounting Service (DFAS), to name a few. Their purpose was to develop a standardized process that could cover all husbanding needs across every ship and submarine class in the Navy inventory. This task force aimed to ensure the new process was auditable, contractually sound, and eliminated the risk of fraud, waste, and abuse (Murphy & Gardner, SC Newsletter, 2015). A key task of TF NOCS was to cultivate a culture of port visit accountability between every ship commanding officer and his crew. Historically, the relationship between the supply officer and the HSP was the foundation of the port visit process (Braun, 2015).

TF NOCS provided a product in 2014 called Off-Ship Bill Pay (OSBP). The new process went into effect Navy-wide on October 1, 2015. Prior to OSBP coming online, all Navy type commanders provided ship-specific training to all commanding officers, command master chiefs, supply officers, and their departments on the new process, stressing ethics laws and regulations regarding interaction with contractor personnel. The CNO also declared the husbanding process to be "Commanders' business" meaning the commanding officer, executive officer, command master chief, and other leaders all hold an equal stake in a successful port visit. No longer does the responsibility and accountability of the port visit fall to the supply officer alone. U.S. Fleet Forces Command, U.S. Pacific Fleet along with 5th, 6th, and 7th Fleet staffs also conducted proof-of-concept "test" OSBP port visits during the early part of 2015 using each ship class in the Navy.

The OSBP process begins similarly to that of the process employed prior to the Fat Leonard case, with a ship identifying a requirement to conduct a port call (upon approval of numbered fleet commander). Instead of developing their own LOGREQ, ships are required to utilize standardized LOGREQs according to their ship class and required type of visit (moored or anchored). The standardized LOGREQ was developed by the TF NOCS and includes class-specific information that is required for port calls, such as required number of tugboats, dimensions of the ship, required mooring line information, required type, and dimension of fenders (if pier-side mooring), etc.

OSBP requires that ships submit a standardized LOGREQ (Unclassified) to their numbered fleet commander for approval no later than 30 days prior to a scheduled port visit. TF NOCS provided every numbered fleet with trained contracting officer's representatives (CORs) that monitor the administration of husbanding contracts in their specific AOR. The COR reviews the LOGREQ to verify the ship's requirements and identifies any deviations from the pre-filled numerical values listed for all services. All deviations from the standard LOGREQ require approval from the numbered fleet commander before the next step. After the COR approves the LOGREQ, they forward it to the Fleet Logistics Center servicing the AOR, who will issue a Request for Proposal (RFP). After the FLC awards a task order, or a stand-alone contract in the case where an

IDIQ contract instrument does not exist, the ship will receive a copy of the task order, or stand-alone contract if applicable, along with an itemized spreadsheet to verify and document daily invoices with the HSP throughout the duration of their port visit.

During the port visit, the ship acts as receiving agent, completes the port visit checklist, and rectifies all daily business with the HSP. If the ship has an emergent requirement, it must coordinate services through the assigned COR who is available 24/7. OSBP does allow leeway in the event that the safety of the ship or ship's personnel is at risk. A hypothetical example of this would be where a ship required an additional tugboat during arrival due to high winds that could present a safety situation. For these requirements, commanding officers and supply officers have the authority to order directly from the HSP and rectify all documents after the fact with the COR. At the conclusion of the port call, the ship meets with the HSP to gather all final invoices and receipts. The ship's supply officer compiles a single DD Form 250 Material Receiving and Inspection Report to document all services and quantities provided by the HSP. The supply officer is required to submit the DD Form 250 and completed port visit checklist to the COR within three days of leaving port. Under the process employed prior to the Fat Leonard case, disbursing officers assigned to the ship were required to pay the HSP with a treasury check or cash for services rendered, but with Off-Ship Bill Pay, this function falls to commands ashore. When the COR receives the signed DD Form 250 and port visit checklist, he or she verifies this against the final invoices that the HSP submits and the FLC task order. This provides an auditable, 3-way match. In the case of discrepancies between the DD Form 250, the FLC Task Order/Contract, and HSP invoices, the COR will work with the responsible parties to achieve resolution. When the COR has a certified, three-way match, they forward the documents to the ship's TYCOM, who certifies the bill and submits the package within approximately 30 days to DFAS for payment. Figure 1 provides a visual representation of this process.

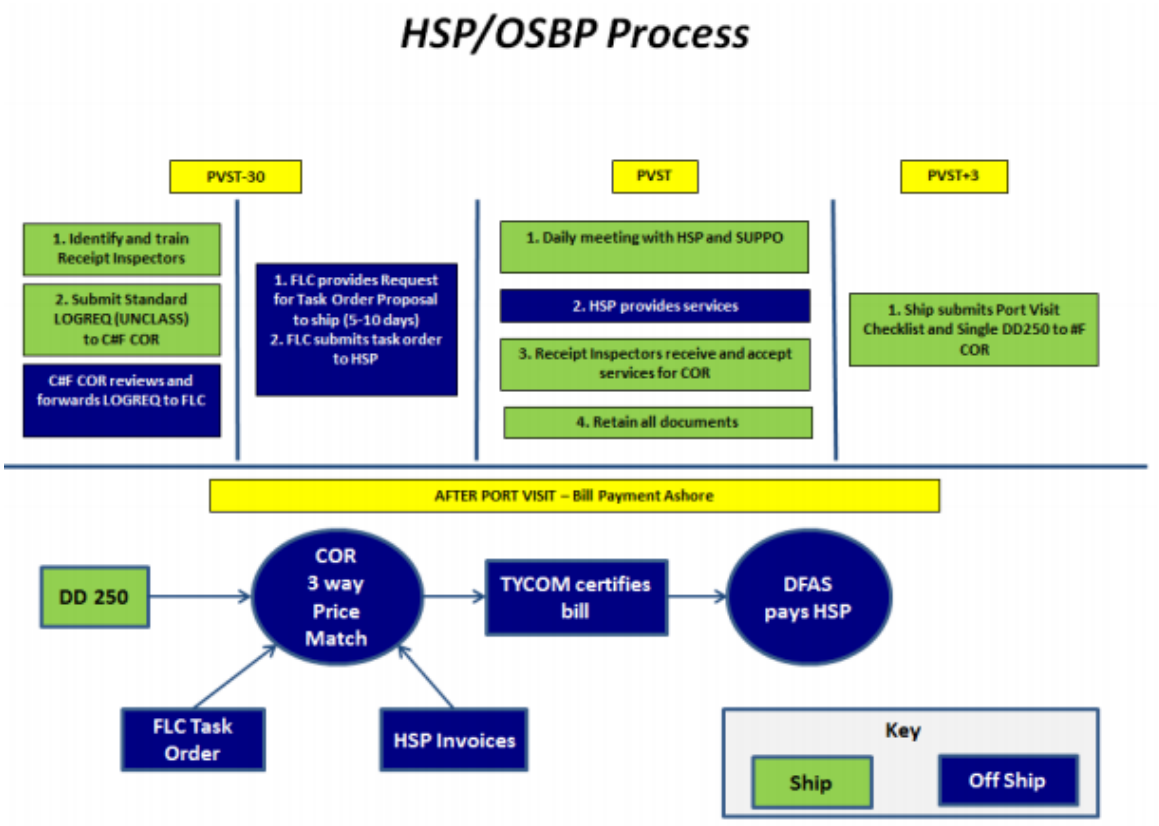

Figure 1. Husbanding Provider/Off-Ship Bill Pay Process Map.
Source: Commander, Naval Air Forces (2017).

This section discussed the husbanding process currently employed by the Navy and changes made to the former process to account for the shortcomings highlighted by the Naval Audit Service. The next section discusses another initiative taken by the Navy to reform the Navy HSP contracting process—multiple award contracts.

5. Multiple Award Contracts

In an effort to increase competition and transparency in pricing, NAVSUP developed a strategy of utilizing Multiple Award Contracts (MAC), a form of an IDIQ contract instrument, in specific ports, countries, and regions inhabited by the Navy. Under this strategy, an FLC may decide to establish a MAC in a specific port (Brugler,

2016). In this case, a ship's port visit would be competed against the MAC schedule holders and award made to the contractor determined by the Contracting Officer to have best met the source selection criteria. In 2016, Fleet Logistics Center Yokosuka awarded the first Multiple Award Contract (MAC) to four husbanding service providers for services in upcoming port visits to Hong Kong. The period of performance was from September 1, 2016, to August 31, 2017, with a six-month option. This type of procurement strategy allows FLC Yokosuka to have capable HSPs ready to support existing ship visits and allows for more flexibility over awarding individual stand-alone contracts in the event that 7th Fleet adds more port visits during the period of performance (Laron, 2016). A review of the publicly accessible Government Point of Entry (GPE) website (http://fbo.gov), conducted on August 8, 2017, shows that the Navy has solicited long-term HSP MAC IDIQ contracts for ports of call in Japan, South Korea, Russia, the Republic of the Philippines, and Europe.

This section discussed Navy HSP contracting processes as well as Naval Audit Service findings on the deficiencies of the process. The Naval Audit Service identified weaknesses in stakeholder competency, HSP contract management processes, and internal controls. Competent personnel, capable processes, and effective internal controls are components that characterize an organization's degree of auditability (Rendon & Rendon, 2015). The next section discusses auditability theory.

C. AUDITABILITY THEORY

Power espouses in his book *Organized Uncertainty* that "making objects auditable places them within a particular style or climate of proof and reasoning" (Power, 2007a, p. 152). Power (2007) states, "A theory of auditability requires a much wider field of vision than audit alone because it delineates a distinctive managerial and governmental epistemology by which organizational practices can be publicly known to both their participants and by distant others" (Power, 2007a, p. 162). By "making things auditable," organizations can provide the transparency and assurance that they are operating ethically and within the accepted guidelines (Power, 1996, p. 289). Power argues that

organizations must manage risk by establishing processes and procedures that allow for their auditability (Power, 2007a).

Rendon and Rendon (2015) argue that "the theory of auditability incorporates three aspects of governance which emphasizes effective internal controls, capable processes, and competent personnel" (p. 715). The relationship between these components is depicted in Figure 2.

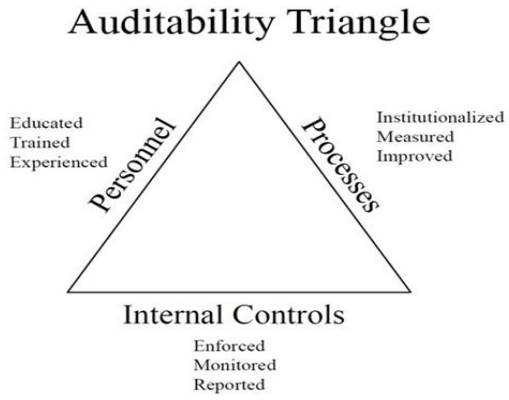

Figure 2. Auditability Triangle. Source: Rendon and Rendon (2015).

Auditability theory can be applied to public procurement organizations. The United Nations Office on Drug and Crime states that a public procurement system must be open and transparent, invoke procedures that are open to scrutiny, and contain a system of internal controls (United Nations, 2016). Rendon and Rendon (2015) state that a procurement organization can reduce its vulnerability to procurement fraud by emphasizing the competency of procurement personnel, the capability of the organization's contact management processes, and the effectiveness of the organization's internal controls. They apply these concepts to the context of the contract management environment within the DOD. The next section will discuss the first component of auditability, competent personnel.

1. Competent Personnel

Rendon and Rendon (2016) state that "the competent personnel component refers to the education, training and experience of the DOD contracting officers performing contracting management activities" (p. 754). The DOD mandates minimal educational and experience requirements that must be attained by all members of the acquisition workforce (Snider, 1996). However, despite these certification requirements, previous research reveals deficiencies in the DOD's contracting workforce to detect procurement fraud. A 2006 report by the GAO warned that the DOD faced vulnerability to procurement fraud due to the capability gaps within the acquisition workforce (GAO, 2006). In 2015, the GAO once again implored the DOD to take action to improve the competency of its acquisition workforce (GAO, 2015).

Chang's 2013 survey of a U.S. Army contracting organization revealed significant gaps in the understanding of procurement fraud by military and civilian contracting officials (Chang, 2013). Castillo and Flanagan (2014) conducted the same research survey against a U.S. Air Force contracting organization in 2014 and found similarly poor results. Grennan and McCrory's 2016 survey of a U.S. Navy contracting organization using the same survey instrument "identified that there is a significant discrepancy in the ability of the contracting professionals to detect procurement fraud" (Grennan & McCrory, 2016, p. 57). These research studies showed that DOD contracting officers possessed a low level of knowledge pertaining to procurement fraud schemes and internal controls. The studies also revealed that these contracting officers perceived that their organizations were not vulnerable to procurement fraud. Next, the second component of auditability, capable processes, will be discussed.

2. Capable Processes

Hong and Kwon (2012) argue that "maximum value through procurement requires effective coordination of sourcing, purchasing, or distribution from the immediate suppliers or logistics service providers" (p. 463). This implies robust processes must be established to achieve this value. Rendon and Rendon (2016) state that "the capable process component of auditability refers to DOD contract management

processes and related contract management activities performed by the contracting workforce" (p. 754). Garrett and Rendon (2005) identify a framework that categorizes the life cycle of a contracting action into six phases, characterized into six distinct phases, each with a variety of activities that must be completed before the contract action can transition into the subsequent phase. Garrett and Rendon (2005) state these phases can be viewed from both the buying and selling perspectives. Specifically, from the buyer's standpoint, these phases include "procurement planning, solicitation planning, solicitation, source selection, contract administration, and contract closeout" (Garrett, 2007, p. 21). Separate phases make up the seller's process and these phases correspond directly to each phase in the buyer's process (Garrett & Rendon, 2005). These phases consist of "pre-sales activity, bid/no bid decision-making, bid or proposal preparation, contract negotiation and formation, contract administration, and contract closeout" (Garrett, 2007, p. 22). Capable contract management processes must be established within each phase to ensure compliance with organization objectives and to deter procurement fraud (Rendon & Rendon, 2015). Past research of the Navy's contract management process capability identified that the solicitation, contract administration, and contract closeout processes had lower levels of capability than the procurement planning, solicitation planning, and source selection processes (Rendon, 2015). The contract management framework will be discussed in detail later in this chapter. Next, the third and final component of auditability, effective internal controls, will be discussed.

3. Effective Internal Controls

Power (2007a) states that, "To lack internal controls, or for such controls to be judged as 'materially' weak, is to fail as a legitimate organization—something only mitigated by early voluntary disclosure of such weakness" (p. 161). Effective internal controls ensure "compliance with laws and regulations, monitoring procedures to assess enforcement, and reporting material weaknesses" (Rendon & Rendon, 2015, p. 715). In a 1999 report, the GAO found that, "Management should track major agency achievements and compare these plans to goals and objectives" (p. 13). This can only be accomplished through documentation and establishment of verification procedures (GAO, 1999). The Committee on Sponsoring Organizations (COSO) of the Treadway Commission

established an integrated internal control framework that establishes five components of internal controls. When integrated, these components provide the groundwork for an effective internal control system (COSO, 2013). The Internal Control Integrated Framework will be discussed in detail later in this chapter. This section discussed auditability theory and the components of the auditability triangle. In the next section, the contract management framework is discussed.

D. CONTRACT MANAGEMENT FRAMEWORK

The *Contract Management Body of Knowledge* asserts that contract management is the means of systematically and efficiently overseeing the contract creation, execution, and completion in three main phases (NCMA, 2017). The National Contract Management Association identifies these phases as pre-award, award, and post-award (NCMA, 2017). These phases are further divided into "six major steps for the buyer and six major activities for the seller" (Garrett, 2007, p. 19). The contract management framework uses phases to describe all contracting actions and the underlying activities that occur within a contract's life cycle (Rendon, 2008). Proper execution of each phase affects the ultimate success of the contract and contractor performance (Rendon, 2008). There are several different names for each activity and steps. The differences encompass the same events. Each of the steps and activities can be seen in Figure 3 and will be discussed in the following sections.

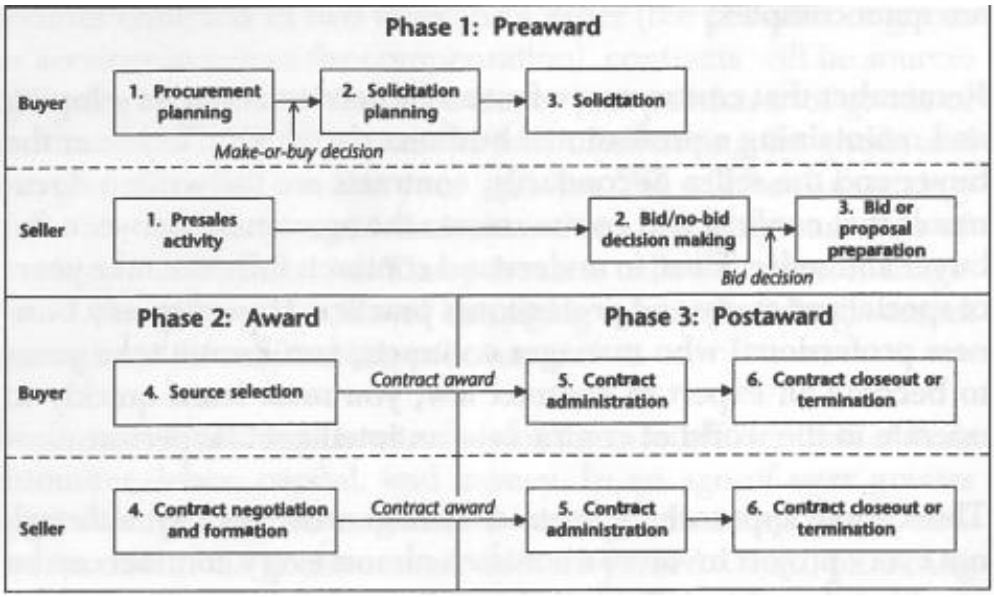

Figure 3. Buyer's and Seller's Contract Management Process.
Source: Garrett (2007).

1. Six Contract Management Phases—Buyer's Side

Garrett (2007) asserts that, "The major phases for the buyer are procurement planning, solicitation planning, solicitation, source selection, contract administration, and contract closeout or termination" (p. 19). Figure 4 shows each of the buyer's steps, along with some of the inputs, tools used, and the outputs created along the progression.

