



## PRESS RELEASES

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### **Two U.S. Army Corps of Engineers Employees and Two Others Indicted in \$20 Million Bribery and Kickback Scheme Involving Government Contracts - Defendants Arrested Today as Authorities Seize Millions in Assets**

WASHINGTON - Four Virginia men, including two longtime employees of the U.S. Army Corps of Engineers, were arrested today on charges stemming from an indictment that accuses them of taking part in a conspiracy involving more than \$20 million in bribes and kickback payments and the planned steering of a \$780 million government contract to a favored contractor.

The arrests were announced by U.S. Attorney Ronald C. Machen Jr.; James W. McJunkin, Assistant Director in Charge of the FBI's Washington Field Office; Peggy E. Gustafson, Inspector General for the Small Business Administration (SBA); Robert E. Craig, Special Agent in Charge of the Mid-Atlantic Field Office of the Defense Criminal Investigative Service (DCIS); Jeannine A. Hammett, Acting Special Agent in Charge of the Washington Field Office of the Internal Revenue Service-Criminal Investigation (IRS-CI), and James K. Podolak, Director of the U.S. Army Criminal Investigation Command's (CID) Major Procurement Fraud Unit.

The defendants include Kerry F. Khan, 53, of Alexandria, Va.; his son, Lee A. Khan, 30, of Fairfax, Va.; Michael A. Alexander, 55, of Woodbridge, Va., and Harold F. Babb, 60, of Sterling, Va. Kerry Khan and Alexander are employed by the U.S. Army Corps of Engineers, and Babb is director of contracts for a company that did business with the government.

All four men were taken into custody on charges contained in an indictment that was returned by a grand jury, under seal, on Sept. 16, 2011, in the U.S. District Court for the District of Columbia. The arrests took place as authorities executed search warrants at seven locations in Virginia and one in the District of Columbia. The indictment was unsealed today.

According to the indictment, Kerry Khan and Alexander helped funnel more than \$45 million in payments to a favored company through a federal government contract they oversaw, with plans to steer hundreds of millions more to the business. Approximately \$20 million in fraudulent expenses were built into the invoices, and proceeds went to all four defendants.

All four defendants were indicted on one count of conspiracy to commit bribery and wire fraud and aiding and abetting and causing an illegal act to be done, as well as one count of conspiracy to commit money laundering. Kerry Khan and Alexander also were indicted on one count of receipt of a bribe by a public official, and Babb was indicted on one count of unlawful kickbacks.

If convicted of the charges, Kerry Khan and Alexander face a maximum of 40 years in prison. Babb faces up to 35 years, and Lee Khan faces a sentence of up to 25 years.

The United States has obtained warrants to seize funds in 29 bank accounts and to seize three luxury vehicles and seven high-end watches. In addition, the indictment includes a forfeiture allegation against 16 real properties financed in whole or in part with proceeds of the crimes. The United States has begun the process of securing forfeiture of those 16 properties, which include 14 properties in Virginia, one in West Virginia, and one in Florida.

The indictment also provides the defendants notice that, if convicted, the United States will seek forfeiture of all proceeds of the charged offenses.

“This indictment alleges one of the most brazen corruption schemes in the history of federal contracting,” said U.S. Attorney Machen. “As alleged by the indictment, corrupt public officials and crooked contractors devised a plan to funnel more than \$20 million in taxpayer funds to themselves in an elaborate scheme of bribes and kickbacks. These charges are only the beginning of a far-reaching, steadfast effort by the U.S. Attorney’s Office, the Department of Justice, and our federal law enforcement partners to root out and hold accountable shameless government officials and those who entice them – through bribes and other personal benefits – to violate the public’s trust.”

“Abusing one’s position for personal gain blatantly disregards the oath that every government employee takes and everything that it represents,” said Assistant Director in Charge McJunkin. “It’s offensive to citizens who trust the government and its contractors to use taxpayer money wisely.”

“The alleged actions of these individuals grossly undermine the honest work being done every day by Federal employees and government contractors,” said Inspector General Gustafson of the SBA. “These individuals conspired to steal from the American people by perpetuating a fraud to siphon vital resources away from an organization that supports our military and reduces risks from disasters. The SBA OIG will relentlessly pursue such violations of public trust and seek justice on behalf of the taxpayers.”

