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United States Senate

COMMITTEE ON
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

WASHINGTON, DC 20510–6250

December 15, 2014

The Honorable John McHugh
Secretary of the Army
Department of Defense
101 Army Pentagon
Washington, DC 20318-9999

Dear Mr. Secretary:

As you know, earlier this year the Subcommittee on Financial and Contracting Oversight held a hearing on the Army's now-terminated Recruiting Assistance Program. I thank you for your staff's testimony at this hearing, as well as the continued cooperation and information they have provided to the Subcommittee during our investigation. I also appreciate the efforts the Army and the Department of Justice have made to prosecute those who have criminally defrauded the government through these programs.

I am writing to you today regarding the Subcommittee's investigation into Army recruiting programs. The Subcommittee has identified a scheme perpetrated under the Army's Referral Bonus Program which deprived the Army of nearly $4 million. A retired Army Sergeant and his wife, now government employees, used a fake "official" Army website to gather names of individuals across the country who were interested in joining the Army. The couple then submitted thousands of these collected names to the Army's Referral Bonus Program, receiving up to $2,000 per name. The couple provided no mentoring, meetings or other service to encourage the recruits to ultimately sign up; nearly all the names would likely have joined the Army regardless of having found the "OfficialArmy.com" website.

Because the Army had few controls in the Referral Bonus Program, the couple appear to have committed no crime nor broken any rule related to the program. Yet during its operation, the website was brought to the attention of the Army and the Army even worked with the couple to ensure it continued to operate without violating Army trademarks. As one Army official said at the time, "we like what they're doing." Even now, the sergeant and his wife both retain government employment, with commendations of appreciation from senior army leaders for their "recruits."

I. Army Referral Bonus Program

On February 4, 2014, the Subcommittee on Financial and Contracting Oversight held a hearing on fraud and abuse in Army recruiting contracts. The hearing confirmed reports of pervasive fraud, abuse and mismanagement in the award and administration of contracts for the

Army National Guard's Recruiting Assistance Program (G-RAP).[1] As part of the Subcommittee's further investigation, Subcommittee staff examined reports of fraud and mismanagement in other recruiting programs.[2]

One such recruiting program was the Army's Referral Bonus Program. The Referral Bonus Program operated similarly to G-RAP, but was an Active and Reserve Army Program, rather than an Army National Guard program. Like G-RAP, the Referral Bonus Program was established to increase enlistments during the challenging recruiting environments posed by the wars in Iraq and Afghanistan. Like G-RAP, the Referral Bonus Program paid sponsors $2,000 for each recruit who eventually enlisted. The intent was to provide an incentive to soldiers, Army civilians, and others to act as informal recruiters among their peers. Unlike G-RAP, there were no nominal requirements that the sponsor mentor or meet with their recruit.[3]

The Referral Bonus Program began in January 2006 and ended in July 2009, and was run by the U.S. Army Recruiting Command (USAREC). It received little attention until the Army Audit Agency (AAA) found evidence of widespread fraud in G-RAP in 2012. In response to that finding, you directed the AAA to audit similar programs, including the Referral Bonus Program.[4]

AAA found that the Army had paid hundreds of thousands of dollars in wrongful "double-dipping" payments. Some sponsors were receiving money for a recruit in the Referral Bonus Program that they had already sponsored in another recruiting program like RAP, something specifically prohibited in the program. Other sponsors had nominated the same recruit in the Referral Bonus Program multiple times, and received multiple payments. Together, the Army made nearly $400,000 in wrongful payments to sponsors. Army lawyers are now considering auditor recommendations to seek recoupment of this money.[5]

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[1] Subcommittee on Financial and Contracting Oversight, *Hearing on Fraud and Abuse in Army Recruiting Contracts*. 113th Cong. (Feb. 4, 2014).

[2] See, e.g., Subcommittee on Financial and Contracting Oversight, *Hearing on Waste and Abuse in National Guard Sponsorship and Marketing Contracts,* 113th Cong. (May 8, 2014).

[3] Memorandum from U.S. Army Audit Agency to Director of the Army Staff Regarding Audit of Referral Bonus Programs (28 March 2013) (Report A-2013-0064-IEF); Subcommittee on Financial and Contracting Oversight, Interview of Mr. Bruce Miller, U.S. Army Audit Agency (Mar. 14, 2014).

[4] Memorandum from U.S. Army Audit Agency to Director of the Army Staff Regarding Audit of Referral Bonus Programs (28 March 2013) (Report A-2013-0064-IEF), Enclosure 1; Subcommittee on Financial and Contracting Oversight, Interview of Mr. Bruce Miller, U.S. Army Audit Agency (Mar. 14, 2014).