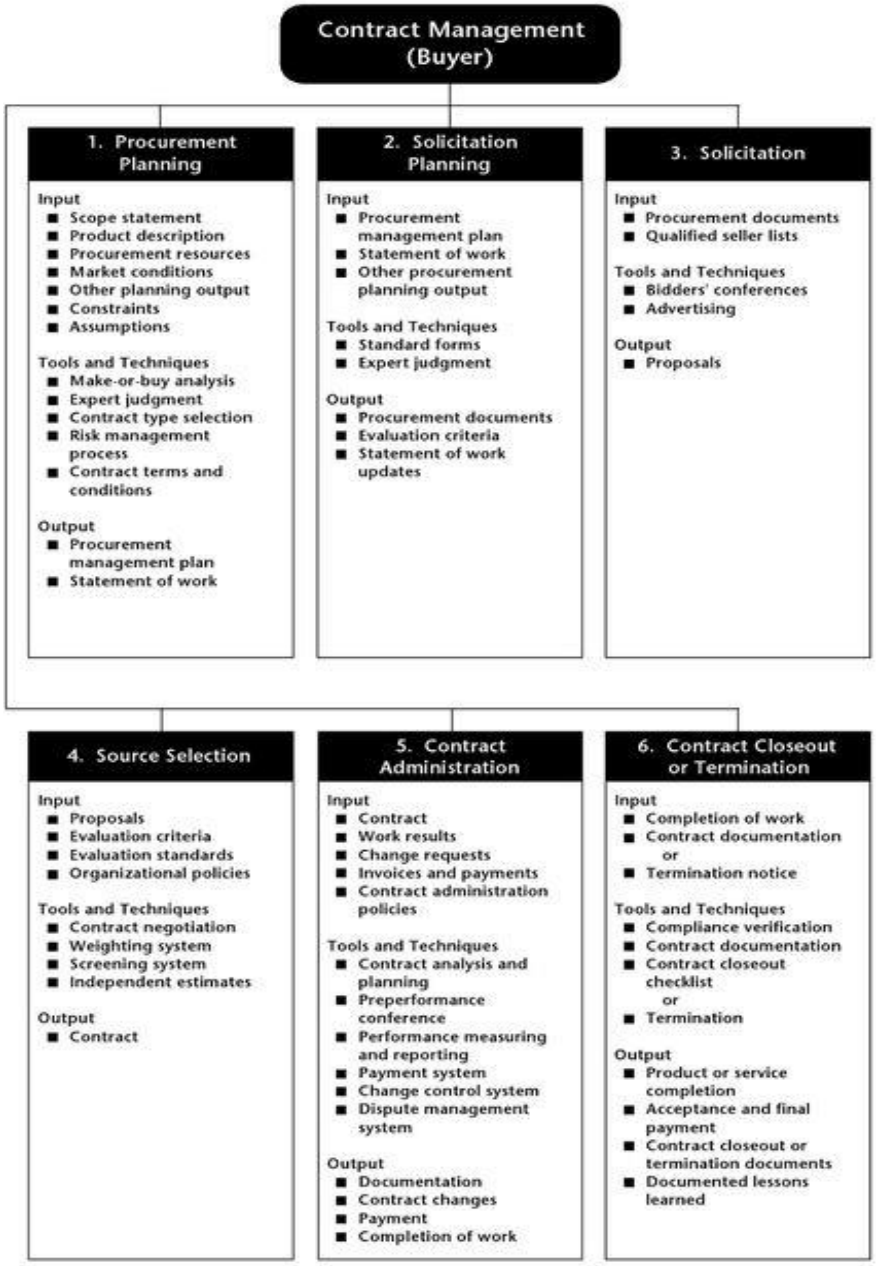

Figure 4. Buyer's Contract Management Process. Source: Garrett (2007).

a. Procurement Planning

The buyer's contract management process starts with procurement planning. Garrett (2007) states that the procurement process "involves determining whether to procure, how to procure, what to procure, how much to procure, and when to procure" (p. 81). Activities within this phase include determining the requirement, describing the

product for acquisition, and performing market research to ascertain the marketplace capability (Garrett, 2011). Other activities include "determining funds availability, developing initial cost and schedule estimates as well as manpower resources" (Garrett, 2011, p. 208).

In Navy husbanding, the buyer's procurement planning phase occurs prior to the decision-making authority creating ships' port visit schedules. This involves the numbered Fleet Commander working with the applicable embassy to schedule port visits based on State Department and Department of Defense (DOD) desires, host country availability, and timing considerations. Procurement planning consists of the appropriate personnel planning the basic requirements of a ship visit. It involves market research to ascertain the services available at the individual ports being considered to ensure potential ports of call are capable of supporting a navy vessel. Procurement planning also includes developing an overarching acquisition strategy to support port calls throughout a particular region or area of responsibility.

b. Solicitation Planning

Solicitation planning is the next phase in the buyer's process. This step builds upon the outputs of procurement planning and utilizes them to prepare the documents needed to support the solicitation. Rendon (2008) states that the activities within the solicitation planning phase include finalizing the description of the procurement requirement, determining the procurement method and contract type, developing solicitation documents, formulating the source selection criteria, and defining contract terms and conditions. The decisions made for each of these activities will be used in subsequent phases of the contract management process.

In Navy husbanding, the buyer's solicitation planning phase begins after the decision-making authority releases the port schedules for the ships in the local area of responsibility. In the case of an individual port visit, solicitation planning is initiated upon the ship's submission of a LOGREQ. The procurement organization receives the LOGREQ, reviews the requirements, and determines the best contracting vehicles to employ to achieve the requirements. To support an overall acquisition strategy for a

particular region or area of responsibility, solicitation planning involves determining the best way to support ongoing and recurrent requirements, such as an IDIQ contract instrument and the appropriate task order contract type (e.g., firm-fixed price) to achieve the desired objectives. Solicitation planning also includes developing the proposal evaluation criteria and developing a source selection plan by which the husbanding offerors would be evaluated.

c. Solicitation

Solicitation is the process of publicizing procurement requirements to potential sellers (Garrett, 2007). Solicitations should communicate the buyer's needs to potential sellers in unambiguous terms (Garrett, 2011). Prospective contractors should "have a clear, common understanding of the technical and contractual requirements of the acquisition" (Garrett, 2011, p. 209). When the buyer provides higher quality solicitations, the seller typically produces higher quality bids and proposals (Garrett, 2007). Events that occur during the solicitation include advertising the proposal opportunity, hosting bidders or pre-proposal conferences, and receiving the offerors proposals (Rendon & Rendon, 2016). Bidders or pre-proposal conferences allow prospective offerors to resolve any questions regarding proposal or contract requirements (Garrett, 2007). Rendon (2008) writes that the "Federal government contracting opportunities are publicized through the Government Point of Entry" (GPE) (p. 173). FAR 2.101 defines GPE as "the single point where government business opportunities can be accessed electronically by the public through the Federal Business Opportunities (FEDBIZOPS) website (https://www.fbo.gov)" (FAR, 2017). Solicitation process can also yield a list of qualified bidders that can be used to potentially support future procurements (Rendon, 2008). The goal of the solicitation phase is to select the best source that meets the buyer's needs by receiving competitive proposals that can be assessed using the source selection criteria established in the solicitation planning phase (Baker, Bono, & DeVoe, 2016).

In Navy husbanding, the buyer's solicitation phase consists of the issuance of a request for proposal that contains the requirements set forth in the ship's LOGREQ and the receipt of offers. In the case where a long-term contract for a particular region or

country is solicited, the husbanding contracting office might convene a pre-proposal conference to address technical and contractual requirements to all interested offerors.

d. Source Selection

Source selection is the process of taking the proposals submitted and applying the evaluation criteria previously established (Garrett, 2007). Furthermore, negotiating with suppliers, if applicable, and executing the contract award strategy will occur during source selection (Rendon, 2008). The Federal Acquisition Regulation (FAR) states that "the vision of the Federal Acquisition System is to deliver on a timely basis the best value product or service to the customer, while maintaining the public's trust and fulfilling public policy objectives" (FAR, 2017, 1.102).

An organization can use several competitive source selection approaches to provide the best value. The organization can choose to select the offeror with the lowest price technically acceptable (LPTA) proposal, the highest technically rated offeror (HTRO), or use a trade-off process (FAR, 2017). FAR 15.101-1 states that "the LPTA source selection process is appropriate when the best value is expected to come from a selection of the technically acceptable proposal with the lowest price" (FAR, 2017). FAR 15.101-1 further details that a tradeoff process is "appropriate when it may be in the best interest of the Government to consider award to other than the lowest priced offeror or other than the highest technically rated offeror" (FAR, 2017, 15.101-1). The source selection method that is intended to be used shall be stated in the solicitation. Moreover, FAR 15.101-1 states that

> (1) All evaluation factors and significant subfactors that will affect contract award and their relative importance shall be clearly stated in the solicitation; and (2) The solicitation shall state whether all evaluation factors other than cost or price, when combined, are significantly more important than, approximately equal to, or significantly less important than cost or price (FAR, 2017).

The complexity of the proposal will determine if one person or board of people will evaluate the sources and select the best alternative (Garrett, 2007). Factors such as procurement method and dollar value of the acquisition determine the complexity of the

source selection process (Cibnic, Nash, & Yukins, 2011). Complex source selection processes require the establishment of "a formal selection organization to manage the source selection process" (Rendon, 2008, p. 175) This organization includes "the source selection authority, source selection advisory council, source selection evaluation team, and the contracting officer" (Rendon, 2008 p. 175). The source selection evaluation team includes relevant representation from "contracting, legal, logistics, technical, and other field of expertise" (Rendon, 2008 p. 175), to ensure that each functional aspect of the proposal is evaluated thoroughly. Accordingly, the source selection evaluation team should be planned and established during the procurement planning process (Rendon, 2008).

Negotiations allow the communication between buyer and seller to clarify all portions of the proposal and its terms. Negotiations frequently include clarification of requirements and requests from sellers to change or consider alternate ways while maintaining the requirements of the solicitation. The buyer's goal is to work out the type of contract along with the overall price that will best encourage the seller to render cost-effective and efficient performance (FAR, 2017). FAR 15.405 further asserts that "the negotiation of a contract type and price are related and should be considered together with the issues of risk and uncertainty to the seller and the buyer" (FAR, 2017).

FAR 15.402 mandates that prior to forming a contract, contracting officers must determine sellers to be responsible and deem the proposed purchase price to be fair and reasonable (FAR, 2017). Specifically, the contracting officer "should balance the contract type, cost, and profit/fee negotiated to attain the outcome of fair and reasonable prices to achieve a total result and price that is fair and reasonable to both the Government and the contractor" (FAR, 2017, 15.405). Techniques such as price analysis, cost analysis, and cost realism analysis should be employed to reach a fair and reasonable price determination (FAR, 2017). A fair price to the buyer is one found on the open market given the similar circumstances for comparable products, grade, and amount needed (Contract Pricing Reference Guide [CPRG], 2017). A realistic price that allows the seller to satisfy perform in accordance with the contract is considered to be a fair price to the seller (CPRG, 2017). CPRG Vol. I defines a reasonable price as "a price that a prudent

and competent buyer would be willing to pay given available data on: market conditions; including supply and demand, general economic conditions, and competition" (CPRG, 2017).

Debriefings provided to unsuccessful offerors constitute the final step in the source selection process (Rumbaugh, 2010). The two types of debriefings are categorized by when they are conducted. Pre-award debriefings occur prior to contract award when the buyer has determined that the offeror's proposal lacks the crucial factors needed to remain in competition for the contract award (FAR, 2017). Post-award debriefings occur after the contract is awarded and consist of the buyer's explaining their evaluation of the applicable substantial weaknesses in the offeror's proposal (FAR, 2017). According to FAR (2017), each unsuccessful offeror is entitled to one debriefing.

In Navy husbanding, the source selection phase occurs after the contracting officer receives offers from HSPs. Source selection officials will review and evaluate the offer in accordance with the source selection plan developed in the solicitation planning phase, and the contracting officer will make award to an offeror based on the defined source selection methodology.

e. Contract Administration

Contract administration is the management of all actions, after the award of a contract until the closeout or termination, to ensure that the buyer and seller are meeting the contract requirements. It begins when the contract is awarded and ends when all work is delivered, completed, and accepted (Martin & Miller, 2006). Garret (2007) states that the primary contract administration actions are monitoring of compliance with terms and conditions, applying useful communication and control, managing contract changes, invoicing and payment, and settling claims and disputes. The principle objectives for contract administration are the same for the buyer and seller (Garrett, 2007).

During a post-award orientation, the buyer and seller identify possible difficulties in contract performance and develop viable solutions to achieve contract success (FAR, 2017). The post-award/pre-performance conference should start before the performance of the contract begins. At this conference, the buyer and seller should identify key

personnel to be the voice for each organization and confirm their roles and responsibilities (Garrett, 2007; Rendon, 2008).

An important aspect of the contract administration phase for the buyer is to monitor the performance of the seller. According to Rendon (2008), depending upon the contract type and complexity of the item or service being procured, the buyer "may use technical representatives such as quality assurance evaluators (QAEs), quality assurance representatives (QARs), or contracting officer technical representatives (COTRs) to perform the technical aspects of monitoring the seller's performance" (p 177). These personnel can assist in determining if technical documentation and/or technical requirements require revision or correction (Rendon, 2008).

After the contract is awarded, changes may need to occur to resolve any issues that were unknown at the time of award. A key function of contract administration activities is focused on managing changes in the contract. It is critical to the contract that the buyer and seller maintain an official, efficient, and systematic process for managing contract changes (Rendon, 2008). Contract modifications and formal documentation should be used to make any changes to a contract. This process allows all pertinent personnel, on the buyer's and seller's side, to be cognizant of the changes to allow for the planning and implementation. A changes clause, required in many contracts, allows the buyer to direct the seller to make certain changes known as "change orders." However, these changes must be within the scope of the contract (Rendon, 2009). Any proposed changes that are outside the scope of the contract are not allowed under the change clause and could be considered a breach of contract. These proposed changes must be executed through a new procurement action (Rendon, 2008).

Managing the payment process to the seller is another important part of contract administration. The contract type and period of performance will determine the method of payment to the seller (Rendon, 2008). The types of payment made against government contracts consistent predominately of "payment of the contract price for completed items of work, progress payments based on costs incurred or a percentage of completion of work, and payments based on the performance of the work" (Cibinic, Nash, & Nagle, 2006, p. 1125).

In Navy husbanding, the buyer's contract administration phase occurs after the contract is awarded. It involves oversight to ensure the HSP provides the required goods and services in accordance with the terms and conditions of the contracts. Additionally, contract administration involves the issuance of contract modifications if changes to the original contract are required. For example, the original contract might call for the HSP to furnish two chartered buses for use by the ship during the port visit. After the start of the port visit, the ship realizes that it actually requires three buses. The contracting officer would have to issue a contract modification to authorize the HSP to provide the additional bus.

f. Contract Closeout and Termination

Contract administration ends and contract closeout begins after the evidence of its physical completion has been received by the contract administration office and verification of the performance completion (Garrett, 2009). FAR 4.804-4 states that the physical completion of a contract occurs after the necessary supplies have been delivered or the requisite services have been performed by the seller. Completion also occurs after acceptance by the buyer, after the expiration of all applicable option provisions, or after the "Government has given the seller a notice of complete contract termination" (FAR, 2017, FAR 4.804-4). A contract can end via successful performance, termination for default, or termination for convenience (Garrett, 2007). The contracting officer initiates the contract closeout process upon receiving the notification from the administrative contracting officer (ACO). A contract closeout checklist is used to ensure all required actions have been properly completed (FAR, 2017).

In Navy husbanding, the buyer's closeout phase occurs after contract performance. In the case of closeout, the ship's personnel must verify that the HSP provided services and goods in accordance with the terms and conditions of the contract. Prior to paying the contractor, the government would ensure an appropriate individual certified the contractor's invoices. The termination phase, however, could occur before contract performance. In termination, the government may exercise its unilateral right to terminate for convenience or terminate for default if necessary.

2. Six Contract Management Phases—Seller's Side

The seller's phases include "pre-sales activity, bid or no bid decision-making, bid or proposal preparation, contract negotiation and formation, contract administration, and contract closeout or termination" (Garrett, 2007, p. 22). Figure 5 shows each of the seller's steps, along with some of the inputs, tools used, and the outputs created through the sequence of events.

Figure 5. Seller's Contract Management Process. Source: Garrett (2007).

a. Pre-sales Activity

Garrett (2007) states that "pre-sales activity is the proactive involvement of the seller with prospective and current buyers" (p. 25). Garrett (2007) points out that pre-sales activities aid in identifying business opportunities, identifying customer needs, and determining ways to maintain, achieve, or enhance a seller's competitive advantage. To remain competitive and relevant, the seller must be aware of changes in the market, cognizant of evolving technologies, and changes in customer needs as it relates to the seller's product/service mix (Garrett, 2007).

In Navy husbanding, the seller's pre-sales activity phase involves an HSP marketing itself to the Navy. Examples would include sales presentation, demonstrations of activity, acquisition of assets and enterprises to support potential business activity, development of business strategy, and other techniques designed to increase the husbanding services opportunity to receive a husbanding contract.

b. Bid or No Bid Decision-Making

The bid or no bid decision-making process begins after the buyer has completed the solicitation phase and issued its solicitation. The seller then analyzes the buyer's solicitation, evaluates the competitive environment, and conducts an assessment of the opportunities versus the risks associated with the potential contract (Garrett, 2007). The seller then must make the decision on whether or not to prepare a bid for the solicitation (Garrett, 2007).

In Navy husbanding, the bid or no bid decision-making phase involves an HSP reviewing the government's request for proposal for a particular port visit, or request proposal for a long-term contract, to determine if they are in a position to actually submit an offer. Considerations include cost structure, subcontractor requirements, technical expertise, past performance and experience, potential profit, and source selection factors.

c. Bid or Proposal Preparation

Once the seller makes the decision to prepare a bid in response to the solicitation, he or she enters the bid or proposal preparation phase. Bid or proposal preparation is the

process of forming a bid or proposal in response to the buyer's solicitation (Garrett, 2007). The size and complexity of the bid or proposal is dependent upon the complexity of the buyer's needs. Similarly, the complexity drives the unit size that will write and create the bid or proposal (Garrett, 2007). The bid or proposal preparation phase must be handled effectively in order to achieve its goals. Preparation endeavors must be organized, planned, executed, and structured. Before submitting the bid or proposal to the buyer, staff outside of the preparation team must independently assess the final draft to ensure that it meets the needs of the customer and the requirements of the solicitation (Garrett, 2007).

In Navy husbanding, bid or proposal preparation involves crafting an offer that is responsive to the government request for proposal. Considerations include cost structure, subcontractor requirements, technical expertise, past performance and experience, potential profit, and source selection factors.

d. Contract Negotiation and Formation

The bid or proposal that presents best value to the buyer will enter the next phase of contract negotiation and formation. As previously stated regarding the buyer's negotiation activities described, it is ideal for the seller to create shared expectations and interpretations to reach a common ground of agreement with the buyer (Garrett, 2007). The end result of this phase could be a contract with the buyer. However, if the seller and buyer cannot come to an agreement on the terms and conditions, walking away from the deal may be the best course of action for the seller (Garrett, 2007). In Navy husbanding, the contract negotiation and formation phase involves the HSP negotiating with the Navy to establish a contract to support a port visit.

e. Contract Administration

Upon reaching a mutual agreement and the contract being awarded to the seller, both parties enter the contract administration phase. This phase encompasses the combined seller and buyer activities borne to successfully perform and administer the contract (Garrett, 2009). The seller's actions are nearly identical to the buyer's actions as previously described in the buyer's contract administration phase.

