

CONTENTS

CONTRIBUTORS AND ACKNOWLEDGMENTS ix

INTRODUCTION xi

PART ONE

Describing the System: How the U.S. Government Addresses Procurement Fraud Cases 1

- A. WHAT IS PROCUREMENT FRAUD? 1
- B. EXPLAINING THE SYSTEM 2
- C. FOUNDATIONAL INSTRUCTIONS/GOVERNMENT ROLES—DEPARTMENT OF DEFENSE 3
 - 1. Department of Defense Instruction 7050.05 3
 - 2. Air Force Instruction 51-1101 6
 - 3. Army Instruction 27-40, Litigation 12
 - 4. SECNAV Instruction 5430.92C 14
 - 5. Inspectors General 15
 - 6. U.S. General Services Administration Office of Inspector General, Office of Audits, December 2012 *Procurement Fraud Handbook* 19
 - 7. Department of Justice Instruction, Coordination of Parallel Criminal, Civil, Regulatory, and Administrative Proceedings 22
 - 8. DoD OIG Guidance Fraud Referrals Website 25
- D. ROLE OF MANDATORY DISCLOSURES 26
- E. OTHER COORDINATING BODIES—DEPARTMENT OF DEFENSE PROCUREMENT FRAUD WORKING GROUP 31
- F. OTHER COORDINATING BODIES: COUNCIL OF THE INSPECTORS GENERAL ON INTEGRITY AND EFFICIENCY FRAUD TRAINING (DON'T LET THE TOOLBOX RUST) 32
- G. SUSPENSION/DEBARMENT 35
 - 1. FY 2018 at a Glance 41
 - 2. Summary Table Showing Comparison to FY 2016 and FY 2017 Numbers 43
- H. STATUTORY EXCLUSIONS 44
 - 1. Vendor Vetting 45
 - 2. Space Contractor Watch List 45

I. **INSIDE THE MINDS OF THE STAKEHOLDERS/ASSOCIATED CONTRACTOR RISKS 46**

PART TWO

Laws, Regulations, and Contract Terms Commonly Used to Address Procurement Fraud 51

- A. **THE ANTI-KICKBACK ACT OF 1986, 41 U.S.C. §§ 8701 ET SEQ. (2011) 51**
1. Brief Summary of the Anti-Kickback Act 51
 2. Key Definitions 52
 3. Purpose and Scope of the Anti-Kickback Act 53
 4. Notable Anti-Kickback Act Case Law 55
 5. Recent Anti-Kickback Act Cases 56
- B. **BRIBERY (18 U.S.C. § 201) 59**
- C. **MAJOR FRAUD ACT OF 1988 63**
- D. **THE FALSE CLAIMS ACT: COMPONENTS, DEFINITIONS, PROCEDURE 66**
1. Civil False Claims Act (31 U.S.C. §§ 3729-3733) 66
 2. Criminal False Claims (18 U.S.C. § 287) 67
 3. Key Definitions 67
 4. FCA Theories 68
 5. How Claims Are Brought 69
 6. *Qui Tam* Procedure 69
 7. *Qui Tam* Limitations 69
 8. Civil Investigative Demands 70
- E. **EXAMPLES OF LEADING AND EXPLANATORY FCA CASES 70**
1. Intent 70
 2. Knowledge 71
 3. Falsity 72
 4. Certification 72
 5. Health Care 72
 6. Constitutional Protections in FCA Cases 73
 7. Materiality 74
- F. **KEY ISSUES FOR GOVERNMENT CONTRACTORS 75**

