

NEWS RELEASE



OFFICE OF THE UNITED STATES ATTORNEY SOUTHERN DISTRICT OF CALIFORNIA

San Diego, California

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For Immediate Release

SAN DIEGO COMPANY ADMITS TO DEFRAUDING DEFENSE DEPARTMENT OF MILLIONS

NEWS RELEASE SUMMARY – January 14, 2014

United States Attorney Laura E. Duffy announced today that San Diego-based Vector Planning & Services, Inc. (“Vector”) entered into an agreement with the United States Attorney’s Office in which it admits to criminally defrauding the Defense Department, and in which it agrees to pay restitution. Vector, which also has offices in Chantilly, Virginia, entered the agreement this afternoon in federal court in San Diego before U.S. Magistrate Judge William McCurine, Jr.

As part of the agreement, referred to as a deferred prosecution agreement, Vector admitted that its former CEO and majority owner submitted five years’ worth of false cost claims to the Defense Department, resulting in losses to the Defense Department of over \$3.6 million.

The case concerns Vector’s accounting practices in connection with certain cost-reimbursement

contracts that it held with the Defense Department. Under a cost-reimbursement contract, a contractor is entitled to reimbursement for both its direct allowable costs, such as the cost of labor on that contract, and a prorated portion of its indirect allowable costs, such as the cost of rent for the contractor's office space. Because indirect costs must be pro-rated across multiple contracts, they cannot be precisely determined until the end of the fiscal year. Accordingly, under a cost-reimbursement contract, a contractor initially submits claims for indirect costs based on "provisional" or estimated rates, and later submits its actual indirect costs to the government for review, reconciliation, and approval. This later submission, known as an "Incurred Cost Submission" or "Incurred Cost Proposal," reflects what the contractor certifies were its actual allowable costs for the prior fiscal year.

In this case, Vector admits that after claiming and being paid for direct costs in connection with other, firm-fixed-price and time-and-materials contracts, Vector systematically reclassified these same costs in its accounting system to make it appear as if the costs were indirect costs that were incurred in connection with its cost-reimbursement contracts, thereby inflating its indirect cost rates. These inflated rates were then used by Vector to justify the rates claimed in its Incurred Cost Proposals submitted to the Navy. The effect of these fraudulent submissions was, in essence, to pay Vector twice for the same expenses, amounting to "double dipping" or "double billing" at government expense.

Vector admits to submitting these false Incurred Cost Proposals for costs incurred in 2005 through 2009, with a total loss to the Defense Department of \$3,672,756. As described in Vector's agreement, Vector made these false submissions in 2010, 2011, and 2012.

When faced with a Defense Department audit in late 2011, Vector falsified its electronic accounting entries, and prepared and backdated fake invoices in order to support those falsified accounting entries. Vector admits that the direction for the fraud came from its then-CEO, who is now deceased.

As part of the agreement, Vector agrees to make payments in the amount of \$6.5 million, which includes restitution to the Defense Department for losses Vector caused. Vector also agrees to maintain a

compliance and ethics program. In exchange, the United States Attorney's Office has agreed to postpone a prosecution for felony false claims against Vector for a period of three years; in the event Vector complies with all the terms of the agreement, the criminal case will be dismissed at the end of that period.

In addition to the criminal deferred prosecution agreement, Vector is entering into a civil settlement with the Civil Division of U.S. Attorney's Office and the Justice Department's Civil Division. In all, Vector will pay \$6.5 million to resolve its criminal and civil cases. These criminal and civil settlements are the result of a coordinated effort involving, as investigative agencies, the Federal Bureau of Investigation, the Defense Criminal Investigative Service, the Defense Contract Audit Agency, and the Naval Criminal Investigative Service.

U.S. Attorney Laura E. Duffy stated, "Those companies that choose to defraud our nation's armed services will be found and held accountable." Duffy praised the close cooperation of the investigative agencies on this case.

FBI Special Agent in Charge, Daphne Hearn, commented, "This case involved several complex fraudulent schemes to defraud the Department of Defense and ultimately American taxpayers. If not for the outstanding investigative efforts by agents and prosecutors in this matter, these schemes would have gone undetected and millions of dollars of taxpayer's dollars wasted. Today's settlement is an example of the FBI's continued commitment to working with our law enforcement partners to ensure our precious tax dollars are protected from waste, fraud and abuse."

Chris Hendrickson, Special Agent in Charge, Defense Criminal Investigative Service, Western Field Office said, "We are extremely pleased at this outcome, which yet again sends the message that fraud will be vigorously investigated and violators held accountable. Whether it is a complicated manipulation of accounting rules or a straight theft of DoD funds, fraud of this nature harms our national security and erodes public confidence. The Defense Criminal Investigative Service and our law enforcement partners will use all tools available to protect taxpayers' interests."

DEFENDANT

Vector Planning & Services, Inc.

SUMMARY OF CHARGES

False claims, in violation of Title 18, United States Code, Section 287 - Maximum penalties for corporate defendant: Five years of probation, fine, restitution and \$400 special assessment.

INVESTIGATING AGENCY

Federal Bureau of Investigation
Defense Criminal Investigative Service
Defense Contract Audit Agency
Naval Criminal Investigative Service