In Navy husbanding, the HSP contract administration phase involves the HSP complying with the contract and proceeding with changes required by the government. For example, if the original contract calls for the HSP to furnish two chartered buses for use by the ship during port visit, and after the start of the port visit, the ship realizes that it actually requires three buses, the HSP would submit to the contracting officer a proposal to include the cost of furnishing a third bus. The HSP requires authority from the contracting officer before providing the third bus.

f. Contract Closeout and Termination

Along with contract administration, the seller's contract closeout and termination actions parallel the buyer's as described previously in the buyer's contract closeout and termination phase (Garrett, 2007). However, in government contracting, only the buyer (the government) can terminate the contract for convenience due to the government's right as a sovereign entity. In Navy husbanding, the HSP contract closeout phase would involve the HSP providing the government with invoices and evidence that the contractor fulfilled the terms and conditions of the contract. Termination is a unilateral act by the government in either its role as a sovereign or a contracted party. As discussed in the previous sections, during a review of the Navy's HSP process, the Naval Audit Service identified deficiencies in the HSP processes. These deficiencies were related to husbanding contract management processes, internal controls, and the competency of process stakeholders. Capable processes, internal controls, and competent personnel are components that characterize an organization's degree of auditability (Rendon & Rendon, 2016). If an organization does not have sound contract management processes, effective internal controls, and competent personnel, the organization is vulnerable to procurement fraud (Rendon & Rendon, 2016). The next section will discuss the Internal Control Integrated Framework.

E. INTERNAL CONTROL INTEGRATED FRAMEWORK

Following the major failures of several well-publicized municipal, private, and public corporations due to financial irregularities in the early and mid-1980s, the National Commission on Fraudulent Financial Reporting was established in June 1985 (SEC, 1989).

The Commission was a private-sector initiative, jointly sponsored and funded by the American Institute of Certified Public Accountants (AICPA), the American Accounting Association (AAA), the Financial Executives Institute (FEI), the Institute of Internal Auditors (IIA), and the National Association of Accountants (NAA) [now the Institute of Management Accountants (IMA)] (National Commission on Fraudulent Financial Accounting Report, 1987; COSO, 2013). Today, these organizations are collectively known as the Committee on Sponsoring Organizations (COSO) (COSO, 2013). The commission, formed in 1987, was charged with examining the causes of the failures and seeking ways that audit practices could be reviewed and modified to prevent future occurrences. It became known as the Treadway Commission due to its chairman, James C. Treadway, Jr., a former Securities and Exchange Commission (SEC) chairman (SEC, 1989). The Commission's 1987 report expounded that the prevention and detection of fraudulent activity within a public company must be addressed by focusing on the:

> (1) The tone set by top management, (2) the internal accounting and audit function, (3) the audit committee, (4) management and audit committee reports, (5) the practice of seeking second opinions from independent public accountants, and (6) quarterly reporting. (National Commission on Fraudulent Financial Accounting Report, 1987, p. 3)

The Commission also made recommendations regarding independent auditor standards and business practices, and it offered recommendations to the SEC regarding needed changes to regulatory frameworks (SEC, 1989).

Following the 1987 report, the commission continued efforts to develop an Internal Control Integrated Framework and developed the first version in 1992. The framework introduced five internal control components that "work in tandem to mitigate the risks of an organization's failure to achieve its objectives" (COSO, 2009, p. 1). The framework was most recently updated in 2013 and streamlines the original framework developed in 1992, accounting for changes in markets, business environments, and regulatory requirements (McNally, 2013). The next section will discuss the five components of the Internal Control Integrated Framework.

1. Five Components

The five components of the Committee on Sponsoring Organizations (COSO) internal control framework consist of "control environment, risk assessment, control activities, information and communication, and monitoring activities" (COSO, 2013, p. 6). The GAO initially adopted these five components in 1999 and in 2014 issued an update to reflect the COSO 2013 updates (GAO, 2014). Each of the five components is depicted in Figure 6. These components are explained in depth in the next section.

Figure 6. Relationship of Objectives and Components. Source: COSO (2013).

a. Control Environment

"The tone set by top management" (National Commission on Fraudulent Financial Accounting Report, 1987, p. 3), influences the corporate environment and is of overriding importance in preventing fraud within an organization. COSO (2013) defines *control environment* as "the standards, processes, and structures that provide the basis for carrying out internal control across the organization" (p. 4). Ethical behavior, employee competence, and organization are the key factors that dictate the control environment, and accordingly, management must set the example and display integrity and ethical behavior (GAO, 1999). Management must demonstrate commitment to accountability by developing and employing meaningful measures to assess performance (Tan, 2013). Additionally, management must create incentives and rewards that motivate and stimulate desired employee performance (Tan, 2013). An organizational structure that

emphasizes effective communication flow, creates appropriate reporting relationships with management oversights, and gives employees the right degree of management centralization is also required to fulfill this component (GAO, 2001).

In a 2009 study, Basheka (2009) surveyed 548 public procurement stakeholders in Uganda and found a major form of procurement fraud to be the abuse of power by high ranking public officials. Survey respondents alleged that these officials abused their government positions to improperly influence procurement decisions (Basheka, 2009). By setting an unethical tone, these officials engendered a culture of corruption within their organizations.

A Navy husbanding procurement organization could be vulnerable to fraud given a weak control environment. A hypothetical example of fraud vulnerability would be a contracting organization tasked with executing husbanding service contracts, where the leadership of that organization failed to stress integrity and ethical behavior across all phases of the husbanding contract management process and lacked the processes in place to drive competence and accountability. This leadership vacuum within the husbanding contracting organization would likely lead to the breakdown of managerial oversight and lead to procurement fraud vulnerability. The control environment is the first component of the Integrated Internal Control Framework. The second component is risk assessment.

b. Risk Assessment

COSO (2013) defines *risk assessment* as "the possibility that an event will occur and adversely affect the achievement of objectives" (p. 4). Risk assessment involves identifying the risk that organizations could face and taking action to prevent them before they occur (COSO, 2013). Risk assessment also includes ways of mitigating the identified risk (Rendon & Rendon, 2015). When done properly, risk assessment helps to prevent fraud and lends creditability to an organization. Risk assessment can provide an opportunity for organizations to perform self-assessment and signal management's commitment to good governance (Power, 2007b).

A Navy husbanding procurement organization could be vulnerable to fraud given a weak risk assessment. A hypothetical example of fraud vulnerability would be

developing and awarding a husbanding contracting vehicle without regard for fraud risk. For example, the contract might require the contractor to take certain actions that introduce fraud risk; however, if the contracting office did not take steps to develop internal procedures to mitigate those risks, or even consider those risks, the risk assessment component would be missing, and the likelihood of fraud would be increased. A specific example is the development of defined procedures to validate subcontractors against approved vendor lists to mitigate the risk of fictitious vendors. Risk assessment is the second component of the Integrated Internal Control Framework. The third component is control activities.

c. Control Activities

COSO (2013) defines control activities as "actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out" (p. 4). Control activities consist of specific actions that work to mitigate the risk identified in risk assessment (Rendon & Rendon, 2015). Controls within an organization signal compliance is expected and demonstrate that management felt strongly enough about the behavior that it mandated the activity (Boss, Kirsch, Angermeier, Shingler, & Boss, 2009). Segregation of duties and functions within an organization can prevent and deter fraud schemes (Wells, 2014). GAO (2014) lists examples of control activities. These activities are listed in Figure 7.

- Top-level reviews of actual performance
- Reviews by management at the functional or activity level
- Management of human capital
- Controls over information processing
- Physical control over vulnerable assets
- Establishment and review of performance measures and indicators
- Segregation of duties
- Proper execution of transactions
- Accurate and timely recording of transactions
- Access restrictions to and accountability for resources and records
- Appropriate documentation of transactions and internal control

Figure 7. Examples of Common Categories of Control Activities.
Source: GAO (2014).

A Navy husbanding procurement organization could be vulnerable to fraud given weak control activities. An example would be Navy shipboard personnel certifying and remitting payment to an HSP upon completion of a port visit without first properly validating the authenticity of invoices submitted by the HSP. Control activities are the third component of the Integrated Internal Controls Framework. The fourth component is monitoring activities.

d. Information and Communication

Rendon and Rendon (2015) define *information and communication* as "the accounting information system as well as appropriate internal and external communications, calls for accountability, integrity, and transparency throughout the organization" (p. 717). Timely and appropriate communication of information is required to allow employees in an organization to execute their responsibilities (GAO, 2001). Problems with information and communication within an organization hinder the ability of managers to implement organizational strategy (Jensen, 1993).

A Navy husbanding procurement organization could be vulnerable to fraud given weak information and communications. A hypothetical example of fraud vulnerability would be government personnel inappropriately revealing the proprietary pricing data of one HSP to a competing HSP during the solicitation phase of a husbanding requirement. This would give the competitor who received the data an unfair advantage over the competing HSP. Information and communication is the fourth component of the Integrated Internal Control Framework. The fifth component is monitoring activities.

e. Monitoring Activities

COSO (2013) defines *monitoring activities* as "ongoing evaluations, separate evaluations, or some combination of the two" (p. 5). The monitoring activities are used to validate the effectiveness of internal controls and procedures in the organization. Monitoring activities entails changing control activities as necessary to ensure internal control effectiveness is maintained or enhanced (Rendon & Rendon, 2016). Increasing the frequency of monitoring activities was found to decrease the willingness of

employees to pursue riskier decision-making even in cases where the increased risk was justified (Hunton, Mauldin, & Wheeler, 2008).

A Navy husbanding procurement organization could be vulnerable to fraud given weak monitoring activities. An example of fraud vulnerability would be a failure by a contracting organization performing husbanding service contract-management functions to periodically and systemically review, compare, and contrast contract files and closeouts following the completion of multiple port visits within a designated area of operation. The absence of such a review might allow unscrupulous HSP contractors to perpetrate frauds against multiple contracting officers in the same office or across satellite offices. Contracting organizations that perform husbanding contract management across disparate area of operations are especially prone to fraud in the absence of a holistic organization-wide monitoring program.

2. COSO Principles

The COSO Internal Control Integrated Framework establishes 17 principles associated with each internal control component (COSO, 2013). These principles are extracted directly from the COSO 2013 Internal Control—Integrated Framework, executive summary document and are depicted in Figure 8.

Internal Control Component	Principles
Control environment	1. Demonstrate commitment to integrity and ethical values 2. Ensure that board exercises oversight responsibility 3. Establish structures, reporting lines, authorities and responsibilities 4. Demonstrate commitment to a competent workforce 5. Hold people accountable
Risk assessment	6. Specify appropriate objectives 7. Identify and analyze risks 8. Evaluate fraud risks 9. Identify and analyze changes that could significantly affect internal controls
Control activities	10. Select and develop control activities that mitigate risks 11. Select and develop technology controls 12. Deploy control activities through policies and procedures
Information and communication	13. Use relevant, quality information to support the internal control function 14. Communicate internal control information internally 15. Communicate internal control information externally
Monitoring	16. Perform ongoing or periodic evaluations of internal controls (or a combination of the two) 17. Communicate internal control deficiencies

Figure 8. Principles of the Internal Control Components.
Source: Weaver (2013).

This section discussed the five components of the COSO Integrated Internal Control Framework. Additionally, the 17 principles associated with each internal control component were presented. In the next section, procurement fraud schemes will be discussed.

F. PROCUREMENT FRAUD SCHEMES

Black's Law Dictionary (2004) defines fraud as "a knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment" (p. 685). Rendon and Rendon (2015) state that fraud within government

procurement can be characterized into six broad categories, which include "collusion, conflict of interest, bid rigging, billing, cost, and pricing schemes, fraudulent purchases, and fraudulent representations" (p. 9). This research study will stratify each allegation of fraud perpetrated in the Fat Leonard case into these six broad schemes.

1. Collusion

Black's Law Dictionary (2004) defines *collusion* as "an agreement to defraud another or to do or obtain something forbidden by law" (p. 281). Wells (2014) states that collusion occurs when multiple personnel conspire to "overcome well-designed internal controls of a victim company" (p. 100). Bribery, kickbacks, and split purchases are specific schemes that fall under the category of collusion (Rendon & Rendon, 2015). *Black's Law Dictionary* (2004) defines *bribery* as "the corrupt payment, receipt, or solicitation of a private favor for an official action" (p. 204). Henning (2001) states that international conventions developed to combat corruption recognize bribery as the "paradigm" of corruption and define bribery as an offer of "advantage" tendered in exchange for the discharge of official duties (Henning, p. 796). Wells (2014) describes a *bribe* as a business transaction where a "person 'buys' something with the bribe he pays" (Wells, 2014, p. 244).

In Navy husbanding, a hypothetical example of a bribe might induce a contracting officer to manipulate the source selection process to award a contract to a specific contractor, or manipulate the contract administration process to yield additional contract modifications or change orders, or cause or make known fraudulent invoices or claims to be paid. Additionally, in Navy husbanding, bribes might induce ship planners to write Navy ship schedules to route ships to specific ports of call whereby one particular contractor is given an inherent advantage.

A kickback is another scheme under the collusion category. *Black's Law Dictionary* (2004) defines a *kickback* as "a return of a portion of a monetary sum received especially as the result of coercion or a secret agreement" (p. 886). Wells (2014) states the purpose of a kickback is "usually to enlist the corrupt employee in an overbilling scheme" (p. 244). Kickback arrangements can also include situations where confidential

data is leaked by an employee in a procurement organization to a bidder or offeror in exchange for some item of value (Davies, 1995).

In Navy husbanding procurement, a hypothetical example of a kickback might take the form of a secret agreement between a prime contractor and subcontractor, where the prime contracts with a specific subcontractor on the basis that the subcontractor will submit inflated invoices for husbanding services related to a port visit. Following payment by the government, the prime will remit the inflated amount, or some portion thereof, back to the subcontractor.

Chang (2013) describes split purchases as "multiple parties conspiring to circumvent government procurement thresholds which could trigger additional demands for competition, oversight, or justification" (p. 19). In Navy husbanding procurement, a hypothetical example of split purchases might involve a contracting officer and contractor conspiring to keep a contracting action below a certain dollar threshold to keep the action from having to go to a higher level for review and approval, such that the contracting officer is able to field the action independent of higher level review.

2. Conflict of Interest

Black's Law Dictionary (2004) defines *conflict of interest* as "a real or seeming incompatibility between one's private interests and one's public or fiduciary duties" (p. 319). In federal procurement, conflicts of interest arise from "financial interests of the covered employee, of close family members, or of other members of the covered employee's household, other employment or financial relationships (including seeking or negotiating for prospective employment or business); and Gifts, including travel" (FAR, 2017, FAR 3.1101). FAR 3.11 establishes specific policy and provides guidance on the handling of conflicts of interest. A hypothetical example of a conflict of interest in Navy husbanding procurement would be a case where a contracting officer was involved in the source selection of a husbanding contract, and the spouse of that contracting officer was employed by an HSP that had submitted an offer. If the contracting officer failed to take the steps called for in FAR 3.11, a conflict of interest exists.

3. Bid Rigging

Wells (2005) describes *bid rigging* as a scheme in which a competitor uses fraud to gain an advantage over his competitors in securing a contract. Bid rigging can occur in many forms and in different phases of the contract management process. In the procurement planning phase, bid rigging may include schemes such as the buyer developing requirements with specifications that can be filled only via one particular contractor (Wells, 2014). Thus, competition is restricted to that one contractor. In the solicitation phase, bid rigging can take the form of a conspiracy between multiple parties such that offers are prepared and orchestrated by offerors to create the conditions that allow only one particular offeror to win the award or such that work can be split amongst the offerors (Wells, 2014). Submission of bids/offers from fictitious suppliers is another form of bid rigging (Wells, 2014). A hypothetical example of bid rigging in the Navy husbanding procurement would be a husbanding contractor submitting bids for services from subcontractors they had fictitiously created. This would create the appearance of competition, but in fact create a situation where the contractor would actually provide the service and charge prices exceeding market prices.

4. Billing, Cost, and Pricing Schemes

Wells (2014) explains that a billing scheme involves a perpetrator's use of "false documentation—such as an invoice, purchase order, or purchase card bill—to cause his employer to issue payment for some fraudulent purpose" (p. 97). This scheme may include the use of fictitious companies or false documents to submit fraudulent invoices that create the illusion that a service was tendered (Wells, 2014). Wells (2014) states that "most billing schemes succeed when an individual has control over one or more aspects of purchasing, authorizing purchases, receiving and storing goods, and issuing payments" (p. 101). Wells (2014) argues that that segregation of these duties and internal procedures, such as the use of an approved vendors list, can prevent these schemes. Grennan and McCrory (2016) state that, "Generally, billing schemes are more common when pricing is not verified against current market competition, opening the door to price inflation" (p. 26). A hypothetical example of a billing, cost, and pricing scheme in Navy husbanding procurement is a husbanding contractor

overcharging for the disposal of collection, holding, and transfer (CHT) waste if a ship lacks the ability to measure the volume of waste transferred. In this example, the lack of a meter to measure the exact volume of CHT waste transferred, assuming the absence of procedures to measure the tank before and after the waste removal, gives the contractor the potential to overbill the Navy.

5. Fraudulent Purchases

Castillo and Flanigan (2014) describe *fraudulent purchases* as "those in which a buyer acquires materials without having a specific government requirement but rather for personal use" (p. 26). A 2008 government-wide review of the program conducted by the GAO revealed internal control weaknesses in the Government Commercial Purchase Card (GCPC) programs "that left the government vulnerable to fraudulent purchases" (GAO, 2017, p. 2). However, in a 2017 review in which the GAO reviewed samples of purchases from various cabinet departments and federal agencies, the GAO found no instances of fraudulent purchases. Based on its review and statistical testing, the GAO estimated that 22% of transactions government-wide, 23% of DOD transactions, and 13% of VA transactions have incomplete documentation (GAO, 2017). Wells (2014) contends that most fraudulent purchases occur because of employees "running unsanctioned invoices through the accounts payable system" (p. 109). Therefore, it is vital that the federal government and the DOD continue to emphasize the importance of appropriate documentation in GCPC operations. A hypothetical example of fraudulent purchases in Navy husbanding procurement is a contracting officer making a purchase of hand tools for the purpose of converting the tools for personal use, but making the purchase under the auspices of a Navy ship's port visit.

6. Fraudulent Representations

The final procurement fraud scheme identified is fraudulent representations. Grennan and McCrory (2016) refer to fraudulent representations as "bait and switch," where the actual product provided by a contractor is substituted with one of inferior quality. Chang (2013) states that fraudulent representation occurs "when a contractor gains financially from providing goods or services that do not meet the standards of what

is required in the contract" (p. 21). Wells (2005) adds that fraudulent representation also includes an over-charging element whereby the customer is paying an inflated price for actual goods provided or services tendered. In Navy husbanding procurement, a hypothetical example of fraudulent representation is a husbanding contractor winning an award to furnish fuel of a particular specification but instead secretly furnish a fuel of an inferior quality while disguising it as the superior fuel.

