

UPDATE: CH2M Hill Hanford Settles Timecard Fraud Allegations

Written by Nick Sanders
Monday, 11 March 2013 00:00



We have friends who work at CH2M Hill; truly, we do. And we sincerely have tremendous respect for the company, which has grown itself into a juggernaut of an entity providing top-notch environmental services, design and design/build services, and architect/engineering services since its founding some 65 years ago. And we were pleased to see that it was [recently named](#) as “one of the world’s most ethical companies” by Ethisphere, and that it was also recently named as “one of the world’s most admired companies” by Fortune magazine. We’re not surprised. The company is that good.

And yet ...

And yet we told you about the company’s timekeeping problems [back in October](#), when we discussed its long-running allegations of timekeeping fraud (and resulting false claims) at its Hanford DOE project site, and wrote—

Certainly, CH2M Hill must have learned by now that its operations, which generally take place in remote locations far from its Corporate Headquarters in Denver, Colorado, are subject to risks that a reasonable person might think would be worth some largish internal control and awareness training investments, in order to mitigate.

We wonder how company leadership feels about investing in internal controls and employee training now, after they [just settled](#) with the DOJ for \$18.5 million.

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As the story at The Tri-City Herald (link above) reports—

CH2M Hill has agreed to pay \$18.5 million to settle civil and criminal allegations of defrauding taxpayers through widespread timecard fraud at the Hanford nuclear reservation. *It's the largest-ever penalty for a Hanford contractor and possibly the largest settlement ever negotiated by the U.S. Attorney's Office for the Eastern District of Washington*, said U.S. Attorney Michael Ormsby on Wednesday.

[Emphasis added.]

In addition to the \$18.5 million payment, the story reported that—

CH2M Hill also will pay \$500,000 toward a timekeeping system to better monitor timecards for workers on its current Hanford contract. ... It will hire a corporate monitor at a cost of up to \$80,000 to develop policies, procedures and employee training, the settlement agreement said. In addition, CH2M Hill will continue to cooperate in the Department of Justice's ongoing fraud investigation.

So really, it was a \$19 million settlement, right?

And as part of the settlement, CH2M Hill agreed to do what it should have done years ago, when it took over site management—*i.e.*, to implement an effective timekeeping system and to develop policies, procedures, and employee awareness training, in order to reduce the risk associated with the systemic timekeeping fraud that was alleged to have occurred.

Let's be clear on the math here. For a roughly \$600,000 investment, CH2M Hill could have avoided a \$18.5 million settlement and God-only-knows-how-much in unallowable legal expenses. By our calculations (excluding the legal fees) that's a Return on Investment of nearly *3,000 percent*. When we put it that way, you've got to wonder

Over at LinkedIn, we got involved in a discussion about how much a company should expect to spend on its compliance program as a percentage of sales. We resisted using percentage of sales as the metric, because we thought that the risks of noncompliance were not wholly sales driven. (*I.e.*, we didn't think that risks scaled with revenue growth). But the example of CH2M Hill's recent settlement shows how a penny-pinching approach to compliance programs,

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focusing solely on the costs involved in detecting/preventing noncompliance without also considering the risks and the costs associated with the noncompliance (should it occur) is also the wrong approach.

Remember, establishing strong internal controls and strong policies/procedures and strong employee training programs and strong compliance programs to detect/prevent wrongdoing are *investments*.

They are investments in litigation avoidance.

That's the proper way to look at these things, in our (perhaps biased) view.

As CH2M Hill learned too late.

CH2M Hill is a good company—some would even assert it's a great company. We're sure they'll figure this one out. After all, they have 19 million reasons to have learned their lesson.