



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

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Defense Contractors Sentenced to Prison for Defrauding the United States

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NEWS RELEASE SUMMARY – December 14, 2017

SAN DIEGO – Jeffrey Harrington and Michael Mayer, owners of several defense contracting firms, were each sentenced in federal court today to 15 months in custody for conspiring to commit wire fraud and file false claims, and to making false statements on their federal income tax returns.

Harrington was also ordered to pay a \$10,000 fine, \$141,113 in restitution to the Internal Revenue Service, and to forfeit \$708,679 in ill-gotten gains; likewise Mayer was ordered to pay a \$10,000 fine plus \$299,511 in restitution to the IRS and forfeit \$708,678.

The defendants admitted fraudulently 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"), Industrial Xchange, Inc. ("IXI"), and Boston Laser Technology, Inc. ("BLTI") – were also ordered to forfeit over \$1.4 million and pay a \$1 million fine for their roles in the offenses.

According to court records, the defendants 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," currently known as "FedMall," which is 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 pre-approved goods at set, maximum prices. As detailed in court filings, however, the defendants fraudulently manipulated the EMALL system to substitute unapproved items for the goods 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. After colluding with Navy personnel, the defendants 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 readily misused by 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, then turned around and billed the government \$66,807. In another example discussed in court, VLI fraudulently substituted an order for the USS Germantown with, among other things, two pink Nintendo gaming systems, two iPod Touch devices, and a PlayStation.

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 twenty EMALL carts for Navy Explosive Ordnance Disposal Group #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 group 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%.

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 using VLI to pay for personal expenses and not declaring these benefits as income, causing their 2014 income tax returns to under-report their income by approximately \$436,017 and \$674,704, respectively. By under-reporting their income, Harrington underpaid taxes by \$141,113, and Mayer underpaid taxes by \$299,511, for 2010 and 2014.

In addition to these criminal sentences, all defendants will be suspended from government contracting.

United States Attorney Braverman observed: "Not only did the defendants inflict financial harm on the taxpayers by charging arbitrary 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, gaming systems, 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."

Chris Hendrickson, Special Agent in Charge of the Western Field Office, Defense Criminal Investigative Service, said, "The defendants in this case exploited their connections with the U.S. Navy and others to grossly inflate their profitability and otherwise cheat the taxpayers and their commercial competition over a period of many years. This type of fraud will be aggressively investigated by DCIS and our partners at every opportunity to preserve the integrity of the contracting process."

"The success of this case is a direct result of the joint efforts of the Naval Criminal Investigative Service, our Federal Law Enforcement Partners and the U.S. Attorney's Office," said Edward Denion, Assistant Special Agent in Charge of the NCIS Southwest Field Office. "Protecting our warfighters is one of the top priorities of NCIS, and this investigation is an example of how we do this. Anyone considering defrauding the Navy and taxpayers should know NCIS will aggressively pursue all such allegations and work with our partners to ensure the conviction of all those involved."

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).

"The sentences handed down today should serve as a warning to the public that those who seek to defraud the United States government by lining their pockets through fraudulent procurement schemes will face severe consequences," said IRS Criminal Investigation's Special Agent in Charge R. Damon Rowe. "The agents who worked this case should be commended for their thorough investigation and for expertly following the paper trail that led to the unraveling of this complex fraud scheme."

U.S. District Judge Michael M. Anello had previously sentenced two other co-defendants, Kimberlee and Natalee Hewitt, on October 16, 2017, to 3 years' probation and \$100,000 each in forfeiture, as well as \$3,500 each in criminal fines.

CORPORATE DEFENDANTS

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

INDIVIDUAL DEFENDANTS

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

Criminal Case No.

17CR0488-MMA

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 Audit Service
Naval Criminal Investigative Service

Topic(s):

Financial Fraud

Component(s):

USAO - California, Southern

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