G. SUMMARY

This chapter first reviewed the literature on Navy husbanding processes and husbanding processes used in the private sector. Next, the chapter discussed auditability theory and its associated components of competent personnel, capable processes, and effective internal controls. The contract management framework was discussed and was presented from both the buying and selling perspective. A discussion of the Integrated Internal Control Framework was also presented. The chapter concluded with a discussion of the six most common fraud scheme categories. The next chapter presents an overview of Navy husbanding contracting organizations, a history of GDMA, a timeline of its contracting activity with the U.S. Navy, and a timeline of its ultimate demise.

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III. HISTORY OF GDMA AND HSP CONTRACTING

A. INTRODUCTION

This chapter presents an overview of Navy husbanding contracting organizations, a history of Glenn Defense Marine Asia (GDMA), and a timeline of GDMA's contracting activity and ultimate demise. Additionally, this chapter seeks to explain the contracting strategies and contract vehicles employed by the Navy in executing port visits in Asia during the time of the GDMA case. This sets the stage for the subsequent chapters by providing an overview of the Fat Leonard case and the specific husbanding contracting strategies employed by the Navy in the 7th Fleet area of operations.

B. CONTRACTING ORGANIZATIONS

During the 2005–2006 period, Naval Supply Systems Command (NAVSUP) subsumed the Navy Regional Contracting Centers (NRCC) that were located across the globe into the NAVSUP Fleet Industrial Supply Center Organization (FISC). In February 2006, NRCC Singapore was disestablished and stood up as the Fleet Industrial Supply Center Yokosuka, Detachment, Singapore (Commander, Fleet Industrial and Supply Centers, Public Affairs, 2006).

The NRCCs employed varying husbanding service contracting methodologies and differing contract types. Upon assuming the contracting function, NAVSUP intended "to adopt a standardized policy for use by all FISCs when evaluating and executing [HSPs]" (Gundemir, Manalang, Metzger, & Pitel, 2007, p. 2). As such, NAVSUP undertook a strategic review of HSP contracting to determine the global environment, desired end states, and areas for improvement (Gundemir, Manalang, Metzger, & Pitel, 2007). This section discussed the Navy's husbanding contracting organization structure and differing husbanding service contracting methodologies. A discussion of GDMA's history from 1946–2000 is discussed in the next section.

C. GDMA 1946–2000

For over 25 years, the U.S. Navy contracted with GDMA, a Singapore-based firm, to provide husbanding services for Navy ships making port calls in the Asia/Pacific region (Indictment, United States of America v. Simpkins, 2015). As discussed in Chapter I, Leonard Glenn Francis, a Malaysian national known by Navy personnel as "Fat Leonard" because of his large stature, led the firm. Francis's maternal grandfather founded the maritime logistics business in Malaysia in 1946 to capitalize on the needs of merchant ships transiting the Strait of Malacca (Whitlock, 2016a).

Upon the closure of U.S. Naval Base Subic Bay, Philippines, Navy ships started to make more and more port visits throughout Asia. This presented Francis and GDMA with an opportunity to participate in Navy HSP contracts (Whitlock, 2016a). By the early 2000s, Francis moved the firm's headquarters to Singapore and opened offices throughout Asia (Whitlock, 2016a). "At this time, GDMA had secured contracts to service Navy ships in ports from Vladivostok, Russia, to Papua New Guinea. Francis also received contracts from the navies of France, Mexico, India, and the Netherlands" (Whitlock, 2016a). This section provided an overview of GDMA's history from 1946–2000. A discussion of GDMA's husbanding contracting service activity during the 2005–2010 time period is discussed in the next section.

D. GDMA 2005–2010

Publicly available documents show that in late 2005, the Navy began to contemplate the award of two long-term indefinite delivery, indefinite quantity (IDIQ) contracts to provide HSP services in the Philippines and Thailand. In February 2006, the Navy Fleet Industrial Supply Center Yokosuka, Detachment Singapore, awarded GDMA a long-term IDIQ contact for husbanding support services in Thailand, with the first year of the contract being valued at $929,649 (Indictment, United States of America v. Simpkins, 2015). With options, this contract had a total value of over $7,100,000 (Information, United States of America v. Simpkins, 2016). In December 2006, the Navy exercised a one-year option for this contract. An option was also exercised in February 2008 (Indictment, United States of America v. Simpkins, 2015).

In December 2006, the Navy Fleet Industrial Supply Center Yokosuka, Detachment Singapore, awarded GDMA a long-term IDIQ contract for husbanding support services in the Philippines. The first year of this contract was valued at $523,994 (Indictment, United States of America v. Simpkins, 2015). The Navy exercised a one-year option for this contract in December 2007 (Indictment, United States of America v. Simpkins, 2015). In January 2007, a competitor filed a bid protest against GDMA, resulting in the suspension of all contract awards to GDMA in the Philippines (Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). In February 2007, the GAO dismissed the protest and the suspension was lifted (Indictment, United States of America v. Brooks, 2016). Based on a review of publicly available information, it appears that the Philippines contract ran to completion with all available options being exercised. Both the Thailand contract and the Philippines contract included unpriced contract line items to support incidental goods and services falling within the scope of the contracts but not specifically enumerated in the contracts.

On May 6, 2010, the Navy Fleet Industrial Supply Center Yokosuka, Detachment Singapore contemplated the award of a fixed-price IDIQ instrument for a 12-month period with an option period of six months. The request for proposal (RFP) was for the following four lots in the Republic of the Philippines: Lot 1—Manila, Lot 2—Subic Bay, Lot 3—Puerto Princesa, Lot 4—Cebu. On August 27, 2010, a split award was made to GDMA for lots 3 and 4 and to Global Ship Management and Marine Service, Inc. for lots 1 and 2 (Comptroller General, 2010). This section discussed GDMA's husbanding service contracting activity during the 2005–2010 time period. GDMA's husbanding service contracting activity in Japan from July 2009 to December 2010 is discussed in the next section.

E. GDMA JAPAN CONTRACTS

During the period of July 1, 2009, to December 31, 2010, GDMA held the contract to provide husbanding support to U.S. Navy vessels making ports of call in Japan (Information, United States of America v. Aruffo, 2014). This contract required

GDMA subcontractors to submit their bills directly to the Navy (Information, United States of America v. Aruffo, 2014). After completion of services, Navy shipboard personnel would remit payment to the subcontractor directly (Information, United States of America v. Aruffo, 2014). This section discussed GDMA's husbanding service contracting activity in Japan from July 2009 to December 2010. The Navy's shift toward a regional husbanding service contracting strategy is discussed in the next section.

F. NAVY'S SHIFT TO REGIONAL HUSBANDING SERVICE CONTRACTING

A review of the publicly accessible Federal Data Procurement System website (http://www.fpds/gov) conducted on August 4, 2017, using the keyword "Glenn Defense Marine" reveals that GDMA held a variety of IDIQ contracts for various ports of calls in addition to the Thailand and Philippines contracts. GDMA also received a multitude of contracts relating to one-time port visits during this time frame of 2005–2010. To reduce the number of one-time contracts issued to support individual ports/countries for which the Navy did not hold existing IDIQ contract vehicles, the "[Navy Fleet Industrial Supply Center Yokosuka] initialized the regionalization of husbanding contracts in the 7th Fleet area of operations, proposing the creation of four regions" (Marquez, Rayos, & Mercado, 2009). The four regions were South Asia (Region 1, including, among other countries, Bangladesh, Burma, India, and Sri Lanka); South East Asia (Region 2, including, among other countries, Cambodia, China, the Philippines, Taiwan, Thailand, and Vietnam); Australia and the Pacific Islands (Region 3, including, among other countries, Australia, New Zealand, Papua New Guinea, Fiji, French Polynesia, and Western Samoa); and East Asia (Region 4, including Japan, South Korea, Mongolia, and Russia) (Glenn Defense Marine [Asia], PTE Ltd. v. United States of America and MLS—Multinational Logistic Service Ltd., 2012).

In November 2009, the Navy Fleet Industrial Supply Center Yokosuka solicited bids for husbanding support services for the four regions. The RFP "contemplated four awards, one for each region, and instructed offerors to submit a separate proposal for each region in which they were interested" (Comptroller General, 2011, p. 1). The RFP explained that each region would be serviced by a separate firm-fixed price IDIQ type

contract (Comptroller General, 2011). Each contract would consist of a one-year base period and four one-year options (Glenn Defense Marine [Asia], PTE Ltd. v. United States of America and MLS—Multinational Logistic Service Ltd., 2013). In and around the summer of 2011, GDMA was awarded IDIQ contracts for all the regions except Region 1 (Indictment, United States of America v. Peterson, Raja, 2014). GDMA failed to win the contract for Region 1, despite being 64% below their competitor's total price (Glenn Defense Marine [Asia], PTE Ltd. v. United States of America and MLS—Multinational Logistic Service Ltd., 2013). This was because the Source Selection Authority used a trade-off process to determine award. The solicitation stated "the following factors, in order of importance, shall be used to evaluate acceptable offers: Technical Approach, Past Performance, and Price. The non-price factors, when combined, are significantly more important than price." (Glenn Defense Marine [Asia], PTE Ltd. v. United States of America and MLS—Multinational Logistic Service, 2013, p. 4). In addition, GDMA was assessed a past performance rating of "less than satisfactory" (Glenn Defense Marine [Asia], PTE Ltd. v. United States of America and MLS—Multinational Logistic Service, 2013, p. 12). This section discussed the Navy's shift toward a regional husbanding service contracting strategy. A discussion of the Region 2 contract that was awarded to GDMA is discussed in the next section.

G. GDMA REGION 2 CONTRACT

The Region 2 contract consisted of a one-year base period worth $25,000,000 and four option years (Complaint, United States of America v. Wisidagama, 2013). The contract inclusive of option years was worth a total of $125,000,000 (Indictment, United States of America v. Peterson, Raja). The Region 2 contract established pricing for a variety of husbanding services and established fixed prices. The contract also covered un-priced incidentals. Incidentals were items or services "that fell within the general scope of husbanding services but were not enumerated as fixed price items" (Indictment, United States of America v. Peterson, Raja, p. 3). Based on the publically available documents describing the Region 2 contract, GDMA was allowed to compete with other vendors to provide incidental services provided it disclosed in their quote to the contracting officer "any profit or markup" (Indictment, United States of America v. Peterson, Raja, 2014,

p.3). Along with its quote, "GDMA would also submit an Authorized Government Representative Form (AGR Form) in which GDMA would recommend a source. After receiving the quotes and the AGR form, the Navy contracting officer would select which vendor to use for each incidental" (Indictment, United States of America v. Peterson, Raja, 2014, p. 3).

The Region 2 contract allowed GDMA to receive a fixed fee in cases where it arranged for the purchase of fuel and required GDMA to invoice the Navy for GDMA's actual fuel costs (Indictment, United States of America v. Peterson, Raja, 2014). Additionally, the Region 2 contract dictated that "GDMA was required to bill the Navy for actual costs paid to Port Authorities for port tariffs, without any markup" (Complaint, United States of America v. Wisidagama, 2013, p. 6). Per the terms of the Region 2 contract, the ship receiving the service made payments to GDMA for services rendered (Indictment, United States of America v. Peterson, Raja, 2014). Accordingly, GDMA would submit to Navy shipboard personnel a claim for payment at the end of the ship's port visit. This typically consisted of invoices for all husbanding services provided during the ship's port visit (Indictment, United States of America v. Peterson, Raja, 2014).

Within each region, some ports were considered by GDMA to be more lucrative than other ports. Francis termed these to be "pearl ports" (Complaint, United States of America v. Francis and Misiewicz, 2013, p. 5) One such port was the Port Klang Cruise Center (PKCC) located at Port Klang, Malaysia, which Francis purchased in August 2009 (Standifer, 2017). This section discussed the Region 2 contract that was awarded to GDMA. The criminal investigations launched into GDMA business practices are discussed in the next section.

H. GDMA CRIMINAL INVESTIGATIONS

In July 2010, contracting officers at Navy Fleet Industrial Supply Center Yokosuka, Detachment Singapore become suspicious of invoices presented by GDMA in connection with three Navy vessels that visited Thailand as part of Cooperation Afloat Readiness Training (CARAT) exercises in May 2010. Prior to these exercises, the Navy and Royal Thai Navy had agreed that Navy ships would not be charged dockage or

wharfage fees in Thailand. In June 2010, GDMA submitted claims and invoices to the Navy for $110,000 in dockage and wharfage fees (Complaint, United States of America v. Francis and Beliveau, 2013). NCIS initiated an investigation.

In June 2010, NCIS also initiated a separate fraud investigation regarding GDMA subcontractor fraud related to GDMA's husbanding contracts in Japan (Complaint, United States of America v. Francis and Beliveau, 2013). In spring 2012, NCIS opened another investigation to determine whether GDMA was overbilling the Navy through the creation and submission of fraudulent subcontractor bids associated with task orders issued against the Region 2 contract (Complaint, United States of America v. Francis and Beliveau, 2013). According to a heavily redacted internal report produced by the NCIS Economic Crimes Department in 2014 and obtained by the *San Diego Union-Tribune* in response to a Freedom of Information Act request, NCIS and other agencies produced 10 criminal intelligence reports and initiated 14 investigations on GDMA between 2004 and 2012 (Prine, 2017). According to Prine (2017), the tips included an anonymous letter in mid-2007 that was passed to NCIS by the Navy's Inspector General making allegations that GDMA was overcharging for force protection services in Southeast Asia. Tips also included allegations by Marine Corps contracting officers that GDMA used the Indonesian military to harm a competitor, and a 2009 tip to NCIS by a confidential informant that GDMA was overbilling for port services in Thailand (Prine, 2017). Another tip included a call to a DOD hotline in late 2009 noting questionable invoices for vehicles, sewage treatment, fuel, and port tariffs that were similar to the suspicions of Navy Fleet Industrial Supply Center Yokosuka contracting officers (Prine, 2017). This section discussed criminal investigations launched into GDMA business practices. GDMA's demise is discussed in the next section.

I. GDMA'S DEMISE

In July 2013, Francis was provided with false information planted by U.S. investigators that all NCIS investigations were closing (United States of America v. Misiewicz, 2015). In September 2013, he was lured to the United States under the auspices that he was to meet with Navy admirals to discuss lucrative husbanding contract

opportunities. Instead, he was arrested on September 13, 2013, in San Diego (Whitlock, 2016a).

In January 2015, Francis pled guilty to a host of bribery and conspiracy charges. He remains a cooperating witness to the U.S. Department of Justice (Plea Agreement, United States v. Glenn Defense Marine-Asia PTE, Ltd., 2015). According to the public accessible System for Award Management website (https://www.sam.gov), the Department of the Navy declared Glenn Defense Marine and all its associated entities to be ineligible for government contracts on September 18, 2013. In November 2013, the Navy terminated the three regional husbanding contracts held by GDMA (Perry, 2013). As of August 22, 2017, 28 Navy personnel (active duty and civilian) have been indicted on federal charges that allege offenses such as bribery, bid rigging, fraudulent invoice submission, and conspiracy to defraud the U.S. government. In 2015, three active-duty Navy flag officers were censured by the Secretary of the Navy for allegedly accepting gifts, meals, and other items of values at prices well below market value. These admirals were forced to retire (Larter, 2015). In July 2014, the Singaporean firm Boustead Holdings Bhd, purchased Port Klang from GDMA receivers (Khuen, 2014).

J. SUMMARY

This chapter presented an overview of Navy husbanding contracting organizations, a history of GDMA, and a timeline of GDMA's contracting activity and ultimate demise. Additionally, the chapter explained the Navy's husbanding contracting strategies and contract vehicles employed in Asia during the timeline of the alleged fraudulent activities. The next chapter provides the methodology used to conduct research on the Fat Leonard case.

IV. METHODOLOGY

A. INTRODUCTION

This chapter describes the methodology used for this research. The research includes a literature review covering peer-reviewed articles, newspaper articles, and government documents related to contract management processes, internal controls, and procurement fraud schemes. This chapter first explains how a database was developed to record all publicly known allegations of fraud against personnel indicted and implicated in the Fat Leonard case. The sources of data used to populate the database are discussed. The chapter then explains how each allegation of fraud against each individual was aligned with an internal control component and a contract management phase, and how each act was categorized into one of the six most common procurement fraud scheme categories. The chapter concludes by discussing the database composition. An explanation of how the Fat Leonard Fraud Database was developed is discussed in the next section.

B. DEVELOPMENT OF THE FAT LEONARD FRAUD DATABASE

Data collection began by accessing press releases issued by the Department of Justice (DOJ) to obtain the names of personnel implicated in the Fat Leonard case and to understand the summary of alleged offenses. Next, publicly available DOJ criminal indictments, criminal complaints, criminal information documents, and criminal superseding information documents were obtained. These documents provided the specific allegations of fraud and overt acts alleged to have been perpetrated by individuals indicted in the Fat Leonard case.

Upon review of these official, publicly available documents, a database was developed to support this research study. Each act of alleged fraud was extracted from the applicable documents and populated into a database. Within the database, a table was created for each indicted person. Within each person's table, each allegation of fraud was listed in chronological order. In situations where other indicted persons were implicated in the same act, each alleged act was listed within the other person's or persons' table. In

the case of the three Navy admirals who received letters of censure related to the Fat Leonard case, the database was populated based on data obtained from newspaper articles that described the reasons for the Secretary of Navy's decision to issue a letter of censure to each admiral. A list of the specific documents used to construct the database can be found in the appendix.

In the case of one civilian Singaporean national who was previously employed by the Navy as a lead contracting specialist, the fraud database was populated based on charges contained in a publicly available document filed before the Singaporean court by the Government of Singapore Corrupt Practices Investigation Bureau. The next section explains the sources of data entered into the database.

1. Sources

The DOJ's website (http://www.justice.gov), which is a publicly accessible website, was used to retrieve press releases issued by the U.S. Attorney for the Southern District of California and U.S. Attorney for the District of Hawaii when personnel were indicted before the United States District Court for the Southern District of California and the United States District Court for the District of Hawaii, or when there were other updates in an indicted person's case were made available.

The Public Access to Court Electronic Records (PACER) website (https://www.pacer.gov/login.html) was used to retrieve DOJ and federal court documents. The PACER website is open to the public and requires a membership account that is free of charge. The website charges a download fee of $.10 per page.

The PlainSite website (https://www.plainsite.org) was also used to retrieve DOJ and federal court documents. The PlainSite website is open to the public and requires a membership account that costs $9.99 per month. There is a charge of $.15 per page after requesting the first three documents, which are free of charge.

Effective March 15, 2017, Google Alerts (https://www.gmail.com) was used to set automatic filters on the researcher's personal e-mail accounts to capture newspaper,

magazine, and online articles that included the terms “Fat Leonard,” “GDMA,” and “Glenn Defense Marine.”

