



THE UNITED STATES ATTORNEY'S OFFICE
SOUTHERN DISTRICT *of* CALIFORNIA

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Department of Justice

U.S. Attorney's Office

Southern District of California

FOR IMMEDIATE RELEASE

Tuesday, February 28, 2017

Seven Defendants Plead Guilty to Millions of Dollars of Fraudulent Sales to Defense Department

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NEWS RELEASE SUMMARY – February 28, 2017

Jeffrey Harrington and Michael Mayer, the owners of several defense contracting firms, pleaded guilty before U.S. Magistrate Judge Karen Crawford this morning to conspiring to commit wire fraud and file false claims, and to making false statements on their federal income tax returns.

The defendants admitted obtaining money from the United States by making false representations and false claims to the Department of Defense ("DoD") for payment on items defendants knew had not been sold to the Navy, but which had been substituted with other, unauthorized products. Three of the companies owned by Harrington and Mayer, including San Diego-based Veteran Logistics, Inc. ("VLI"), as well as two employees, also pleaded guilty to conspiracy for their role in the offense.

The three defense contractors – VLI, Industrial Xchange, Inc., and Boston Laser Technology, Inc. – regularly sold supplies to the DoD, the Department of Navy, the General Services Administration and other federal departments and agencies. Each company had multiple contracts with DoD's Defense Logistics Agency ("DLA") to sell products to the federal government through "EMALL," a web-based electronic commerce site that allows authorized users to search, compare and purchase commonly used products. Each contract allowed the company to sell up to \$5 million in pre-approved goods at set, maximum prices. As detailed in court filings, however, the defendants fraudulently manipulated the EMALL system to substitute unapproved, overpriced items for the materials purportedly sold to the government.

In one example, the defendants agreed on EMALL to supply Maritime Expeditionary Security Group Two at Norfolk Naval Shipyard with over 10,000 "Post-It" writing paper pads, but then replaced these approved items with 50 electronic transceivers they were not authorized to sell. By fraudulently substituting these products, the defendants were able to circumvent procurement controls and charge the military a 134% mark-up on the transceivers. The defendants repeatedly employed this fraudulent technique dozens of times, on a host of products, across a wide array of components in the military.

The scheme also allowed the defendants to conceal the sale of consumer electronics and other items that could be used to corrupt military officials. For example, in one contract VLI agreed to supply the USS Ronald Reagan aircraft carrier with industrial, motorized plumber snakes. VLI then fraudulently substituted that order with 100 29" Toshiba TVs, 60 32" Toshiba TVs and 160 TV tilt mounts. VLI purchased these items for only \$39,558, but billed the government \$66,807.

The plea agreements also detailed a series of transactions between October 2013 and April 2014, wherein IXI and another VLI-affiliated company, At Your Command ("AYC"), created approximately 20 EMALL carts for Navy Explosive Ordnance Disposal Group #2 (EODG-2) in Norfolk, Virginia, containing various items, including bags, canvas organizer bags, and pouches, for which the defendants billed DLA and received \$1,303,024. In reality, the defendants actually provided EODG-2 with parachutes, altimeters and other sky diving gear purchased for approximately \$924,252, realizing a profit of \$378,772 by substituting improperly procured parachuting equipment.

The defendants were hugely successful in their fraud, and received approximately \$45 million for EMALL sales related to over 12,000 transactions between approximately March 1, 2008 and January 31, 2015. On a small sample of 60 of those transactions between August 2009 and October 2013, totaling approximately \$2,868,590 in sales, the loss to the Navy was approximately \$1,417,395, indicating a fraud loss of approximately 50%.

Acting United States Attorney Robinson observed: "Not only did the defendants inflict financial harm on the taxpayers by charging obscene mark-ups on these items, but they potentially compromised combat readiness by providing unauthorized, non-conforming parts. What's more, their scheme posed a significant danger of corrupting Navy personnel and others by essentially creating a 'slush fund' to purchase non-military items, such as televisions, computers, cameras, iPhones and other electronics. This Office will continue to use all the tools available, including the District's Procurement Fraud Working Group, to prevent and deter those who pose the threat of fraud and corruption to our procurement process."