“At a time when Government and taxpayer resources are being stretched thin and our Service members continue to make sacrifices to protect our national security across the globe, it is abhorrent that officials trusted with the oversight of Department of Defense resources and programs blatantly conspired with contractors to defraud the Government and, eventually, the American warfighter,” said Special Agent in Charge Craig of DCIS. “The Defense Criminal Investigative Service takes aggressive action to identify and investigate, alongside our federal investigative partners, those that endeavor to take advantage of the Department of Defense and the men and women of the Uniformed Services.”

“IRS Criminal Investigation often works jointly with other law enforcement agencies to provide financial investigative expertise. The charges brought in this case demonstrate our collective efforts to enforce the law and ensure public trust,” said Acting IRS Special Agent in Charge Hammett. “U.S. government employees hold positions of public trust, and they are responsible for managing public funds. The public has the right to know that those who work for them are doing so honestly. When we discover bribery schemes like the one alleged here, we will do everything in our power to hold both the bribe payer and the person accepting the bribe accountable.”

“Today’s arrests are a prime example of the teamwork among the special agents of the U.S. Army Criminal Investigation Command’s Major Procurement Fraud Unit (MPFU), our fellow federal law enforcement agencies and the Department of Justice attorneys,” said Director Podolak. “U.S. Army CID will continue to see to it that anyone suspected of contract fraud and corruption is brought to justice.”

The U.S. Army Corps of Engineers is a branch of the U.S. Army with a stated mission to “provide vital public engineering services in peace and war to strengthen our Nation’s security, energize the economy, and reduce risks from disasters.”

The indictment details schemes to defraud two major federal contracts:

– **The TIGER Contract.** The Technology for Infrastructure, Geospatial, and Environmental Requirements (TIGER) contract is what is known as an Indefinite Delivery/Indefinite Quantity contract. Authorized agencies and departments are not required to obtain three separate bids or to compare the TIGER contract to another contract before submitting an invoice for products and services through the TIGER contract. The current TIGER contract is a five-year contract running from Oct. 1, 2009 through Sept. 30, 2014. Over the term, the total award of orders placed against the TIGER contract is authorized to exceed \$1 billion.

– **The CORES Contract.** The Contingency Operations Readiness Engineering & Support (CORES) contract is a planned contract that is envisioned as an alternative or potential replacement to the TIGER contract. As planned, the CORES contract would be a five-year contract with an award potential for all contracts placed under it of up to \$780 million.

### **The Defendants:**

Kerry Khan, who joined the U.S. Army Corps of Engineers in 1994, is a program manager with the Directorate of Contingency Operations, based in Washington, D.C., which administers the TIGER contract. In that position, Kerry Khan had authority, among other things, to place orders for products and services through the TIGER contract, as well as other federal government contracts. He also had authority to certify that the work on the orders had been completed. In addition, Kerry Khan had the responsibility to prepare the CORES contract for solicitation to potential bidders and to approve the solicitation prior to its issuance to potential bidders.

Michael Alexander, who joined the U.S. Army Corps of Engineers in 1985, is a program director with the Directorate of Contingency Operations. In that position, he had authority, among other things, to obtain funding for Army Corps of Engineers projects, including funding for orders placed through the TIGER contract and other federal government contracts. Alexander produced and actively managed a \$54 million budget.

Harold Babb is the director of contracts at EyakTek, an Alaska Native-owned small business. EyakTek, based in Dulles, Va., was the prime contractor for the TIGER contract and subcontracted many of the orders from the U.S. Army Corps of Engineers to other businesses.

Lee Khan controlled a consulting company with his father and took part in numerous activities involving the bribery and kickback scheme.

All four defendants are accused of conspiring to hide the proceeds of their bribery and fraud scheme through a series of financial transactions, including payments to shell companies that were controlled by Kerry Khan and others.

An indictment is merely a formal charge that a defendant has committed a violation of criminal laws and is not evidence of guilt. Every defendant is presumed innocent until, and unless, proven guilty.

### **Allegations involving the TIGER Contract:**

According to the indictment, Kerry Khan and Alexander used their official positions at the U.S. Army Corps of Engineers, and Babb used his official position at EyakTek, to direct orders through

the TIGER contract to a Virginia-based company identified in the indictment as “Company A.” With Kerry Khan’s knowledge and direction, that company’s chief technology officer, an unidentified co-conspirator, submitted fraudulently inflated quotes for work.