[5] Memorandum from U.S. Army Audit Agency to Director of the Army Staff Regarding Audit of Referral Bonus Programs (28 March 2013) (Report A-2013-0064-IEF), Enclosure 1;

II. "OfficialArmy.Com"

The most egregious AAA finding was a payment that was actually not found to be wrongful. The AAA found that two sponsors—a retired Army Sergeant, [redacted], and his wife [redacted]—had collected $3,845,000 under the program. Together, they had nominated between them over 2,000 soldiers. Unfortunately for the Army, virtually all of these recruits would have enlisted regardless—meaning that the "help" that these two sponsors had given was worthless.[6]

The [redacted]s identified their recruits not by personal connections, but through a website named "OfficialArmy.com" that they set up to harvest recruits. The website included typical U.S. Army recruiting language and images and asked, "Want more information mailed to you about becoming a soldier in the U.S. Army? Fill out the form below…"[7] An example of one version of the OfficialArmy.com website is included as Exhibit 1. Once recruits entered their information on the website, the [redacted]s simply forwarded it to the Referral Bonus Program office. No additional work by the [redacted]s was done.[8]

As if to underscore the dubious ethics of such a website, Mr. [redacted] enlisted his daughter's boyfriend, [redacted], to create the website and optimize placement in search engine results.[9] [redacted] is the founder of a widely-panned (and litigated) website called bustedmugshots.com. Criticized as extortionist, that website posted publicly available police mugshots on the web, made them easily searchable, and took them down only after the "customer" made a payment to Mugshots.[10] The Subcommittee made multiple attempts to

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Subcommittee on Financial and Contracting Oversight, Interview of Mr. Bruce Miller, U.S. Army Audit Agency (Mar. 14, 2014).

[6] Memorandum from U.S. Army Audit Agency to Director of the Army Staff Regarding Audit of Referral Bonus Programs (28 March 2013) (Report A-2013-0064-IEF); Letter from MG William E. Rapp, Chief, Legislative Liaison, Department of the Army to Chairman Claire McCaskill (January 17, 2014), Enclosure 4; Subcommittee on Financial and Contracting Oversight, Interview of Mr. Bruce Miller, U.S. Army Audit Agency (Mar. 14, 2014).

[7] U.S. Army Criminal Investigation Command, CID Report of Investigation – Initial Final – 0038-2007-CID221-90103-8LIA/5J1A (July 12, 2007).

[8] Subcommittee on Financial and Contracting Oversight, Interview of Mr. [redacted], (June 5, 2014).

[9] Subcommittee on Financial and Contracting Oversight, Interview of Mr. [redacted], (June 5, 2014).

[10] *Mugshot-Filled Tabloid Ceases Print, but an Elusive Operation Continues Online*,, Austin-American Statesman (Dec. 2, 2012); Man files class action RICO suit over websites that display mug shots, Cook County Legal Record (Sept. 30, 2013).

interview [redacted] about his role in the Referral Bonus Program through his attorney but he failed to return messages.

The $4 million collected by the [redacted]s for the program is staggering in comparison with others. As discussed above, the improper payments to "double-dipping" RBP sponsors totaled only about $400,000—and was split among 220 sponsors.[11] Under the much-publicized G-RAP program, the very worst offender had defrauded the Army of $274,500.[12]

III. Lack of Oversight by the Army

The Army was made aware of the [redacted]s' website in 2007 but did nothing to prevent or mitigate the effects of the [redacted]s' scheme.[13] In fact, according to Mr. [redacted], he notified the USAREC of his plan even before his website launched.[14]

By July 2007, USAREC noticed that Mr. [redacted] had made significantly more referrals than anyone else, frequently ten to twelve at a time.[15] However, USAREC's only concern appeared to be that the website, "officialarmy.com", purported to be an official army website—not that the [redacted]s might be exploiting the program to bilk the program of huge sums of money. USAREC requested that the Army's Criminal Investigative Command (CID) investigate the website, but was only concerned that the Army's trademarks were not infringed. In fact, USAREC worked with the [redacted]s to edit the verbiage so his website would be in compliance.[16] As one USAREC official told a CID investigator, "we like what they're doing."[17] Mr. [redacted]

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[11] Memorandum from U.S. Army Audit Agency to Director of the Army Staff Regarding Audit of Referral Bonus Programs (28 March 2013) (Report A-2013-0064-IEF), Enclosure 1.

[12] Letter from John McHugh, Secretary of the Army to Chairman Claire McCaskill (Nov. 14, 2013), Enclosure 2.

[13] U.S. Army Criminal Investigation Command, CID Report of Investigation – Initial Final – 0038-2007-CID221-90103-8LIA/5J1A, Exhibit 1 (July 12, 2007).