"Corrupt contracting practices damage the public trust and ultimately undermine the efforts of the Department of Defense to support our men and women in uniform," said Chris Hendrickson, Special Agent in Charge of the Defense Criminal Investigative Service Western Field Office. "Along with our law enforcement partners, we make the investigation of such offenses a top priority. Cases such as these are not motivated by need or other difficult personal circumstances; they are the product of simple greed."

“The successful prosecution of this case was the direct result of collaborative teamwork between the Naval Criminal Investigative Service, our Federal Law Enforcement partners and the U.S. Attorney’s Office,” said Gunnar Newquist, Special Agent in Charge of the NCIS Southwest Field Office. “Convictions like this should be a warning to those who would attempt to take advantage of the US Navy, for personal gain.” As SAC Newquist observed, “We are unified in our efforts to catch criminals who not only defraud the US Navy, but specifically are stealing money from the American taxpayers at the direct loss to our warfighters.”

FBI Special Agent in Charge Eric S. Birnbaum stated, “Today’s convictions are a result of federal partners teaming together to stop the loss of millions of government dollars as well as the greed and deceit employed in this case.” SAC Birnbaum continued, “The FBI will continue to work to root out fraud against our government and uncover the schemes to steal federal taxpayer dollars.” The FBI encourages the public to report allegations of public corruption to the FBI public corruption hotline at telephone number (877) NO-BRIBE (662-7423).

In addition to the fraud charges, Harrington and Mayer also pleaded guilty to false statements on their tax returns for the tax years 2010 and 2014. Harrington and Mayer both used VLI to pay personal expenses in excess of \$200,000 and \$100,000, respectively, thereby underreporting their 2010 income on their personal tax returns. Both defendants, in contravention of the advice of their tax professionals, continued this behavior of using VLI to pay for personal expenses and not declaring the additional money as income, causing their 2014 income tax returns to under-report their income by approximately \$436,017 and \$674,704. By under-reporting their income, Harrington underpaid taxes by \$141,113 and Mayer underpaid taxes by \$299,511 for 2010 and 2014.

“IRS Criminal Investigation remains committed to investigating individuals who treat corporate funds as their personal piggy bank,” said Acting Special Agent in Charge Anthony J. Orlando, IRS Criminal Investigation. “As admitted in court today, Mr. Harrington and Mr. Mayer used their positions within VLI to defraud not just their own company, but the honest, hardworking Americans who pay their tax obligations.”

All defendants also agreed to forfeiture of the proceeds of their offense, and have collectively agreed to forfeit over \$1.6 million in illegal proceeds. All defendants were ordered to return to court on May 19, 2017, at 8:30am, for a hearing before District Judge Gonzalo Curiel.

CORPORATE DEFENDANTS

Veteran Logistics, Inc.
Industrial Xchange, Inc.
Boston Laser Technology, Inc.

INDIVIDUAL DEFENDANTS Criminal Case No. 17CR0488-GPC

Jeffrey Harrington Age: 55 San Diego, CA
Michael Mayer Age: 63 San Diego, CA
Kimberlee Hewitt Age: 45 Ridgewood, New York

Natalee Hewitt Age: 49 Virginia Beach, Virginia

SUMMARY OF CHARGES

Count 1 (All): Conspiracy to commit wire fraud and file false claims (18 U.S.C. § 371).
Maximum penalties: 5 years' imprisonment; 3 years' supervised release; a fine of \$250,000 or twice the gross gain or gross loss resulting from the offense, whichever is greatest; and a mandatory special assessment of \$10.

Count 2 (Harrington): False Statement on Tax Return (26 U.S.C. § 7206(1)).
Maximum penalties: 3 years' imprisonment; 1 year supervised release; a fine of \$250,000 or twice the gross gain or gross loss resulting from the offense, whichever is greatest; and a mandatory special assessment of \$100.

Count 3 (Mayer): False Statement on Tax Return (26 U.S.C. § 7206(1)).
Maximum penalties: 3 years' imprisonment; 1 year supervised release; a fine of \$250,000 or twice the gross gain or gross loss resulting from the offense, whichever is greatest; and a mandatory special assessment of \$100.

AGENCIES

Defense Criminal Investigative Service
Defense Logistics Agency, Office of Inspector General
Federal Bureau of Investigation
General Services Administration, Office of Inspector General
Internal Revenue Service, Criminal Investigation
Naval Criminal Investigative Service

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Topic:

Financial Fraud

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