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Closure Memorandum

Case Number: 15-0005-I	Date of Entry: 13 June 2016
Primary Investigator:	(b)(3)

Allegation Information

Narrative:

(U//~~FOUO~~) On 12 February 2014, Information was received from the Air Force Office of Special Investigations (OSI) alleging that Raytheon Space & Airborne Systems, El Segundo, CA, utilized counterfeit/substitute parts on a DOD contract. These parts were purchased from [redacted] parts which were allegedly manufactured in Taiwan and China. However, an inspection conducted by the Defense Contract Management Agency (DCMA) indicated that Raytheon did purchase the parts from [redacted] and were properly identified by the manufacturing location. Raytheon's response to DCMA indicates that they determined the company was in compliance with FAR's Buy American Act and followed internal policies and processes. In addition, DCMA expressed concern between Raytheon's purchase prices of parts from suppliers and in turn inflating the sales prices of those parts to the government. Possible violations of FAR 31.201 and Title 18 were reflected, conveying there could be systemic fraud within Raytheon their contractual relationship with the NRO.

(b)(1)
(b)(3)
(b)(1)
(b)(3)

Last Investigative Step:

(U//~~FOUO~~) Received contractual review/audit from DCAA stating that Raytheon did not engage in any fraudulent activity, as it pertains to the inflation of sales prices to the government. This information was brought to [redacted] Office of Contracts, [redacted] who indicated he was interested in the impact of what appeared to be contracts which were drafted and then placed the NRO at a disadvantage financially.

(b)(3)
(b)(1)
(b)(3)

Resolution:
Unsubstantiated.

Case Closure Justification

Summary:

(U//~~FOUO~~) Stemming from the initial allegation, the National Reconnaissance Office (NRO), Office of Inspector General (OIG) conducted investigative steps into Raytheon's potential violation of the Buy American Act as well as fraudulently increasing the price of previously purchased parts to the U.S. Government.

(U//~~FOUO~~) The initial focus of the investigation was the violation of the Buy American Act. However, after the evidence was submitted to the Assistant U.S. Attorney, The Commonwealth of Massachusetts, it was declined for prosecution. The issue of False Claims and False Statements became the primary elements pursued during the investigation.

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(U//~~FOUO~~) Cost and pricing information was provided by Raytheon for review by NRO, AFOSI, and DCAA investigators and auditors. Upon completion of contract data review, which included; purchase orders and parts pricing information, and the Disclosure Statement it was determined that Raytheon had not engaged in the fraudulent, inflation of charges to the U.S. Government, for parts purchased. Raytheon's pricing methodology was outlined and reflects a contractual agreement with the U.S. Government.

(U//~~FOUO~~) Specifically, the Disclosure Statement states that subcontract labor is considered as material, which is reflected in Raytheon's practices. The material pricing methodology utilized by Raytheon, (i.e. the charging of direct costs to their government contracts, thereby creating excessive costs to the U.S. Government) was specified. However, as it is written in the contract the methodology employed by Raytheon, it is not a violation of law. The issue of material, priced by the Prime (Raytheon), was significantly more than the cost of the material received from the subcontractor/vendor. However, the inflated costs are defined contractually, albeit not in a manner which reflects a balance between the U.S. Government and Raytheon.

(U//~~FOUO~~) Invoices to the Raytheon proposal pricing sheet were verified and determined that all the calculations were standard and applied correctly. Though Raytheon does not provide a formal response as to why they apply labor hours to the price of materials/units the information obtained from DCAA indicates that Raytheon charges direct costs (labor, material etc.) to their government contracts. Per the Disclosure Statement, it appears that the only item which should be applied to "Material," is "Material Handling Burden." This is the material which is purchased by Raytheon. The Disclosure Statement reflects that subcontract labor is considered "Material." Based on these facts, Raytheon's pricing methodology creates excessive costs to the U.S. Government. But, as specifically written contractually there is nothing which makes it "illegal."

(b)(5)

(U//~~FOUO~~) The NRO, OIG has found that Raytheon's contractual pricing methodology and associated subsequent lack of substantiated information is insufficient to warrant further investigative measures into the allegations previously cited. No further investigative actions are required.

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