[14] Subcommittee on Financial and Contracting Oversight, Interview of Mr. [redacted], (June 5, 2014).

[15] Subcommittee on Financial and Contracting Oversight, Interview with Victoria J. Sorensen, U.S. Army Recruiting Command and Paul Aswell, Chief, Accessions Division, Army G1 (June 20, 2014).

[16] U.S. Army Criminal Investigation Command, CID Report of Investigation – Initial Final – 0038-2007-CID221-90103-8LIA/5J1A, Exhibit 1 (July 12, 2007).

[17] Subcommittee on Financial and Contracting Oversight, Interview of COL David Heath, Criminal Investigative Command (Mar. 18 2014).

noted that he had received certificates, coins, and letters of appreciation from recruiting officials including LTG Thomas P. Bostick, then the Commanding General of USAREC.[18]

According to the Army, despite realizing in July 2007 that the [redacted]s were making substantially more referrals than any other sponsor, "no one anticipated" that they would wind up costing the Army nearly $4 million by the program's end. Had they realized the impact of the [redacted]s' scheme, the Army admitted, they could've easily stopped it by placing a "cap" on the number of recruits a sponsor could refer.[19]

Unfortunately, while the Army now realizes its mistake, it says there is little it can do. As one official put it, "it's sleazy but legal."[20] Because there were no requirements to mentor or meet with sponsors, as in the G-RAP program, the [redacted]s needed only to forward names and information of eventual recruits to ultimately be paid. Having complied with terms of the program—as poorly as they may have been drawn up by the Army—the Army's CID, Office of the Staff Judge Advocate, USAREC, and the Department of Justice have concluded there is no basis to prosecute the [redacted]s for fraud.[21] However, while there is no criminal prosecution, the [redacted]s continue to be employed by the Department of Department of Defense as government employees.[22]

Given the Subcommittee's findings regarding the Referral Bonus Program, I request that you review the procedures that allowed USAREC to not simply tolerate this website, but to encourage it, and to ensure that caps are in place to prevent abuses of similar recruiting programs in the future. I also request that you take further action to review the propriety of the Defense Department's continued employment of the [redacted]s.

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[18] Subcommittee on Financial and Contracting Oversight, Interview of Mr. Rene [redacted], (June 5, 2014).

[19] Subcommittee on Financial and Contracting Oversight, Interview with Victoria J. Sorensen, U.S. Army Recruiting Command and Paul Aswell, Chief, Accessions Division, Army G1 (June 20, 2014).

[20] Subcommittee on Financial and Contracting Oversight, Interview with Victoria J. Sorensen, U.S. Army Recruiting Command and Paul Aswell, Chief, Accessions Division, Army G1 (June 20, 2014).

[21] Letter from Bernard P. Ingold, Principal Deputy, Legislative Liaison, Department of the Army to Chairman Claire McCaskill (Apr. 2, 2014), Enclosure 1.

[22] Letter from MG William E. Rapp, Chief, Legislative Liaison, Department of the Army to Chairman Claire McCaskill (Jan. 17, 2014), Enclosure 4; Letter from Bernard P. Ingold, Principal Deputy, Legislative Liaison, Department of the Army to Chairman Claire McCaskill (Apr. 2, 2014), Enclosure 1; Interview of Mr. [redacted], (June 5, 2014).

The jurisdiction of the Subcommittee on Financial and Contracting Oversight is set forth in Senate Rule XXV clause 1(k); Senate Resolution 445 section 101 (108th Congress); and Senate Resolution 64 (113th Congress).

Please contact Jackson Eaton with the Subcommittee staff at (202) 224-6579 with any questions. Please send any official correspondence relating to this request to Kelsey_Stroud@hsgac.senate.gov.

Sincerely,

Claire McCaskill
Chairman
Subcommittee on Financial and Contracting Oversight

cc: Ron Johnson
Ranking Member
Subcommittee on Financial and Contracting Oversight

The Honorable Chuck Hagel
Secretary
Department of Defense

Exhibit 1

OfficialArmy.com

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If you and a buddy sign up to join the army and qualify at the same time, you can go through Basic Training, Advanced Individual Training and your first Active Duty assignment together.

Height/Weight Requirements
Males | Females

Related Services
Army Reserve
National Guard

Step 1

All fields are required unless noted

Do you have a high school diploma or a GED with at least 15 college credits? ◉ Yes ○ No

First Name

Last Name

Gender ◉ Male ○ Female

Street Address

Street Address 2 (optional)

City

State ---

Zip Code

Date of Birth Month Day Year

Social Security Number - -

Phone Number - - 555-123-1234

Your E-mail Address

SAVE & PROCEED

Voluntary information shared with the U.S. Army will not be shared with any other party and will be used for recruiting purposes only.

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