



We recently received an email urging us to write about government contractor SallyPort and the salacious allegations made by a couple of ex-employees. The email stated “*Wow. Gov’t contractor run amok!! Your column will write itself on this one.*”

Actually, not so much.

We did some Googling and, indeed, the allegations are headline-grabbing. There are many news reports available, all based on an original Associated Press investigation. One report stated “An American company that was paid nearly \$700 million to secure an Iraqi base for F-16 fighter jets turned a blind eye to alcohol smuggling, theft, security violations, and allegations of sex trafficking -- then terminated investigators who uncovered wrongdoing”

Sounds like a government contractor running amok, all right. Except that the contractor “[strongly disputes](#)

” the allegations made by the employees. One article (link in previous sentence) reported that SallyPort stated—

New management was installed at Sallyport in January 2016 and immediately undertook a review of all policies and procedures at Balad. This review resulted in several changes, including the appointment of high ranking former military professionals to oversee Sallyport operations at Balad, the installation of a Corporate Ethics and Compliance Officer, and the replacement of many managers at the base. ... ‘Unfortunately, these employees presented a selective narrative when speaking to the media which resulted in the ensuing coverage omitting

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many key points,' [CEO] Stuckart added. For example:

1. The same employees quoted in the Associated Press story taking issue with how allegations of prostitution were handled signed and submitted a supplemental report last October concluding that these allegations were 'UNFOUNDED' and based on rumors and innuendo. See attached Documents #1 and #2 (names redacted for privacy and security reasons).
2. Sallyport's new management issued a policy expressly banning alcohol and tobacco at Balad. The company has not received any allegation that personnel have violated that new policy.
3. When the company's new management learned that the company's own investigators were supposedly told to shut down their investigation into alcohol and prostitution, the new Corporate Ethics and Compliance Officer instructed the investigators to complete those investigations. The new company management would never shut down an internal investigation into serious allegations like prostitution. As noted above, the renewed inquiry by the former employees handling those inquiries found that the allegations of prostitution were unsubstantiated.
4. An internal investigation into a claim that a vehicle breached the airfield at Balad showed that the breach took place on a service road outside of the airfield, well away from any Iraqi F-16. Sallyport submitted its investigation report to the Base Commander. See attached Document #3 (names redacted for privacy and security reasons).
5. The article reported on an aircraft being affected in operation, allegedly due to a large amount of smuggled alcohol in water bottles. Standing alone, the allegation that such a large number of water bottles were being smuggled such that it affected the operation of the aircraft is improbable. The company did not receive any reports that an aircraft was compromised.
6. The article blamed the company for failing to prevent the removal of Iraqi-owned generators from a location on the Balad base that Sallyport does not control or is assigned to protect. The incident was promptly reported to both the Iraqi Base Commander and US government contracting officials. See attached Document #4 (names redacted for privacy and security reasons).
7. Sallyport never instructed the dismissed investigators to keep two sets of books in order to deceive auditors. The investigators were specifically told to continue keeping a log, available to the U.S. government, of every investigation but not to include any attorney-client privilege information on that log – a standard practice. The dismissed investigators incorrectly interpreted this directive as an attempt to deceive the government.

So this is the thing: We are not going to report allegations without doing some level of research into those allegations. While this is a blog, not a news site—and thus we do not hold ourselves out as journalists—the fact is that we strive to tell the truth. (Or as much of the truth as is publicly available.) In this case, while the allegations are disturbing, we judge that the company's response is strong. At this point, we don't know why the investigators were

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“dismissed” and sent back home during the middle of a fairly routine “floorcheck” audit. We don’t know how many other employees—former and current—will come forth to corroborate and/or refute the initial allegations. We don’t know what the government will do with the allegations. (We note that, normally, people with salacious allegations don’t make their case to the press; instead, they file *qui tam* suits under seal and try to persuade the government to intervene.) There is a lot we don’t know at this point.

Which is why initial allegations should *never* be taken at face value. Further investigation is always warranted. Usually, there are at least two sides to every story. As we wrote once, allegations are easy to make. Providing sufficient evidence to convince a judge of the accuracy of those allegations is a lot harder.

Allegations received via internal hotline should be logged. Then they should be investigated. The findings of the investigation should be summarized and the matter should be dispositioned by an independent party in accordance with applicable laws, regulations, and company procedures. Then – *and this must always happen* – the company must “close the loop” by reporting back the disposition to the employee who made the original hotline allegations. (Obviously if the original reporter was anonymous, that’s not going to happen.)

What happens if the investigators are terminated and then become the source of further allegations (as seems to have happened to SallyPort)? Well, in that case we hope the company keeps really excellent records documenting exactly why the investigators’ employment was terminated. And we trust the rationale for termination was unrelated to any ongoing investigation. In this case, we’ll have to wait and see what facts come to light as this “scandal” moves forward.

In related news, we see that KPMG, the auditor of Rolls-Royce, is under investigation in the United Kingdom regarding the quality of its audits and “oversight,” according to the **BBC**. The investigation into KPMG follows a recent Deferred Prosecution Agreement between Rolls-Royce and the UK’s Serious Fraud Office (SFO), and a settlement of £671 million (approximately \$940 million). The settlement and Agreement related to “12 counts of conspiracy to corrupt or failure to prevent bribery in seven countries - Indonesia, Thailand, India, Russia, Nigeria, China and Malaysia.” Importantly, the company self-reported the wrongdoing in 2012 after an internal investigation.

Now, some five years later, the company’s auditor is under investigation. We don’t know what

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prompted the investigation, but we can speculate that the UK's Financial Reporting Council (FRC) wants to understand how Rolls-Royce was able to hide corrupt payments from its auditor, and whether it was reasonable to expect KPMG to have detected such payments through normal audit procedures.

According to the BBC news report (link above)—

KPMG, one of the world's largest accountancy firms, said: "It is important that regulators acting in the public interest should review high profile issues. We will co-operate fully with the FRC's investigation, which follows the SFO's investigations into Rolls-Royce.

'We are confident in the quality of all the audit work we have completed for Rolls-Royce, including the 2010-2013 period the FRC is considering.'

The firm has audited Rolls-Royce for 26 years, but is due to be replaced next year by PwC.

You can bet PwC will be on the lookout for corrupt payments when it takes over from KPMG next year. We assume the additional audit procedures will be baked-in to the audit fees that PwC will be charging Rolls-Royce and its shareholders.

Meanwhile, KPMG will have to support the FRC investigation, for as long as it takes. Just like SallyPort will have to support investigations into allegations made by its former investigators, for as long as it takes to resolve them.