2. Search Terms

Search terms were used to query the websites listed in the preceding sections. These terms included the specific names of persons implicated in the Fat Leonard procurement fraud case and those persons indicted by the U.S. district courts. These websites were also queried using federal court docket numbers, the terms “Fat Leonard,” “GDMA,” “Glenn Defense Marine,” “Glenn Defense Marine Asia,” and “Navy Husbanding Agent.” The next section discusses how each alleged act of fraud was aligned with an internal control component, contract management phase for both the buyer and seller, and categorized into a procurement fraud scheme.

C. ALIGNMENT TO FRAMEWORKS AND FRAUD SCHEMES

After populating the Fat Leonard Fraud Database with each act of fraud alleged in official publicly available documents and organizing the alleged acts in a table for each indicted person, each alleged act was aligned with an integrated internal control component, a contract management phase for both the buyer and seller, and a procurement fraud scheme. Alignment of each alleged fraudulent act to an internal control component and contract management process is subjective in nature. Several of the alleged fraudulent acts overlapped multiple internal control components and contract management processes. In these cases, the alleged fraudulent act was aligned with the internal control component that most contributed to the alleged act being perpetrated and the contract management phase in which the preponderance of the activity occurred. The same process previously discussed was applied to the database specific to the three Navy admirals censured by the Secretary of the Navy. The next section discusses a description of how each alleged act of fraud was aligned.

1. Alignment to Contract Management Phases

Each alleged act of fraud was aligned with a contract management phase from both the buyer’s and seller’s perspective using the six-phase contract management

framework, based on the contract management phase in which the act took place. In this aligned process, each individual task order issued under an IDIQ contract was treated as a separate contract action. Alignment of each phase was based on the preponderance of activity in which the act occurred. Some alleged acts influenced the contract management process but could not be categorized into any of the six phases of the contract management process. Accordingly, these acts were aligned a contract management phase of "other." The "other" phase is explained in more detail later. The next section discusses an explanation of how the alleged acts of fraud were aligned to the applicable internal control component.

2. Alignment to Internal Control Components

Each alleged act of fraud was aligned with an internal control component as defined by the COSO integrated internal control framework (COSO, 2013). Alignment was based on the absence of the internal control component that most contributed to and allowed for the alleged act of fraud to be perpetrated. In cases where more than one internal control component was identified, the component most responsible for permitting the alleged act to occur was chosen. The next section explains how each alleged act was categorized into a procurement fraud scheme.

3. Categorization of Fraud Schemes

Each alleged act of fraud was categorized into one of the six procurement fraud scheme categories, which include the most common schemes within government procurement (Rendon & Rendon, 2015). Each act was reviewed and assessed against the fraud schemes defined in Chapter II of this research paper. The next section discusses the results of the data compiled in the Fat Leonard Fraud Database.

D. DATABASE COMPOSITION

As described in the preceding section, each allegation of fraud contained in the Fat Leonard Fraud Database was aligned with an internal control component, and a contract management phase, as well as categorized into a procurement fraud scheme. The database contains a total of 31 tables. The total number of all alleged acts of fraud, which

is equal to the total number of alleged fraudulent acts taken from each table and summed together, is 1,194.

E. SUMMARY

This chapter discussed the methodology for this research. The chapter also discussed the literature review covering peer-reviewed articles, newspaper articles, and government documents related to contract management processes, internal controls, and procurement fraud schemes. The chapter discussed the sources of data used and described the development of a database used for this research study. Additionally, the chapter explained how each act of alleged fraud in the case was aligned with the applicable contract management phase, the applicable internal control component, and categorized into a procurement fraud scheme. An explanation of how the database is composed was provided. The next chapter discusses the findings and analysis of the research. It also discusses the implications of the findings and presents recommendations to the Navy on enhancing the competency of all HSP process stakeholders, on improving HSP contract process capabilities, and strengthening HSP contracting internal controls.

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V. FINDINGS, ANALYSIS, AND RECOMMENDATIONS

A. INTRODUCTION

This chapter discusses the findings, analysis, implications, and recommendations based on the research findings. First, findings in regard to the analysis of data in the Fat Leonard Fraud Database are provided. The findings consist of the contract management phases in which the alleged acts of fraud occurred, the internal controls that were deficient and allowed the alleged acts to occur, and the specific procurement fraud schemes that allegedly occurred in the Fat Leonard case. Next, an analysis of these findings is presented. Finally, recommendations based on research findings are provided.

B. FINDINGS

The Fat Leonard Fraud Database contained 31 tables, representing the 31 personnel accused of malfeasance in the Fat Leonard case. In total, there are 1,194 alleged acts of fraud. In some instances, the alleged acts of fraud involved several of the accused persons. In these instances, each alleged act was counted for each person separately. The following tables and figures reflect the analysis of the Fat Leonard Fraud Database, which was developed from publicly available federal criminal indictments, criminal complaints, criminal information documents, and criminal superseding information documents.

1. Contract Management Processes

Each alleged act of fraud was aligned with a contract management phase from both the buyer's and seller's perspective using the six-phase contract management framework based on the contract management phase in which the act took place. The alleged fraudulent act was aligned with the contract management phases in which the preponderance of the alleged act of fraud took place. For allegations of fraud that could not be aligned under any of the six phases of the contract management process, a phase of "other" was used to align the fraud. Acts of alleged fraud that were aligned into the "other phase" predominately consisted of allegations that involved Navy officials who

were once directly involved in the GDMA conspiracy and later left the conspiracy due to reassignment within the Navy. According to these allegations, these officials subsequently attempted to obtain items of value from GDMA such as cash, the services of prostitutes, and employment opportunities, despite the fact that these officials no longer occupied positions that allowed them to execute official acts or influence acts that would enrich GDMA. Other allegations of fraud aligned into the "other" phase also included acts of alleged collusion between a Naval Criminal Investigative Service (NCIS) agent and GDMA.

a. Buyer's Side

Table 1 shows the distribution of the alleged acts of fraud during each of the buyer's contract management phases across the 1,194 alleged fraudulent acts.

Table 1. Distribution of Alleged Fraud Acts among Buyer's Contract Management Phases

Buyer's Contract Management Phase	Number of Acts of Alleged Fraud
Procurement Planning	229
Solicitation Planning	218
Solicitation	47
Source Selection	32
Contract Administration	308
Contract closeout or termination phase	141
"Other"	219
Total Alleged Acts of Fraud	**1194**

As reflected in Table 1, a significant number of the alleged acts of fraud (308) occurred in the contract administration phase. In addition, the second highest number of alleged acts (229) occurred in the procurement planning phase. This distribution is also reflected in Figure 9, which shows that 26% of the alleged acts occurred in the contract administration phase and 19% in the procurement planning phase.

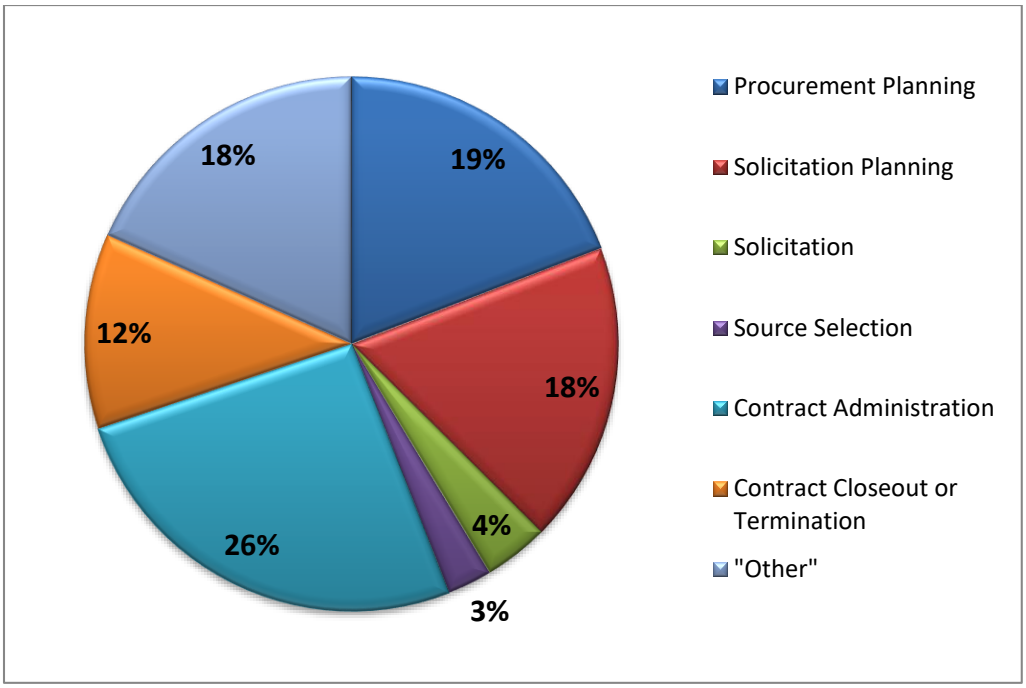

Figure 9. Percent of Alleged Fraud Acts by Buyer's Contract Management Phases

b. Seller's Side

Table 2 shows the distribution of the alleged acts of fraud distributed throughout the seller's contract management phases.

Table 2. Distribution of Alleged Fraud Acts among Seller's Contract Management Phases

Seller's Contract Management Phase	**Number of Acts of Alleged Fraud**
Pre-sales Activity	359
Bid or No Bid Decision Making	0
Bid or Proposal Preparation	268
Contract Negotiation and Formation	35
Contract Administration	305
Contract Closeout or Termination	102
"Other"	125
Total Alleged Acts of Fraud	**1194**

As reflected in Table 2, a significant number (359) of the alleged acts of fraud occurred in the seller's pre-sales activity phase. In addition, the second highest number of alleged acts (305) occurred in the contract administration phase. This distribution is also reflected in Figure 10, which shows that 30% of the alleged acts of fraud occurred in the pre-sales activity phase and 26% in the contract administration phase.

It should be noted that the research did not identify any allegations of fraud that aligned under the bid or no bid decision-making phase. This was because relevant allegations of fraud found in the publicly available documents pertained only to husbanding actions in which it appeared that GDMA had determined that it would submit a bid or proposal.

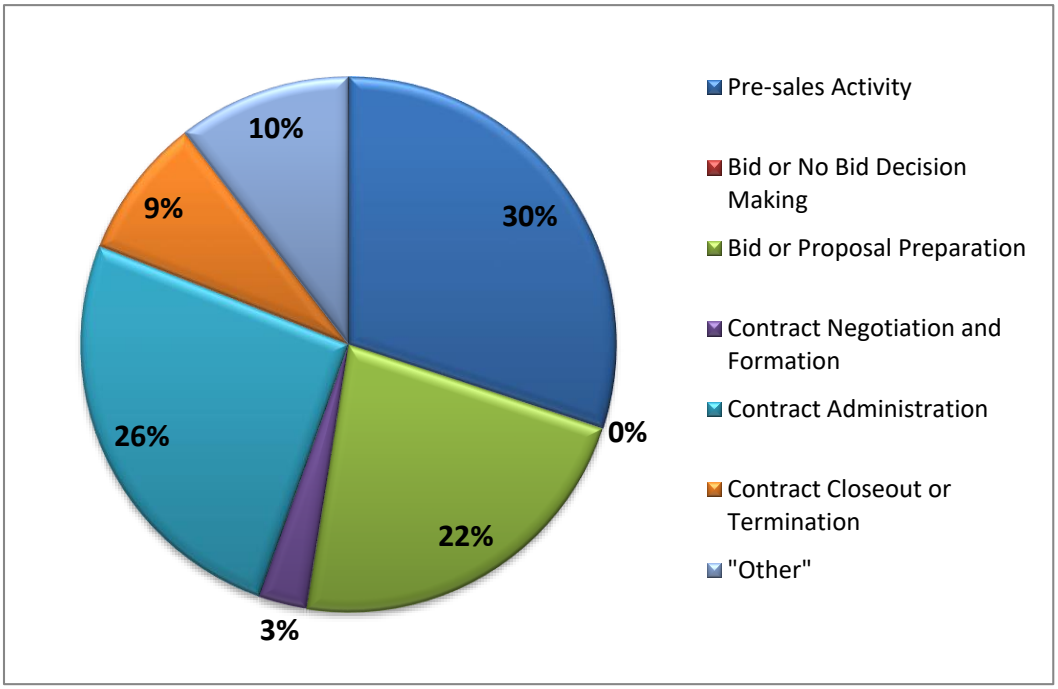

Figure 10. Percent of Alleged Fraud Acts by Seller's Contract Management Phases

2. Internal Control Failures

Each allegation of fraud was aligned to an internal control component as defined by the COSO Integrated Internal Control framework (COSO, 2013). Each allegation of fraud

was aligned based on the deficiency of the primary internal control component that most contributed to and allowed the fraudulent act to be perpetrated. Table 3 shows the internal control deficiencies across the total numbers of alleged fraudulent acts.

Table 3. Distribution of Internal Control Failures

Internal Control Component	Number of Acts of Alleged Fraud
Control Environment	621
Risk Assessment	0
Information and Communications	452
Control Activities	104
Monitoring Activities	17
Total Alleged Acts of Fraud	**1194**

As reflected in Table 3, a significant number of the alleged acts of fraud (621) occurred due to the deficiency of the control environment component. In addition, the second highest number of alleged acts (452) occurred due to the deficiency of the information and communications component. This distribution is also reflected in Figure 11, which shows that 52% of the alleged acts occurred because of the deficiency of an effective control environment. In addition, Figure 11 shows that 38% of the alleged acts occurred due to the deficiency of an effective information and communications component.

It should be noted that the research did not identify any instances in which risk assessment was the primary internal control deficiency that permitted the alleged acts of fraud to occur. This is because the allegations of fraud involve overt acts and the definition of risk assessment provided in Chapter II states that risk assessment involves "The identification, analysis, and management of risk faced by an organization" (Chang, 2013, p. 16). However, because fraud allegedly occurred, it can be argued that each act of alleged fraud could be aligned with the risk assessment component. Effective risk assessment would have prevented the alleged fraud from occurring. However, given the limitation of this research to align each alleged act of fraud with the primary internal control component that permitted the alleged act to occur, no alleged acts of fraud were

aligned to risk assessment in this research study. The next section discusses the procurement fraud scheme findings.

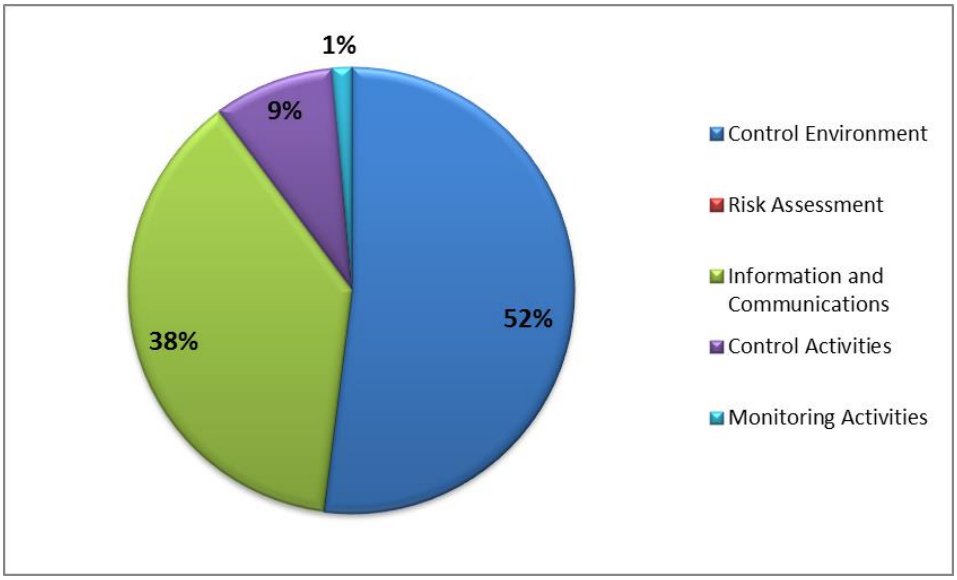

Figure 11. Internal Control Failures

3. Procurement Fraud Schemes

Each allegation of fraud was categorized into a procurement fraud scheme. Table 4 shows the distribution of the procurement fraud schemes allegedly perpetrated in the Fat Leonard case.

Table 4. Distribution of Procurement Fraud Schemes

Fraud Scheme	**Number of Alleged Acts of Fraud**
Collusion	1094
Conflict of Interest	12
Bid Rigging	39
Billing, Cost and Pricing Schemes	44
Fraudulent Purchases	0
Fraudulent Representations	5
Total Alleged Acts of Fraud	**1194**

As reflected in Table 4, an overwhelming majority of the allegations of fraud (1094) were categorized as collusion. This is also reflected in Figure 12, which shows that nearly 92% of the allegations of fraud fell under the collusion fraud scheme. It should be noted that the research did not identify any allegations of fraud that fell under the category of fraudulent purchases based on the definition of fraudulent purchases provided in Chapter II of this report.

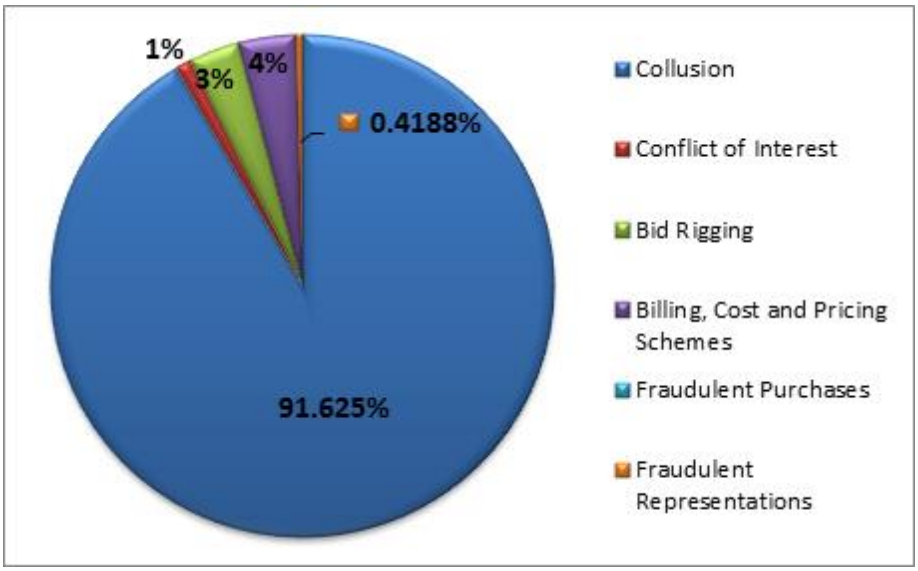

Figure 12. Procurement Fraud Schemes as a Percentage of Total Alleged Acts of Fraud

This section presented the research findings. In the next section, an analysis of the findings and implications are discussed.

C. ANALYSIS OF FINDINGS AND IMPLICATIONS

This section will discuss the analysis of findings and implications as they relate to the six phases of both the buyer's and seller's sides of the contract management process. Next, the discussion of the analysis of the findings as they relate to the internal control components will be discussed. Finally, a discussion of the analysis of the findings as they relate to the different procurement fraud schemes will be provided.