Kerry Khan then caused the U.S. Army Corps of Engineers to approve and remit payment to EyakTek for these fraudulently inflated invoices. After subtracting its profit margin, EyakTek paid the remainder to “Company A.” The chief technology officer then caused “Company A” to pay part of this money for the benefit of Kerry Khan, his son, and Alexander and Babb.

In addition, Kerry Khan and Alexander caused the Army Corps of Engineers to award contracts directly to “Company A.” Once again, the chief technology officer submitted fraudulent paperwork for inflated costs. Kerry Khan then caused the U.S. Army Corps of Engineers to pay “Company A,” and the chief technology officer in turn caused “Company A” to pay a portion of the money for the benefit of Kerry Khan, his son, and Alexander.

In this manner, from 2007 to the present, the chief technology officer caused invoices to be submitted to the U.S. Army Corps of Engineers, directly and through EyakTek, for total costs of more than \$45 million. As directed by Khan, Alexander and Babb, the chief technology officer caused “Company A” to fraudulently inflate its quotes and invoices by about \$20 million. The chief technology officer promised and paid the inflated amounts directly and indirectly to Khan, his son, Alexander and Babb.

The indictment alleges that the chief technology officer of “Company A” promised and made payments directly and indirectly to Kerry Khan in excess of \$18 million. Among other things, Khan received cash, checks and wire transfers in excess of \$5 million; home improvements and renovations for multiple properties; luxury cars for himself, his son and other family members; furnishings, including flat-screen televisions and computer equipment, high-end liquor, and other items. Some of this money also went to Lee Khan and a second family member for employment with “Company A.” The promised payments for Kerry Khan included, among others, future payments of \$2 million each to three shell companies controlled by him.

The payments to Kerry Khan came in large amounts, including a \$1.2 million wire transfer from “Company A” to a Khan-controlled entity in August 2008 and a check for \$3.3 million from “Company A” to a Khan-controlled entity in February 2010. According to the indictment, Kerry Khan and his son together channeled \$383,000 on Sept. 1, 2011 to another family member who had threatened to alert law enforcement authorities to the existence of the scheme.

The indictment alleges that the chief technology officer of “Company A” promised and made payments directly and indirectly to Alexander in excess of \$1 million. Among other things, Alexander received more than \$185,000 in cash and checks, a \$21,000 Cartier watch, first-class airline tickets, and other items. The promises called for Alexander to secure future employment at “Company A.” In addition, the chief technology officer of “Company A” provided about \$1 million for the purchase of a coffee shop for an associate of Alexander’s in South Korea.

According to the indictment, the chief technology officer of “Company A” promised and made payments directly and indirectly to Babb in excess of \$700,000. Among other things, he received cash and checks, first-class airline tickets and promised future employment at the firm.

#### **Allegations involving the CORES Contract:**

The indictment alleges that Kerry Khan, Alexander and Babb worked with the chief technology officer and others at “Company A” to devise a scheme to steer the award of the CORES contract to “Company A.” The intent was to use this contract as a way for “Company A” to funnel money and other things of value directly and indirectly to Khan, Alexander, Babb and others. Kerry Khan, Babb,

the chief technology officer, and others at “Company A” worked on a statement of objectives and work for the CORES contract with the intent of tailoring it to fit “Company A” and interfere with the fairness of the bidding process. Kerry Khan, Alexander and Babb also planned to install certain employees from the U.S. Army Corps of Engineers to serve on the selection board to insure that “Company A” was awarded the valuable CORES contract.

This case was investigated by the FBI’s Washington Field Office; the Office of the Inspector General for the Small Business Administration; the Department of Defense’s Defense Criminal Investigative Service; the Defense Contract Audit Agency; the Washington Field Office of the Internal Revenue Service-Criminal Investigation, and the Army Criminal Investigation Command.

It is being prosecuted by Assistant U.S. Attorneys Michael Atkinson and Bryan Seeley of the Fraud and Public Corruption Section and Assistant U.S. Attorney Anthony Saler and Special Assistant U.S. Attorney Christopher Dana of the Asset Forfeiture and Money Laundering Section, with assistance from Assistant U.S. Attorneys Mary Chris Dobbie and Jonathan Hooks. Assistance also was provided by Forensic Accountant Maria Boodoo; Legal Assistants Jared Forney, Krishawn Graham, Jessica McCormick and Nicole Wattlelet, and Paralegal Specialists Tasha Harris, Shanna Hays, Taryn McLaughlin and Sarah Reis.

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