

Mitsubishi Electric Proves Timecard Fraud is International

Written by Nick Sanders

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In January, 2012, Mitsubishi Electric Company—Japan’s second largest defense contractor—was indefinitely suspended from contracting with the Japanese Defense Ministry, the Japan Aerospace Exploration Agency, and the Japanese Cabinet Satellite Intelligence Center for allegedly “artificially increasing the number of workers and hours billed” on invoices submitted to those government entities. A detailed investigation was launched to quantify the amount of the (alleged) overbillings, according to [this story](#) at Defense Procurement News.

It’s not clear that Mitsubishi ever denied the allegations. According to [this report](#) from a Japanese news source—

A Mitsubishi Electric spokesman said, ‘It’s a fact that the costs of other projects were added to the contracts in question to pad the bills, but we can’t comment further as we are still investigating the case.’

More recently, the Defense Industrial Daily reported that the Board of Audit of Japan had release the results of its months-long investigation. According to the [Board of Audit](#), Mitsubishi’s practice of “padding the bills” has been in place since 1970. It was reported that—

For most of [Mitsubishi’s] orders, comparable market prices were not available, so Mitsubishi Electric calculated material costs and working hours necessary for fulfilling the orders, and the contracts prices were set using this calculation as a reference.

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Under the agreement, Mitsubishi Electric was to repay the ministries if its staff worked fewer hours than planned. But the Board of Audit of Japan has found that Mitsubishi Electric senior officials have overstated its employees' working hours for decades, using special terminals for manipulation.

So it seems that the workers were entering the correct number of work hours into the labor reporting system, but then their supervisors and/or managers used "special terminals" to increase those reported labor hours, so as to mask any underruns that would have prompted contract price adjustments. Unfortunately, the Board of Audit was unable to calculate the value of the fraud, because the company "has already destroyed the data on working hours and material costs for the contracts in question."

How fortuitous.

You may be wondering how has the *de facto* debarment affected Mitsubishi Electric? Surely, its top-line revenue significantly suffered from the loss of such a large customer?

Nope.

As the article reported—

... since there are no other companies that can repair and manufacture such products, [Mitsubishi] received more than 111.8 billion yen worth of orders from the Defense Ministry on the basis of free [sole-source] contracts in the first half of this year, representing more than 90 percent of the orders it received from the ministry last year.

In other words, like some U.S.-based defense contractors, Mitsubishi Electric was too big to be debarred. But unlike some U.S.-based defense contractors, Mitsubishi felt remorse for its wrongful actions, saying "We apologize that we have caused trouble by breaching contracts."

So there you go. All better now?

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