1. Contract Management Processes

Based on the research findings, allegations of procurement fraud in the Fat Leonard case occurred in all phases of the contract management process. An analysis of the contract management phases, from both the buyer's and seller's perspective, is discussed in the next sections.

a. Buyer's Side

(1) Procurement Planning

The alleged acts of procurement fraud that aligned under the procurement planning phase primarily consisted of efforts taken by Navy officials to route Navy ships to "pearl ports" (Complaint, United States of America v. Francis and Misiewicz, 2013, p. 5). One such port was the Port Klang Cruise Center (PKCC) located at Port Klang, Malaysia, which GDMA purchased in 2009 (Standifer, 2017). From 2009–2013, scheduling a Navy aircraft carrier port visit to Port Klang became the primary objective of several Navy officials who allegedly accepted gifts, hotel rooms, cash, entertainment, meals, travel, and the services of prostitutes, in exchange for their efforts to schedule port visits at Port Klang (Complaint, United States of America v. Francis and Misiewicz, 2013; Information, United States of America v. Dusek, 2015; Whitlock, 2016a). Leading up to a January 2012 port visit by the aircraft carrier *USS Abraham Lincoln* (CVN 72) to Port Klang, Malaysia, the Navy official in charge of the ships' schedules for the Seventh Fleet allegedly accepted items of value in exchange for attempts to route the ship to Port Klang (Complaint, United States of America v. Francis and Misiewicz, 2013). Ultimately, the Navy official was successful in lobbying his superiors to schedule the visit (Complaint, United States of America v. Francis and Misiewicz, 2013). According to analysis conducted by the Defense Contract Audit Agency (DCAA), the Navy was overbilled by over $500,000 for the port visit (Complaint, United States of America v. Francis and Misiewicz, 2013).

(2) Solicitation Planning

The alleged acts of procurement fraud that aligned under the solicitation planning phase primarily consisted of Navy officials sending classified ships' schedules to GDMA

in advance of the requests for proposal for a particular port visit being released by Navy contracting personnel (Complaint, United States of America v. Francis and Sanchez, 2013). Illegally sending these advance schedules allowed GDMA to mobilize its own assets, such as barges or tugboats, to far-away ports to service the Navy ships. This resulted in the Navy overpaying for services (Complaint, United States of America v. Francis and Misiewicz, 2013).

The remaining alleged acts of procurement fraud that aligned under the solicitation planning phase consisted of Navy officials making specific arrangements during port visits that were beneficial to GDMA (Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). This included directing specific mooring arrangements for ships that would result in increased revenues for GDMA and increased costs for the Navy (Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). Additional allegations of procurement fraud occurring in this phase consisted of Navy officials providing GDMA with internal Navy data such as cost containment strategies for upcoming port visits and internal data relating to pending solicitations (Complaint, United States of America v. Francis and Sanchez, 2013).

(3) Solicitation

The alleged acts of procurement fraud that aligned under the solicitation phase primarily consisted of the Navy's failure to identify fictitious vendor quotes submitted by GDMA (Complaint, United States of America v. Wisidagama, 2013; Indictment, United States of America v. Peterson, Raja, 2014). This resulted in the Navy awarding contracts to GDMA for incidental items associated with port visits instead of awarding these orders to local contractors who could potentially provide the good or service at terms or prices more favorable to the Navy (Complaint, United States of America v. Wisidagama, 2013; Indictment, United States of America v. Peterson, Raja, 2014). This lack of competition led to higher costs. This failure to identify fictitious invoices also caused the Navy to accept bulk fuels that were fraudulently represented by GDMA to be of a specific grade when in reality they were not (Complaint, United States of America v. Wisidagama, 2013). The remaining allegations of procurement fraud aligned under the solicitation

phase consisted of Navy officials providing GDMA with competitor pricing data and internal Navy data pertaining to the Navy's solicitation process in exchange for items of value (Complaint, United States of America v. Francis and Sanchez, 2013).

(4) Source Selection

The alleged acts of procurement fraud that aligned under the source selection phase primarily consisted of efforts by Navy officials who had accepted items of value from GDMA to exert influence on Navy contracting officials (Indictment, United States of America v. Simpkins, 2015; Singapore Government, 2015). These actions were taken to ensure contract awards would be made to GDMA, and that protest actions would be decided in GDMA's favor (Information, United States of America v. Francis and Glenn Defense Marine (Asia) PTE. LTD., 2015; Indictment, United States of America v. Simpkins, 2015; Singapore Government, 2015; Indictment, United States of America v. Brooks, 2016).

The remaining alleged acts of procurement fraud that aligned under the source selection phase consisted of Navy officials providing internal Navy data to GDMA. This data included contracts awarded to GDMA competitors and data pertaining to the methodology of source selection processes (Complaint, United States of America v. Francis and Sanchez, 2013). Additional allegations of procurement fraud occurring in this phase included Navy civilian contracting officers awarding contracts to GDMA in exchange for accepting cash bribes and travel accommodations from GDMA (Indictment, United States of America v. Simpkins, 2015; Singapore Government, 2015). Later, these contracting officers allegedly took action to exercise options for these contracts despite internal Navy concerns about GDMA's billing and pricing practices (Indictment, United States of America v. Simpkins, 2015).

(5) Contract Administration

The alleged acts of procurement fraud that aligned under the contract administration phase primarily consisted of Navy officials accepting items of value from GDMA during Navy port visits (Information, United States of America v. Malaki, 2015; Information, United States of America v. Debord, 2016; Indictment, United States of

America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). In return for accepting items, these Navy officials provided GDMA with assurances that the conspiracy to defraud the Navy would continue indefinitely (Information, United States of America v. Francis and Glenn Defense Marine (Asia) PTE. LTD., 2015; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017).

In exchange for items of value that were accepted during port visits in which GDMA had been awarded a contract or delivery order, Navy officials allegedly took actions and committed to take future actions to route Navy ships to "pearl ports" (Complaint, United States of America v. Francis and Misiewicz, 2013, p. 5). Navy officials committed to pressuring contracting officers to make awards to GDMA and to suppressing negative information relating to GDMA's actual performance (Indictment, United States of America v. Brooks, 2016; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). These officials also allegedly took actions and committed to future efforts to suppress challenges to GDMA billings and prices, to suppress competition, and to provide to competitor price information to GDMA (Complaint, United States of America v. Francis and Sanchez, 2013; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). Additionally, the Navy officials also allegedly pledged to continue to provide GDMA with internal Navy data and classified ships' schedules (Complaint, United States of America v. Francis and Sanchez, 2013; Complaint, United States of America v. Layug, 2014; Information, United States of America v. Malaki, 2015; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). The costs for the items of value provided to these officials are alleged to have been fraudulently included by GDMA in the port visit invoices paid by the Navy (Information, United States of America v. Debord, 2016; Whitlock, 2016a).

The remaining alleged acts that aligned under the contract administration phase also included actions taken by a civilian supervisory contracting officer at Fleet Industrial Supply Center Singapore, Detachment Singapore, who had previously accepted and

continued to receive items of value from GDMA, to derail efforts by Navy officials to challenge invoices submitted by GDMA (Complaint, United States of America v. Simpkins, 2015). This Navy civilian supervisory contracting officer is alleged to have ordered his subordinates to stop using collection, holding, and transfer (CHT) flow meters (Indictment, United States of America v. Simpkins, 2015). This removed the Navy's ability to measure the actual volume of sewage waste removed from ship and provided to GDMA for disposal.

Additional alleged acts of procurement fraud that aligned under the contract administration phase include the Navy's failure to detect that it was fraudulently invoiced and overcharged by GDMA (Indictment, United States of America v. Peterson, Raja, 2014). In this phase, the Navy also failed to detect that GDMA used fictitious vendors to submit quotes for incidental (un-priced) husbanding services (Indictment, United States of America v. Peterson, Raja, 2014). In this phase, the Navy also failed to detect GDMA's fraudulent representation of fuel supplied to Navy ships in Thailand (Complaint, United States of America v. Wisidagama, 2013).

Finally, the alleged conduct of the three Navy admirals censured by the Secretary of the Navy aligns under the contract administration phase These admirals allegedly accepted gifts (models of Navy ships), extravagant meals, and cigars from GDMA at costs well below the market value during a port visit in 2006 (Larter, 2015). One Navy admiral allegedly used GDMA to arrange a tour of Hong Kong and to secure a luxury hotel room. These were services outside the scope of the Navy's contract with GDMA and services for which the Admiral did not pay GDMA (Larter, 2015).

(6) Contract Closeout Phase

The alleged acts of procurement fraud that aligned under the contract closeout phase primarily consisted of Navy officials illegally providing GDMA with internal Navy data relating to port visits (Information, United States of America v. Debord, 2016; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). The officials also allegedly furnished GDMA with internal Navy data regarding Navy efforts and intentions to challenge questionable

bills and invoices submitted by GDMA (Complaint, United States of America v. Francis and Sanchez, 2013; Indictment, United States of America v. Pitts, 2016).

Also included in this phase are allegations that Navy officials furnished GDMA with internal Navy communications regarding the Navy's complaints about GDMA's service levels following port visits (Indictment, United States of America v. Brooks, 2016; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017).

Alleged acts of procurement fraud that aligned under the contract closeout phase also included Navy officials, in exchange for items of value, pressuring other Navy officials to remit payment to GDMA (Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). This pressure was applied when GDMA's invoices were presumably being questioned (Information, United States of America v. Cantu, 2017). Other allegations of procurement fraud occurring in this phase included improper payments by the Navy on invoices that used fraudulent subcontractor and port tariff data. The Navy made improper payments to GDMA for services that GDMA did not allegedly provide (Indictment, United States of America v. Peterson, Raja, 2014; Complaint, United States of America v. Wisidagama, 2013).

Alleged acts of procurement fraud that also aligned under the contract closeout phase included efforts by GDMA to influence future actions by Navy contracting officers by having Navy officials issue "Bravo Zulu" messages and letters in exchange for items of value (Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). These correspondences described GDMA's support of a particular port visit in glowing terms. These correspondences could later be used by GDMA to establish a satisfactory past performance record, a criterion used in the source selection process for most government contracts (Indictment, United States of America v. Brooks, 2016; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017).

Furthermore, included in this phase were allegations that Navy officials submitted contractor performance evaluations of GDMA to Navy contracting officers that had been ghost written by GDMA employees (Indictment, United States of America v. Brooks, 2016). Finally, allegations of procurement fraud occurring in the contract closeout phase included efforts by Navy officials, in exchange for items of value, to quash and prevent Navy contracting officers from learning about customers concerns and complaints about GDMA service levels (Indictment, United States of America v. Brooks, 2016; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017)

(7) "Other"

As depicted in Table 1, 219 alleged acts procurement fraud could not be aligned under any of the six phases of the contract management process. These alleged acts were aligned under a phase called "other." These alleged acts predominately consisted of allegations that involved Navy officials who were once directly involved in the GDMA conspiracy and later left the conspiracy due to reassignment within the Navy. According to these allegations, these officials subsequently attempted to obtain items of value from GDMA such as cash, the services of prostitutes, and employment opportunities, despite the fact that these officials no longer occupied positions that allowed them to execute official acts or influence acts that would enrich GDMA (Indictment, United States of America v. Simpkins, 2015; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). Other allegations of fraud aligned with the "other" phase included acts of alleged collusion between a Naval Criminal Investigative Service (NCIS) agent and GDMA (Complaint, United States of America v. Francis, and Beliveau, 2013).

b. Seller's Side

The findings from the analysis of the alleged acts of procurement fraud for seller's side of the contract management process provide a mirror image of the alleged acts of fraud from the buyer's side. However, these acts of alleged fraud are stated in terms of alleged actions taken by GDMA.

(1) Pre-sales Activity

The alleged acts of procurement fraud that aligned under the pre-sales activity phase primarily consisted of efforts by GDMA and Francis to influence Navy ships' schedules. Specifically, GDMA allegedly provided Navy officials with items of value, and in exchange for these items, Navy officials worked to route Navy ships to "pearl ports" (Complaint, United States of America v. Francis and Misiewicz, 2013, p. 5; Information, United States of America v. Dusek, 2015; Whitlock, 2016a). One specific allegation is that GDMA and Francis provided a Navy official with items of value in exchange for lobbying and pressuring State Department and Navy officials to schedule an aircraft carrier port visit to Sepangar, Malaysia, in late 2012 (Complaint, United States of America v. Francis and Misiewicz, 2013). Ultimately, the Navy official was successful in lobbying State Department and Navy officials to schedule the visit (Complaint, United States of America v. Francis and Misiewicz, 2013). Prior to finalizing the schedule for the visit of the aircraft carrier USS JOHN C. STENNIS to Sepangar, Malaysia, in September 2012, the Officer-in-Charge of Fleet Logistics Support Center Yokosuka, Detachment Singapore warned the Navy official in charge of scheduling that the planned visit by a carrier to Sepangar presented serious risk (Complaint, United States of America v. Francis and Misiewicz, 2013). The Officer-in-Charge offered three contracting options to support the visit. "(1) Support the visit using the region 2 contract (GDMA is the holder), which [the OIC] stated had a '[h]igh [e]xecution [r]is and [p]rice risk'; (2) award a separate contract specifically for Sepangar; (3) change the location of the port visit" (Complaint, United States of America v. Francis and Misiewicz, 2013, p. 19). The Navy official in charge of ship scheduling argued very strongly for option 1 and ultimately succeeded in scheduling the visit (Complaint, United States of America v. Francis and Misiewicz, 2013). For that visit, GDMA billed the Navy for a total price $2,700,000 (Complaint, United States of America v. Francis and Misiewicz, 2013). According to analysis conducted by DCAA, in 2011, the average of two aircraft carrier port visits at other ports in Malaysia only cost the Navy $1,360,0000 (Complaint, United States of America v. Francis and Misiewicz, 2013). The aircraft carrier *USS George Washington* (CVN 73) also completed a port visit in a "pearl port" later that year, specifically, Port

Klang, Malaysia, in October 2012. The port visit came at cost to the Navy of over $1,800,000 (Complaint, United States of America v. Francis and Misiewicz, 2013).

Other alleged acts procurement fraud that aligned under the pre-sales activity phase included alleged efforts by GDMA to continuously furnish Navy officials with items of value to prolong and continue GDMA's procurement fraud conspiracy of routing Navy ships to "pearl ports" (Complaint, United States of America v. Francis and Misiewicz, 2013, p. 5; Information, United States of America v. Dusek, 2015; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). GDMA also allegedly requested and received competitor pricing data following specific port visits that were supported by GDMA competitors (Complaint, United States of America v Francis and Sanchez, 2013; Complaint, United States of America v. Layug, 2014; Information, United States of America v. Malaki, 2015; Information, United States of America v. Debord, 2016). In addition, GDMA also allegedly requested and received internal Navy data and communications concerning the Navy's planned strategy data relating to husbanding and cost reduction efforts (Complaint, United States of America v Francis and Sanchez, 2013).

Alleged acts procurement fraud that also aligned under the pre-sales activity phase included actions by GDMA to influence future actions by Navy contracting officers by having Navy officials issue "Bravo Zulu" messages and letters in exchange for items of value (Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). These correspondences described GDMA's support of a particular port visit in glowing terms. These correspondences could later be used by GDMA to establish a satisfactory past performance record, a criterion used in the source selection process for most government contracts (Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). Included in this phase were also allegations that employees of GDMA ghost wrote GDMA performance evaluations and demanded Navy officials to submit these evaluations to Navy contracting officers (Indictment, United States of America v. Brooks, 2016). Finally, allegations of

procurement fraud included in this phase were alleged actions taken by GDMA to influence future actions by Navy contracting officers by requesting Navy officials to submit false official complaints pertaining to the GDMA competitors (Indictment, United States of America v. Brooks, 2016; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017).

(2) Bid or No Bid Decision Making

The research did not identify any alleged acts of procurement fraud that aligned under the bid or no bid decision making phase. This was because relevant allegations of fraud found in the publicly available documents pertained only to husbanding actions in which it appeared that GDMA had determined that it would submit a bid or proposal.

(3) Bid or Proposal Preparation

The alleged acts of procurement fraud that aligned under the bid or proposal preparation phase primarily consisted of GDMA receiving classified ships' schedules. Illegally receiving these schedules in advance of a husbanding service contract RFP allowed GDMA to mobilize its own assets, such as barges or tugboats, to distant ports (Complaint, United States of America v. Francis and Misiewicz, 2013). Using its own assets to provide services was much cheaper than relying on subcontractors and increased its profit (Complaint, United States of America v. Francis and Misiewicz, 2013).

Other alleged acts of procurement fraud also occurring in the bid or proposal preparation phase consisted of efforts taken by GDMA to create fictitious vendors to win contract awards for incidental (un-priced) items associated with port visits (Indictment, United States of America v. Peterson, Raja, 2014; Complaint, United States of America v. Wisidagama, 2013). In this phase, GDMA also allegedly made fraudulent representations regarding bulk fuel it proposed to sell to the Navy (Complaint, United States of America v. Wisidagama, 2013). GDMA also allegedly demanded Navy officials to design specific mooring configurations for specific port visits (Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). These arrangements, if enacted, would enhance GDMA's revenues.

During this phase, GDMA also allegedly received proprietary Navy data pertaining to the Navy's treatment and strategy for managing port visit costs (Complaint, United States of America v Francis and Sanchez, 2013). GDMA is also alleged to have received internal Navy data describing port visit requirements and internal data relating to pending solicitations (Complaint, United States of America v Francis and Sanchez, 2013; Other allegations of procurement fraud occurring in the bid or proposal preparation phase consisted of GDMA allegedly receiving proprietary competitor pricing (Complaint, United States of America v Francis and Sanchez, 2013). This information assisted GDMA in constructing its proposals and influencing contract negotiations.

(4) Contract Negotiation and Formation

The alleged acts of procurement fraud that aligned under the contract negotiation and formation phase primarily consisted of efforts taken by GDMA to bribe navy officials to exert influence on Navy contracting officials (Complaint, United States of America v. Francis and Misiewicz, 2013; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). Other allegations occurring in this phase consisted of efforts taken by GDMA to bribe contracting officers to award contracts to GDMA (Indictment, United States of America v. Simpkins, 2015; Singapore Government, 2015).

Furthermore, still other alleged acts of procurement fraud that aligned under the contract negotiation and formation phase consisted of GDMA receiving proprietary competitor data and internal Navy information (Complaint, United States of America v Francis and Sanchez, 2013). This information pertained to contracts awarded to GDMA competitors and included internal Navy data pertaining to the methodology of the source selection process for particular contract awards (Complaint, United States of America v Francis and Sanchez, 2013).