- G. FUTURE FALSE CLAIMS ACT ENFORCEMENT TRENDS 77**
 - 1. The Future of Materiality 77
 - 2. New Classes of Defendants 77
- H. POST-GOVERNMENT EMPLOYMENT RESTRICTIONS 78**
 - 1. Section 847, National Defense Authorization Act of Fiscal Year 2008 78
 - 2. 18 U.S.C. § 207(a)(1) Lifetime Ban 79
 - 3. 18 U.S.C. § 207(a)(2) Two-Year Ban 79
 - 4. 18 U.S.C. § 207(c) One-Year Ban 80
 - 5. Section 1045 of the National Defense Authorization Act (NDAA) for FY 2018 80
 - 6. Procurement Integrity Act, 41 U.S.C. §§ 2101-2107 80
- I. FALSE STATEMENTS ACT, 18 U.S.C. § 1001 81**
- J. COUNTERCLAIMS IN FRAUD—FRAUD AS AN AFFIRMATIVE DEFENSE 81**
 - 1. How the “Counterclaim in Fraud” Works 82
 - 2. Where the “Counterclaim in Fraud” Can Be Used by the Government 83
 - 3. How the “Counterclaim in Fraud” Is Used by the Government 86
 - 4. How to Defend Against the Government’s Counterclaim in Fraud 88
 - 5. Avoiding Counterclaims in Fraud 91
- K. CONTRACT REMEDIES 92**
 - 1. Breach of Warranty (FAR 46.7) 92
 - 2. Denial of Claims (FAR 33.210) 93
 - 3. Price Reduction (FAR 52.203-10) 94
 - 4. Rescission or Cancellation of the Contract (FAR 52.203-8) 94
 - 5. Reformation (FAR 33.205) 94
 - 6. Rejection of Nonconforming Goods (FAR 8.406-3 and 46.407) 95
 - 7. Termination for Default (FAR 49.4) 96
 - 8. Withholding Payments or Reducing Fee or Price for Nonperformance (FAR 46.1, 46.6, 52.212-4) 96
 - 9. Unilateral Contract Modification (FAR Part 43) 98
 - 10. Removal from Qualified Products List, Qualified Manufacture List, or Qualified Suppliers List (FAR 9.207) 99
 - 11. Nonaward of Contract Based on a Finding of Nonresponsibility (FAR 9.1) 99
 - 12. Withholding of Payments to Contractor (FAR 32.006) 99
 - 13. Facility Clearance (FCL) Revocation 100

PART THREE

Investigations Manual and Practice Tips 101

A. INTRODUCTION 101

1. The Remedies 101
2. The Stakeholders 102

B. THE ART OF INVESTIGATION 103

1. Matter Intake 104
2. Initial Analysis 105
3. Are Outside Lawyers Needed? 106
4. Planning and Scoping the Investigation 106
5. Control of the Investigation 107
6. Document Collection and Preservation 108
7. Conducting Interviews 109
8. Memorializing the Investigation 112

PART FOUR

Special Considerations 113

A. CRISIS MANAGEMENT 113

1. Company as Victim of a Crime 113
2. Search Warrant 113
3. Safety or Environmental Issues 113
4. Employees Interviewed by Law Enforcement 114
5. Subpoena or Civil Investigative Demand for Documents 114
6. Adverse Media Coverage 114
7. Whistleblower Retaliation Claim 114
8. Request to Cooperate Voluntarily with an Investigation 114
9. Adverse Product Quality Report 115

B. ROLE OF INSIDE AND OUTSIDE COUNSEL 115

C. PROTECTING THE PRIVILEGE 116

1. Corporate Policies and Procedures Regarding the Legal Nature of Internal Investigations 116
2. Attorney Oversight and Management of Internal Investigations 116

3. Give “Corporate *Miranda*” (*Upjohn*) Warnings to Company Employees 116
 4. Consider Engaging Separate Counsel for Individual Employees 117
 5. Mark and Maintain Privileged Material Separate from Nonprivileged Material 117
- D. PRESERVATION OF EVIDENCE 117**
1. Quickly Implement a Document Hold Order 118
 2. Identify Key Custodians 118
 3. Consider the Company’s Electronic Document Retention and Archiving Policies 118
 4. Review Process 118
 5. Consider Whether Any Privacy Issues Are Implicated for Data/Documents Held in Other Jurisdictions 119
- E. CROSS-BORDER ISSUES 119**
1. Data Privacy Laws and Blocking Statutes 120
 2. Attorney-Client Privilege 120
 3. Labor and Employment Issues 120
 4. Local Law Issues; Cultural Differences 120

PART FIVE

Training 121

- A. ABOUT THE GOVERNMENT PROCUREMENT SYSTEM 121**
- B. HOW TO INTERACT WITH A GOVERNMENT CUSTOMER 123**
- C. COMPLIANCE RISKS 124**
- D. GOVERNMENT ENFORCEMENT OVERVIEW 124**
- E. AN EFFECTIVE BUSINESS ETHICS AND AWARENESS COMPLIANCE PROGRAM 124**
1. Why Are We Still Talking About Contractor Integrity Programs? 125
 2. Authorities and Guidelines 126
 3. Practical Considerations 131

Conclusion 135

Appendix A: Search Warrant Best Practices 137

PREPARATION AND PLANNING 137

DURING THE SEARCH 137

**Appendix B: Subpoena/Civil Investigative Demand (CID)
Response 141**

SUMMARY CHECKLIST 141

DETAILED GUIDANCE ON RESPONDING TO A SUBPOENA, A DOCUMENT
PRESERVATION NOTICE, OR OTHER GOVERNMENT PROCESS 141

INDEX 143