(5) Contract Administration

The alleged acts of procurement fraud that aligned under the contact administration phase consisted of efforts taken by GDMA to provide Navy officials with items of value (Information, United States of America v. Malaki, 2015; Information,

United States of America v. Debord, 2016; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). These allegations occurred during Navy ship port visits in which the Navy had awarded a contract to GDMA (Information, United States of America v. Malaki, 2015; Information, United States of America v. Debord, 2016; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). In exchange for items of value, GDMA was assured by Navy officials that its conspiracy to defraud the Navy would continue (Information, United States of America v. Francis and Glenn Defense Marine (ASIA) PTE., 2015; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). Specifically, GDMA was assured by Navy officials that they would continue to route Navy ships to "pearl ports," pressure Navy contracting officers to make awards to GDMA, and suppress negative information relating to GDMA's actual performance (Indictment, United States of America v. Brooks, 2016; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). Based on these assurances and exchanges of value, GDMA later requested these officials to suppress challenges to GDMA billings and prices, suppress competition, and provide GDMA with competitor price information (Indictment, United States of America v. Brooks, 2016; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). GDMA was also assured these Navy officials would provide and continue to provide GDMA with internal Navy data and classified ships' schedules (Information, United States of America v. Malaki, 2015; Indictment, United States of America v. Brooks, 2016; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). The costs for the items of value provided to these officials are alleged to have been fraudulently included by GDMA in the port visit invoices paid by the Navy (Information, United States of America v. Debord, 2016; Whitlock, 2016a).

Other alleged acts of procurement fraud that aligned under the contract administration phase also included GDMA requesting a civilian supervisory contracting officer at Fleet Industrial Supply Center Singapore, Detachment Singapore, who had

previously accepted and continued to receive items of value from GDMA, to derail efforts by Navy officials in Hong Kong who sought to challenge invoices submitted by GDMA (Indictment, United States of America v. Simpkins, 2015). At the request of GDMA, this Navy civilian supervisory contracting officer is alleged to have ordered his subordinates to stop using CHT flow meters (Complaint, United States of America v. Simpkins, 2015). This removed the Navy's ability to measure the actual volume of sewage waste removed from ship and provided to GDMA for disposal.

Finally, the alleged conduct of the three Navy admirals censured by the Secretary of the Navy were aligned under the contract administration phase. These admirals allegedly accepted gifts (models of Navy ships), extravagant meals, and cigars from GDMA at costs well below the market value during a port visit in 2006 (Larter, 2015). One Navy admiral allegedly used GDMA to arrange a tour of Hong Kong and to secure a luxury hotel room. These were services outside the scope of the Navy's contract with GDMA and services for which the admiral did not pay GDMA (Larter, 2015).

(6) Contract closeout

The alleged acts of procurement fraud that aligned under the contract closeout phase primarily consisted of GDMA obtaining internal Navy data relating to port visits (e.g., after action reports) (Information, United States of America v. Debord, 2016; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). GDMA also received internal Navy data regarding Navy efforts and intentions to challenge questionable bills and invoices submitted by GDMA (Complaint, United States of America v Francis and Sanchez, 2013). Allegations that GDMA received internal Navy communications regarding the Navy's complaints about GDMA's service levels following port visits are included in this phase (Complaint, United States of America v Francis and Sanchez, 2013; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017).

Alleged acts of procurement fraud that aligned under the contract closeout phase also included GDMA requesting Navy officials to pressure other Navy officials to remit

payment to GDMA (Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017; Information, United States of America v. Cantu, 2017). This pressure was applied when GDMA's invoices were presumably being questioned. Other allegations of procurement fraud occurring in this phase included improper payments by the Navy for invoices that used fraudulent subcontractor and port tariff data and payments to GDMA for services that were not provided to the Navy (Indictment, United States of America v. Peterson, Raja, 2014; Complaint, United States of America v. Wisidagama, 2013).

Alleged acts of procurement fraud also occurring in the contract closeout phase included GDMA efforts to have Navy officials issue "Bravo Zulu" messages and letters in exchange for items of value (Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). These correspondences described GDMA's support of a particular port visit in glowing terms. These correspondences could later be used by GDMA to establish a satisfactory past performance record, a criterion used in the source selection process for most government contracts (Indictment, United States of America v. Brooks, 2016; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). Included in this phase were also allegations that employees of GDMA ghost wrote GDMA performance evaluations and demanded Navy officials to submit these evaluations to Navy contracting officers (Indictment, United States of America v. Brooks, 2016). Finally, allegations of procurement fraud also occurring in the contract closeout phase were requests by GDMA that concerns and complaints about GDMA service levels be quashed and be prevented from being presented to contracting officers (Indictment, United States of America v. Brooks, 2016; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017).

(7) "Other"

As depicted in Table 2, 125 alleged acts of fraud could not be aligned under any of the six phases of the contract management process. These alleged acts were aligned under a phase called "other. These alleged acts consisted of allegations that involved

Navy officials who were once directly involved in the GDMA conspiracy and later left the conspiracy due to reassignment within the Navy. According to these allegations, these officials subsequently attempted to obtain items of value from GDMA such as cash, the services of prostitutes, and employment opportunities, despite the fact that these officials no longer occupied positions that allowed them to execute official acts or influence acts that would enrich GDMA (Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). Other allegations of fraud aligned into the "other" phase included acts of alleged collusion between a Naval Criminal Investigative Service (NCIS) agent and GDMA (Complaint, United States of America v. Francis, and Beliveau, 2013). The alleged acts of fraud committed by GDMA personnel that aligned under this phase appear to have been perpetrated for the purposes of prolonging and concealing GDMA's procurement fraud schemes (Complaint, United States of America v. Francis, and Beliveau, 2013); Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017).

2. Internal Controls

a. Control Environment

The allegations of procurement fraud that occurred due to deficiencies in the internal control component of control environment occurred because of an unethical climate and culture that developed within the top leadership component of the Navy's 7th Fleet staff. In its 1987 report, the Treadway Commission explained, that "the tone set by top management that influences the corporate environment" is of overriding importance in preventing fraud within an organization (National Commission on Fraudulent Financial Accounting Report, 1987, p. 11). Additionally, allegations of procurement fraud occurred because of a lack of "standards, processes, and structures that provide the basis for carrying out internal control across the organization" (COSO, 2013, p. 4).

With the exception of one enlisted Navy sailor, the majority of personnel indicted by the federal courts have been Navy officers. A majority of these officers were in the paygrades of O5 and greater and served on the Navy's 7th Fleet Staff at some point between 2006 and 2013 (Whitlock, 2016a). The conspiracy to defraud the Navy was

pervasive amongst top leaders who served in 7th Fleet staff positions. For example, from 22–25 May 2008, GDMA allegedly hosted a three-day party at a luxury hotel in Manila, Philippines for officers from the 7th Fleet staff. At this party, GDMA allegedly provided these officials with a rotating carousel of prostitutes. The partygoers are alleged to have drunk all of the hotel's Dom Perignon champagne. The total cost of the party was estimated at $50,000 (Indictment, United States of America v. Newland, Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017).

In addition, allegations of procurement fraud that occurred due to deficiencies in the control environment component include actions allegedly taken by Navy officials to assist GDMA in continuing its conspiracy to defraud the Navy. To accomplish this, GDMA allegedly hosted lavish dinners at ports of call for these officials and hosted "changing of the guard" dinners designed to recruit new members of the 7th Fleet staff into the conspiracy (Indictment, United States of America v. Newland, Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). Additionally, Navy officials would furnish Francis with personality profiles of Navy officials to determine if they would be candidates to join the conspiracy (Information, United States of America v. Aruffo, 2014; Indictment, United States of America v. Newland, Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017).

Allegations of procurement fraud that occurred due to the deficiencies in the control environment component also included Navy civilian contracting officers awarding contracts to GDMA in exchange for accepting cash bribes and travel accommodations (Indictment, United States of America v. Simpkins, 2015; Singapore Government, 2015). Later, these contracting officers allegedly took action to exercise options for these contracts despite internal Navy concerns about GDMA's billing and pricing practices (Indictment, United States of America v. Simpkins, 2015). The research findings supported that GDMA allegedly was able to perpetrate procurement fraud against the Navy for a long period because of a lack of standards, processes, and structure across the Navy's husbanding contract management organizations.

b. Risk Assessment

This research study did not identify any instances in which risk assessment was the primary internal control deficiency that permitted the alleged acts of fraud to occur. This is because the allegations of fraud involve overt acts and the definition of risk assessment provided in Chapter II states that risk assessment involves "The identification, analysis, and management of risk faced by an organization" (Chang, 2013, p. 16). However, because fraud allegedly occurred, it can be argued that each act of alleged fraud could be aligned with the risk assessment component. Effective risk assessment would have prevented the alleged fraud from occurring. However, given the limitation of this research to align each alleged act of fraud with the primary internal control component that permitted the alleged act to occur, no alleged acts of fraud were aligned to risk assessment in this research study.

c. Information and Communication

The alleged acts of procurement fraud that occurred due to deficiencies in the internal component of information and communication occurred because of an abuse of classified and proprietary data. GAO (2001) explains, "That information should be recorded and communicated to management and others within the agency who need it and in a form and within a time frame that enables them to carry out their internal control and operational responsibilities" (GAO, 2001, p. 51).

In exchange for items of value, Navy officials allegedly provided GDMA with competitor pricing data, classified ships' schedules, and internal Navy data pertaining to the contract management process. (Complaint, United States of America v. Francis and Misiewicz, 2013; Complaint, United States of America v Francis and Sanchez, 2013; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). GDMA also allegedly received internal Navy information pertaining to the criminal investigations that NCIS was pursuing against the firm (Complaint, United States of America v. Francis, and Beliveau, 2013). This information assisted GDMA in constructing its contract proposals and influenced its contract negotiations with the Navy. Additionally, GDMA was able to use the ships'

schedule information to mobilize its own assets, such as barges or tugboats, to far-away ports. Using its own assets to provide services was much cheaper than relying on subcontractors and increased its profit (Complaint, United States of America v. Francis and Misiewicz, 2013).

In the case of the NCIS agent in collusion with GDMA, GDMA received up-to-date information concerning the multiple investigations NCIS was pursuing against GDMA (Complaint, United States of America v. Francis, and Beliveau, 2013). This allowed GDMA to remain ahead of the Navy and to make changes to internal GDMA processes that were under question by Navy investigators and contracting officials. For example, after a NCIS agent allegedly briefed GDMA on developments into an NCIS investigation into fraudulent billing practices, GDMA allegedly changed their business process related to billing procedures (Complaint, United States of America v. Francis, and Beliveau, 2013). Specifically, GDMA changed their process to submit purported subcontractor bids using GDMA letterhead instead of submitting the falsified quotes directly to the contracting officer (Complaint, United States of America v. Francis, and Beliveau, 2013). This had the effect of prolonging GDMA's alleged conspiracy to defraud the Navy.

d. Control Activities

The alleged acts of procurement fraud that occurred due to deficiencies in the internal control component of control activities occurred because the Navy failed to execute "actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out" (COSO, 2013, p.4). Specific allegations of procurement fraud that occurred due to the Navy's failure to properly execute control activities include actions by Navy officials to request items of value and directed the costs of those items to be fraudulently included in GDMA port visit invoices (Information, United States of America v. Debord, 2016). In these cases, the Navy rendered payment based on these invoices (Information, United States of America v. Debord, 2016). Also included are alleged efforts by GDMA to create fictitious vendors to win contract awards for incidental items associated with port

visits (Complaint, United States of America v. Wisidagama, 2013; Indictment, United States of America v. Peterson, Raja, 2014). The absence of control activities allowed GDMA to win contract awards despite a mandate for competition (Complaint, United States of America v. Wisidagama, 2013; Indictment, United States of America v. Peterson, Raja, 2014).

In addition, alleged acts of procurement fraud that occurred due to deficiencies in control activities include actions taken by Navy officials to pressure other Navy officials to remit payments to GDMA (Indictment, United States of America v. Newland, Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). This pressure was typically applied when GDMA's invoices were presumably being questioned. Other allegations of procurement fraud occurring in this phase include improper payments by the Navy for invoices that used fraudulent subcontractor and port tariff data and improper payments to GDMA for services that were not provided to the Navy (Complaint, United States of America v. Wisidagama, 2013; Indictment, United States of America v. Peterson, Raja, 2014).

e. Monitoring Activities

The alleged acts of procurement fraud that occurred due to deficiencies in the internal control component of monitoring activities occurred because the Navy lacked "ongoing evaluations, separate evaluations, or some combination of the two" (COSO, 2013, p. 5). It should be noted that the number allegations of procurement fraud that occurred due to deficiencies in monitoring activities was a relatively low number. This is because the overwhelming majority of allegations of fraud involve single overt acts. In this research, the internal control component of monitoring activities was aligned with allegations of fraudulent acts that employed a particular fraud scheme over extended periods, or across similar activities. It was deficiencies in the Navy's monitoring activities that permitted the alleged particular fraud schemes to occur over time and be perpetrated across similar activities.

Specific alleged acts of procurement fraud that occurred due to deficiencies in monitoring activities included GDMA creating fraudulent port authorities and shell

companies (Complaint, United States of America v. Wisidagama, 2013; Indictment, United States of America v. Peterson, Raja, 2014). Shell companies are fake businesses or entities that are established for the purpose of invoicing a company or the government for goods or services that it does not receive (Wells, 2002). GDMA is alleged to have submitted fraudulent port tariff invoices using these fraudulent entities at inflated costs for ships making ports of call in Sepangar, Malaysia, Bali, Indonesia, Langkawi, Malaysia, and Ream, Cambodia (Complaint, United States of America v. Wisidagama, 2013).

Also included under monitoring activities are allegations that GDMA fraudulently represented fuel sales. GDMA allegedly told the Navy that the Government of Thailand required that ship fuels must contain a bio-diesel mix (Complaint, United States of America v. Wisidagama, 2013). As a result, GDMA allegedly stated that it would have to import fuel into Thailand to meet Navy and Thai government specifications. However, the government of Thailand imposed no such regulation (Complaint, United States of America v. Wisidagama, 2013). Allegedly, GDMA procured fuels from local vendors while purporting to import the fuels. According to an analysis by the Defense Contract Audit Agency (DCAA), the losses to the United States on fuel charges in Thailand alone exceeded $3,000,000 for five fuel purchases in 2011 (Complaint, United States of America v. Wisidagama, 2013).

Other alleged acts of procurement fraud that occurred due to deficiencies in monitoring activities include the Navy awarding contracts to GDMA up until Francis' apprehension by federal authorities in 2013 (Perry, 2013; Standifer, 2017). As early as December 2006 concerns about GDMA's excessively high costs were documented, yet the Navy continued to award contracts to the firm (Indictment, United States of America v. Simpkins, 2015; Whitlock, 2016b).

3. Procurement Fraud Schemes

Based on the research findings, collusion was the alleged fraud scheme that was prevalent in the Fat Leonard case. Each procurement fraud scheme that occurred will be analyzed and discussed in the next sections.

a. Collusion

The instances of collusion consisted of Navy officials allegedly receiving items of value from GDMA in exchange for performing and influencing the execution of official acts. In exchange for items of value, Navy officials provided GDMA with classified ships' schedule information, vendor pricing information, and internal Navy data (Information, United States of America v. Francis and Glenn Defense Marine (Asia) PTE. LTD., 2015; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). Items of value received by Navy officials included gifts, hotel rooms, cash, prostitutes, entertainment, meals, and travel (Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017).

In addition, acts of collusion also include allegations that Navy officials accepted items of value in exchange for efforts to schedule port visits in "pearl ports (Complaint, United States of America v. Francis and Misiewicz, 2013, p. 5) "Pearl ports" referred to ports of call for which the Navy had reduced visibility and GDMA had the opportunity to generate higher revenues for a particular port visit (Complaint, United States of America v. Francis and Misiewicz, 2013). Acts of collusion include allegations that Navy officials made specific arrangements during port visits that were beneficial to GDMA in exchange for items of value. This included directing specific mooring arrangements for ships that would result in increased revenues for GDMA and increased costs for the Navy (Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017).

Furthermore, acts of collusion also include allegations that Navy officials accepted items of value from GDMA in exchange for pressuring Navy contracting officers to make awards to GDMA and suppressed negative information relating to GDMA's actual performance (Indictment, United States of America v. Brooks, 2016; Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017). These officials allegedly also took actions and committed to future efforts to suppress challenges to GDMA billings and prices, pressure Navy officials to remit payments to GDMA for questionable invoices, and suppress

GDMA's competitors (Indictment, United States of America v. Newland, Deguzman, Hornbeck, Loveless, Lausman, Shedd, Herrera, Gorsuch, 2017).

Acts of collusion also included allegations that Navy civilian contracting officers at Fleet Industrial Supply Center Yokosuka, Detachment Singapore, accepted cash bribes and travel accommodations from GDMA (Indictment, United States of America v. Simpkins, 2015; Singapore Government, 2015). In exchange for cash and travel accommodations, these contracting officers allegedly took action to award GDMA long term IDIQ contracts for husbanding services in the Republic of the Philippines and Thailand (Indictment, United States of America v. Simpkins, 2015; Singapore Government, 2015). Later, these contracting officers allegedly took action to exercise options for these contracts despite internal Navy concerns about GDMA's billing and pricing practices (Indictment, United States of America v. Simpkins, 2015).

Collusion in this case also included alleged kickbacks between GDMA and subcontractors in Japan during the period of July 1, 2009 to December 31, 2010 (Information, United States of America v. Aruffo, 2014). During this time, GDMA held the contract to provide husbanding support to U.S. Navy vessels making ports of call in Japan (Information, United States of America v. Aruffo, 2014). Under the contract closeout process used by the Navy in support of this contract, GDMA subcontractors would submit their invoices directly to the Navy after completion of husbanding services (Information, United States of America v. Aruffo, 2014). Under this process, Navy shipboard personnel via a United States treasury check would make payment to these subcontractors (Information, United States of America v. Aruffo, 2014). Under this stratagem, GDMA allegedly required Japanese subcontractors to agree to overbill the Navy in order for that subcontractor to participate in the contract. After receiving payment, the subcontractor kicked back the overpayment to GDMA (Information, United States of America v. Aruffo, 2014). This money was allegedly used by GDMA to fund the items of value provided to Navy officials participating in the conspiracy to defraud the Navy (Information, United States of America v. Aruffo, 2014). These items of value included gifts, hotel rooms, cash, prostitutes, entertainment, meals, and travel (Information, United States of America v. Francis and Glenn Defense Marine (Asia)

PTE. LTD., 2015). The use of a kickback scheme allegedly allowed GDMA to purchase these items and keep these transactions off its official accounting record (Information, United States of America v. Aruffo, 2014).

Collusion in this case also included GDMA's alleged recruitment of an NCIS agent (Complaint, United States of America v. Francis, and Beliveau, 2013). In exchange for items of value, the NCIS agent allegedly provided GDMA with up-to-date information concerning the multiple investigations NCIS was pursuing against GDMA (Complaint, United States of America v. Francis, and Beliveau, 2013). This allowed GDMA to remain ahead of the Navy and to make changes to internal GDMA processes that were under question by Navy investigators and procurement officials (Complaint, United States of America v. Francis, and Beliveau, 2013). This had the effect of prolonging GDMA's conspiracy to defraud the Navy.

b. Conflict of Interest

The alleged acts in the conflict of interest scheme involved GDMA efforts to influence the contract management process. Specifically, these acts were aligned to the actions taken by the three admirals who were eventually censured by the Navy. These admirals allegedly accepted ship models, extravagant meals, and cigars at costs well below the market value (Larter, 2015). One Navy admiral allegedly used GDMA to arrange a tour of Hong Kong and reserve a luxury hotel room for which he did not pay (Larter, 2015).

c. Billing, Cost, and Pricing Fraud schemes

The billing, cost, and pricing fraud schemes consisted of alleged GDMA efforts to receive improper payments based off the submission of fraudulent subcontractor and port tariff invoices to the U.S. government (Complaint, United States of America v. Wisidagama, 2013; Indictment, United States of America v. Peterson, Raja, 2014). GDMA inflated their payments and capitalized upon the Navy's lack of procedural compliance and weak contract closeout processes. Specifically, GDMA created corporate letterhead and submitted quotes for companies and port authorities that did not exist. It is alleged that the services that GDMA claimed were performed by subcontractors were

actually performed by GDMA at inflated rates (Complaint, United States of America v. Wisidagama, 2013; Indictment, United States of America v. Peterson, Raja, 2014). In the case of port tariffs, it is alleged that these costs were never incurred (Complaint, United States of America v. Wisidagama, 2013; Indictment, United States of America v. Peterson, Raja, 2014).

d. Bid Rigging

The bid rigging fraud schemes consisted of alleged GDMA efforts to create fictitious vendors to win contract awards for incidental items associated with port visits. In accordance with the Navy Husbanding Service Region 2 contract, awarded to GDMA in the summer of 2011, incidentals consisted of "items that fell within the general scope of husbanding services but not enumerated as fixed price items" (Indictment, United States of America v. Peterson, Raja, 2014, p. 3). GDMA was required to furnish the Navy contracting officer with at least two competitive quotes when an incidental service/supply was requested. Based on the publically available documents describing the Region 2 contract, GDMA was allowed to compete with other vendors to provide incidental services provided it disclosed in their quote to the contracting officer "any profit or markup" (Indictment, United States of America v. Peterson, Raja, 2014, p. 3). Along with its quote, "GDMA would also submit an Authorized Government Representative Form (AGR Form) in which it GDMA would recommend a source. After receiving the quotes and the AGR form, the Navy contracting officer would select which vendor to use for each incidental" (Indictment, United States of America v. Peterson, Raja, 2014, p. 3). After a Navy Criminal Investigative Service (NCIS) Agent, allegedly engaged in a conspiracy to defraud the Navy, briefed GDMA on classified information regarding NCIS's investigation into GDMA, it is alleged that GDMA changed their business process (Complaint, United States of America v. Francis, and Beliveau, 2013). Specifically, it is alleged that following this briefing, GDMA began to submit purported subcontractor bids using GDMA letterhead instead of submitting the falsified quotes directly to the contracting officer (Complaint, United States of America v. Francis, and Beliveau, 2013).

e. Fraudulent Representations

The fraudulent representations schemes involved allegations that GDMA inflated the price of fuel supplied to Navy ships and made other false representations concerning fuel purchases (Complaint, United States of America v. Wisidagama, 2013). Specifically, GDMA allegedly told the Navy that the Government of Thailand required that fuel contain a bio-diesel mix, and as a result, GDMA would have to import fuel that met Navy specifications (Complaint, United States of America v. Wisidagama, 2013). The Government of Thailand imposed no such regulation, and allegedly, GDMA procured fuels from local vendors. E-mail messages obtained by the investigators revealed that GDMA management was intimately aware of and involved in the orchestration of this fraud, directing the fuel purchases and billings for Navy ships and receiving profit and loss statements for each ship visit to Thailand (Complaint, United States of America v. Wisidagama, 2013). According to an analysis by Defense Contract Audit Agency (DCAA), the losses to the United States on fuel charges in Thailand alone exceeded $3,000,000 for five fuel purchases in 2011 (Complaint, United States of America v. Wisidagama, 2013).

f. Fraudulent Purchases

This research study did not identify any alleged acts of procurement fraud that fell under the category of the fraudulent purchases procurement fraud scheme based on the definition of fraudulent purchases used in this research study. Fraudulent purchases are defined as purchases made by a government buyer for personal use (Castillo & Flanagan, 2014).

D. RECOMMENDATIONS BASED ON RESEARCH FINDINGS

These recommendations, based on the research findings, focus on procurement fraud training, ethics training, contracting training, enhancing personnel competency, documentation control, control activities, and monitoring activities. If implemented, these recommendations may decrease the Navy's vulnerability to procurement fraud when contracting for husbanding services.

1. Create Husbanding Services Contracting Course

As reflected in Figure 9, 26% of alleged acts of fraud in the Fat Leonard case occurred in the buyer's contract administration phases, 19% occurred in the procurement planning phase, and 18% in the solicitation planning phase. These research findings demonstrate weaknesses in the competency of process stakeholders, the capability of husbanding services contract management processes, and knowledge of procurement fraud schemes. Given the unique nature of husbanding, and the disparate area of operations over which services are provided, differences in requirements, and turnover of personnel at overseas contracting offices, the Navy should coordinate with the Defense Acquisition University to develop a resident class on husbanding service contracting. Completion of the class should be mandatory for all enlisted Logistics Specialists, Supply Corps Officers, and civilian contracting work force personnel participating in husbanding contracting. The class should focus on husbanding requirements, the differences in requirements between the different ship types, Navy HSP processes, and market research techniques in foreign markets. The class should also teach contract vehicle types and associated risks, cost realism and cost reasonableness analysis, internal controls, lessons learned, and best practices that can be employed through each of the six phases of the contract management process. The class should also teach methods to detect procurement fraud.

2. Incorporate Specifics from the Fat Leonard Case into Ethics Training

As reflected in Figure 11, deficiencies in the control environment component accounted for 52% of the alleged acts of fraud in the Fat Leonard case. GAO found that ethical behavior, employee competence, and organization structure are the key factors that dictate the control environment. In addition, management must set the example and display integrity and ethical behavior (GAO, 1999). To foster an ethical environment, set an ethical tone from the top, and employ lessons learned from this case, the Navy should incorporate specifics from the Fat Leonard case into ethics training conducted in officer accession programs, service schools, and leadership classes for both officers and enlisted personnel.

3. Protect Classified Ships' Schedule Information

As reflected in Figure 11, deficiencies in the information and communication component accounted for 38% of the alleged acts of fraud in the Fat Leonard case. The 2014 Naval Audit Service report asserted that the Navy's 5th and 6th Fleets did not have sufficient controls in place over the management of classified ships' schedules. The research showed that a majority of procurement fraud occurring in the Navy's solicitation planning phase and in GDMA's bid or proposal preparation phase were related to the Navy officials providing GDMA with classified ships' schedules. Since illegally leaking ships' schedules to HSPs violates the laws concerning the preservation of classified information and provides illegal advantages to HSPs, the Navy should heed the Naval Audit Service's recommendation. The Naval Audit Service stated the numbered Fleets should take action to "limit access to ships' schedules to authorized individuals with a need to know, and assign and maintain accountability for their custody and use" (Naval Audit Service, 2014, p. 23).

4. Protect Proprietary and Internal Government Data

As reflected in Figure 11, deficiencies in the information and communication component accounted for 38% of the alleged acts of fraud in the Fat Leonard case. The research findings showed that a significant number of the allegations of procurement fraud occurring in the Navy's solicitation planning phase and solicitation phase consisted of GDMA receiving competitor pricing data and internal Navy data. Additionally, GDMA was able to obtain criminal investigative reports. This allowed GDMA to evade criminal investigators and modify its procurement fraud schemes. Accordingly, the Navy should take steps to establish firewalls within the Navy contracting organizations and NCIS to mitigate and prevent the leaking of proprietary and internal government data.

5. Improve and Enhance Control Activities

As reflected in Figure 11, deficiencies in control activities accounted for 9% of the alleged acts of fraud in the Fat Leonard case. Efforts to enhance the auditability of contracting organizations by instituting control activities in each phase are recommended. Specific recommendations include the deployment of husbanding contracting officers and

CORs to the port visit site, installation of flow meters on all Navy ships to measure actual volumetric wastes removed, the use of approved qualified vendor lists to verify subcontractors and HSP quotations, and procedures to install strong verification processes in the contract closeout phase. This should help deter and prevent improper payments.

6. Improve and Enhance Monitoring Activities

As reflected in Figure 11, deficiencies in monitoring activities only accounted for 1% of the alleged acts of fraud in the Fat Leonard case. However, ongoing evaluations that validate the effectiveness of internal controls and procedures in the organization are vital to deter procurement fraud. As a result, efforts to enhance the auditability of contracting organizations by instituting monitoring activities are recommended. The establishment of a holistic organizational monitoring program, exclusive of the Navy's Procurement Performance Management Program (PPMAP) is recommended. The program should include periodic and systematic reviews and comparisons of contract management files by personnel both within the contract management organization and by personnel from an independent Navy organization. Review efforts should focus on gauging the value received by the Navy in terms of satisfying cost, schedule, and performance requirements. This program should also focus on process improvement. Best practices, lessons learned, deficiencies, and vulnerabilities should be captured in a lessons learned database. The database should be accessible by all Navy contracting officers that execute husbanding service contracts. Finally, an assessment of procurement fraud should be incorporated into the monitoring program to ensure early recognition and detection of procurement fraud schemes. Management support and commitment are required to apply lessons learned from this process and make changes to future contracts that incorporate risk assessment considerations.

7. Create and Mandate Procurement Fraud Training

As reflected in Figure 12, nearly 92% of the acts of alleged fraud in the Fat Leonard case were categorized as collusion. Given the long period of time during which this fraud allegedly occurred, this research finding suggests that contracting personnel, to

include contracting officer's representatives, personnel interacting with HSPs, and DOD criminal investigators, were weak on recognizing procurement fraud indicators. The research findings also show that contracting personnel in particular did not contemplate vulnerabilities and possible procurement fraud schemes when structuring contract vehicles. As previously stated in Chapter II, past research has shown DOD contracting officers have low knowledge levels of procurement fraud and internal controls and yet perceive their organizations to not be vulnerable to fraud (Rendon & Rendon, 2015). To address this lack of knowledge and consistent with previous research, it is recommended all Navy acquisition work force personnel be required to complete mandatory training on procurement fraud indicators (Rendon & Rendon, 2016). Although the Defense Acquisition University (DAU) has a continuous learning module (CLM 049) on procurement fraud indicators and a course (AUD 1283) on fraud awareness, these courses are not mandated for Navy acquisition work force personnel and criminal investigators. Completion of this course and periodic refresher training should be mandatory. Additionally, the Navy should mandate all officers and enlisted personnel in the Logistics Specialist rating to complete the procurement fraud indicators continuous learning module as part of General Military Training (GMT) requirements. Moreover, civilian NCIS agents should also be mandated to complete the procurement fraud indicators continuous learning module annually.

Although NCIS agents may be knowledgeable of procurement fraud indicators, they may not be knowledge about the contract management process. It is recommended that the Navy emulate the U.S. Air Force's strategy of sending Office of Special Investigation agents to degree programs in contract management by sending NCIS agents to these programs also.

Additionally, the Navy should ensure that all senior level executives (O7 and above, and civilian equivalent) are provided with high level knowledge about the intricacies and vulnerabilities of the contract management process. The Naval Postgraduate School Center for Executive Education provides a course on what senior executives need to know about contracting. This training focuses on how contracting

affects the mission of the organizations led by these executives. It is recommended that all Flag officers and their civilian equivalents complete this course.

8. Develop a Cadre of Husbanding Service Contract Management Experts

The research findings, when considered in totality, show that deficiencies in the competency of personnel, weaknesses in the capability of husbanding services contracting processes, and ineffective internal controls were the primary reasons GDMA was able perpetrate procurement fraud against the Navy for such a long period of time. Navy civilian employees employed by the Fleet Logistics Centers (FLCs) primarily perform husbanding services contracting management. Because of DOD restrictions limiting civilian employees to a maximum of five years overseas, there is the potential for a large turnover among civilian contracting officers. This is particularly challenging in the husbanding service contract management, which is replete with unique requirements and foreign market research challenges. To mitigate these risks, it is recommended that the Navy take action to develop a cadre of both civilian and military husbanding services contract management experts. This cadre of personnel would consist of personnel with competency in requirements generation, as well as contracting officers, and contracting officer's representatives. Upon designation as a husbanding service expert, these personnel could be more easily identifiable for overseas contracting assignments. Specific to uniformed personnel, the Navy should consider establishing a Naval Enlisted Classification (NEC) code for enlisted personnel and Additional Qualification Designations (AQDs) for Navy Officers with expertise in husbanding contract management. This will assist the Bureau of Naval Personnel in the assignment of qualified and experienced personnel to key husbanding contract management positions.

E. SUMMARY

This chapter discussed the findings, analysis, implications, and recommendations based on the analysis of the Fat Leonard case. First, the research findings were presented. Next, an analysis of the procurement fraud schemes, contract management phases in which the fraud schemes occurred, and the internal control components that were

deficient and allowed the fraud schemes to occur were presented. Finally, based on the analysis and implications of these findings, recommendations to enhance the competency of all HSP process stakeholders, improve Navy HSP contract process capabilities, and strengthen HSP contracting internal control were provided. The next chapter summarizes the research, presents the conclusion, and identifies areas for further research.

VI. SUMMARY, CONCLUSIONS, AND AREAS FOR FURTHER RESEARCH

A. SUMMMARY

For over 25 years, the U.S. Navy contracted with a Singapore-based firm, Glenn Defense Marine Asia (GDMA), to provide husbanding services for ships making port calls in the Asia/Pacific region. In 2013, the Department of Justice publicly revealed that, for years, GDMA had secured husbanding service contracts and conducted business through illicit procurement fraud schemes.

The purpose of this research is to analyze Navy husbanding services contracting using the Fat Leonard case through the lens of auditability theory, applying contract management and internal control frameworks. Auditability theory states that a procurement organization can reduce its vulnerability to procurement fraud by emphasizing the competency of its personnel, developing capable contract management processes, and establishing effective internal controls. This research analyzes each alleged act of fraud in the Fat Leonard case. Each act was categorized into one of the six most common procurement fraud schemes. Additionally, each alleged act was aligned with the contract management phase in which the preponderance of the alleged act occurred and aligned with the internal control component that most contributed to and allowed the alleged fraudulent act to be perpetrated.

This research identified deficiencies in the Navy's personnel competency, husbanding contract management processes, internal controls. Based on the research findings, recommendations were provided to the Navy to improve the auditability of Navy husbanding service contracting.

B. CONCLUSIONS

This research focused on three research questions. The answers to these research questions based on the findings of the research are discussed next.

1. In which contracting processes did the alleged acts of procurement fraud occur in the Fat Leonard case relating to Navy husbanding services?

As reflected in Figure 9, 26% of the alleged acts of fraud in the Fat Leonard case occurred in the contract administration phase. In addition, 19.0% of the alleged acts occurred in the procurement planning phase, 18.0% in the solicitation planning phase, and 18.0% in the "other" phase. Approximately 12.0% of the alleged acts occurred in the contract closeout phase. Additionally, 4.0% of the alleged acts occurred in the solicitation phase, while 3.0% occurred in the source selection phase.

As reflected in Figure 10, 30.0% of the alleged acts of fraud in the Fat Leonard case occurred in the pre-sales activity phase. In addition, 26.0% of the alleged acts occurred in the contract administration phase and 22.0% occurred in the bid or proposal preparation phase. Approximately, 10% of the alleged acts occurred in the "other" phase. Furthermore, 9% of the alleged acts occurred in the contract closeout phase, while 3% occurred in the contract negotiation and formation phase. This research study did not identify any allegations of fraud that occurred in the bid or no bid decision making phase. This was because relevant allegations of fraud found in the publicly available documents pertained only to husbanding actions in which it appeared that GDMA had determined that it would submit a bid or proposal.

2. What internal controls were deficient that permitted the alleged acts of procurement fraud to occur in the Fat Leonard case relating to Navy husbanding services?

As reflected in Figure 10, deficiencies in the control environment component accounted for 52.0% of the alleged acts of fraud in the Fat Leonard case. The Information and communication component accounted for 38.0% and the control activities component accounted for 9.0% of the alleged fraudulent acts. Finally, the monitoring activities component accounted for 1.0% of the alleged fraudulent acts. This research study did not identify any instances in which risk assessment was the primary internal control deficiency that permitted the alleged acts of fraud to occur. This is because the allegations of fraud involve overt acts and the definition of risk assessment provided in Chapter II states that risk assessment involves "The identification, analysis, and management of risk faced by an organization" (Chang, 2013, p. 16). However, because fraud allegedly occurred, it can be argued that each act of alleged fraud could be aligned with the risk assessment component. Effective risk assessment would have prevented the

alleged fraud from occurring. However, given the limitation of this research to align each alleged act of fraud with the primary internal control component that allowed the alleged act to occur, no alleged acts of fraud were aligned to risk assessment in this research study.

3. What were the specific alleged procurement fraud schemes that occurred in the Fat Leonard case relating to Navy husbanding services?

As reflected in Figure 12, nearly 92% of the alleged acts of fraud in the Fat Leonard case were categorized as collusion. In addition, 4% of the alleged acts of fraud were categorized as billing, cost, and pricing schemes, and 3.0% of the alleged acts of fraud were categorized as bid rigging. Approximately, 1.0% of the alleged acts of fraud were categorized as conflict of interest, and approximately 0.41% of the alleged acts of fraud were categorized as fraudulent representations. This research study found no instances of fraudulent purchases based on the definition of fraudulent purchases. Fraudulent purchases were defined as purchases made by a government buyer for personal use (Castillo & Flanagan, 2014).

C. AREAS FOR FURTHER RESEARCH

There are several areas for further research that are suggested. One area for further research is to employ the methodology used in this study to other cases of procurement fraud within DOD. This research area will aid the DOD by analyzing real world cases to determine vulnerabilities in the contract management processes and in the internal control framework.

Another area for further research is to assess the internal controls of organizations within DOD to determine their effectiveness. An additional area is to assess the contract management processes of DOD procurement organizations using Rendon's Contract Management Maturity Model. These two recommended research areas will aid the DOD is deterring procurement fraud.

Furthermore, another area for further research is to continue assessing the competency of DOD contracting officers in the areas of contract management and

procurement fraud. This research will aid the DOD in enhancing the auditability of contract management organizations and help deter procurement fraud.

Finally, this case should be revisited once all of the court documents have been unsealed and released to the public. At the time of this writing, a number of court documents remained sealed. These documents are vital to identifying which criminal offenses were used to convict the suspects. With total access to all court documents related to the criminal case, supplementary analysis could be produced to further aid the DOD in deterring procurement fraud. Additional analysis could focus on identifying deficiencies in the secondary and tertiary internal control components that allowed acts of procurement fraud to occur.

APPENDIX. WORKS CONSULTED

The following sources were used to construct the Fat Leonard Fraud Database, which is discussed in detail in Chapter IV of this study.

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