



Department of Justice

FOR IMMEDIATE RELEASE
WEDNESDAY, NOVEMBER 19, 2014
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USAO, AT
CONTACT: BILL MILLER
202-252-6933

**WASHINGTON GAS ENERGY SYSTEMS AGREES TO PAY \$2.5 MILLION
IN FINES AND PENALTIES FOR CONSPIRING TO OBTAIN
FEDERAL CONTRACTS**

Scheme Involved Energy-Related Services at Government Buildings

WASHINGTON – Washington Gas Energy Systems (WGESystems) has agreed to pay more than \$2.5 million in fines and monetary penalties for conspiring to commit fraud on the United States by illegally obtaining contracts that were meant for small, disadvantaged businesses.

The court agreement was announced today by William J. Baer, Assistant Attorney General of the Antitrust Division; Principal Assistant U.S. Attorney Vincent H. Cohen Jr. of the U.S. Attorney's Office for the District of Columbia; Robert C. Erickson, Acting Inspector General of the U.S. General Services Administration (GSA); Peggy E. Gustafson, Inspector General for the Small Business Administration (SBA), and Andrew G. McCabe, Assistant Director in Charge of the FBI's Washington Field Office.

WGESystems, based in Virginia, is a wholly owned subsidiary of WGL Holdings Inc. (WGL). WGL is the parent company for all of the corporations within the Washington Gas family. WGESystems plays no direct role in the delivery of natural gas, and it is not a utility. It is a design-build firm that specializes in providing energy efficiency and sustainability solutions to clients.

A criminal information was filed today in the U.S. District Court for the District of Columbia charging WGESystems with one count of knowingly and willfully conspiring to commit major fraud on the United States. WGESystems waived the requirement of being charged by way of federal indictment, agreed to the filing of the information, and has accepted responsibility for its criminal conduct and that of its employees.

In addition, as part of a deferred prosecution agreement reached with the U.S. Attorney's Office for the District of Columbia and the Antitrust Division, WGESystems agreed to pay a fine of \$1,560,000 and a monetary penalty of \$1,027,261 within five days of the approval of the agreement by the court.

According to court documents filed today, WGESystems conspired with a company that was eligible to receive federal government contracts set aside for small, disadvantaged businesses with the understanding that the business would illegally subcontract all of the work on the projects to WGESystems. In this way, WGESystems was able to capture a total of eight contracts worth \$17,711,405 that should have gone to an eligible company. These contracts, awarded in 2010, were focused on making federal buildings in the Washington, D.C., area more energy efficient.

Under the illegal agreement, the company that was awarded these government contracts was allowed to keep 5.8 percent of the value of the contracts for allowing WGESystems to use the company's small business status to win these contracts.

"Conspiracies to violate federal procurement laws will not be tolerated," said Assistant Attorney General Bill Baer for the Antitrust Division. "Taxpayers deserve to have contracting processes that are fair and competitive, and fully comply with applicable laws and regulations."

"Time and time again, we have seen government contractors abuse and exploit programs designed to help minority and socially disadvantaged small businesses," said Principal Assistant U.S. Attorney Cohen. "This Washington Gas subsidiary obtained millions of dollars in federal contracts by using a small business that had no ability to actually complete the contract as a front company. Even though the subsidiary lost money on these contracts, it is required to pay \$2.5 million in fines and penalties under this agreement. This resolution should cause other contractors to think twice about playing fast and loose with federal contracting rules."

"Cases like this are important for us to maintain the integrity of the federal contracting process," said GSA Acting Inspector General Erickson. "Companies cannot cheat to win federal contracts and expect to get away with their ill-gotten gains."

"SBA's 8(a) Business Development Program assists eligible socially and economically disadvantaged individuals in developing and growing their businesses," said SBA Inspector General Gustafson. "Large businesses that fraudulently seek to gain access to contracts set aside for small businesses erode the public's trust in this important program. I want to thank the U.S. Attorney's Office and our law enforcement partners for their professionalism and commitment to justice in this investigation."

"Federal government contracting laws are in place to create a level playing field for small disadvantaged businesses whose work supports our country's diverse financial infrastructure," said Assistant Director in Charge McCabe. "The FBI with our law enforcement partners will investigate those companies who fraudulently abuse federal contracting laws with the purpose of increasing their company's bottom line."

According to the court documents, until 2010, GSA had an area-wide contract with WGESystems. This contract enabled GSA, without competition, to enter into contracts with WGESystems so that WGESystems could provide energy management services for federal buildings.

However, starting in 2010, the federal government changed its practices. The American Reinvestment and Recovery Act appropriated funds to make buildings in the District of Columbia and the surrounding area more energy efficient. These funds were to be awarded through the 8(a) program, which is administered by the SBA and which was created to help small, disadvantaged businesses access the federal procurement market.

To qualify for the 8(a) program, a business must be at least 51 percent-owned and controlled by a U.S. citizen (or citizens) of good character who meet the SBA's definition of socially and economically disadvantaged. The firm also must be a small business (as defined by the SBA) and show a reasonable potential for success. Participants in the 8(a) program are subject to regulatory and contractual limits on subcontracting work from 8(a) set-aside contracts. The SBA regulations require, among other things, the 8(a) concern to agree that on construction contracts it "will perform at least 15 percent of the cost of the contract with its own employees (not including the costs of materials)."

As a result of this change, WGESystems – which was not certified to participate in the 8(a) program – faced the prospect of losing millions of dollars in revenue.

WGESystems, along with an 8(a) company it used to obtain these contracts, and others, engaged in and executed a scheme to defraud the SBA and GSA by, among other things: concealing that WGESystems, which was not eligible for the aforementioned SBA contracting preferences, exercised impermissible control over the 8(a) company's bidding for and performance on GSA contracts; and misrepresenting that the 8(a) company was in compliance with SBA regulations pertaining to work on these contracts, including that the company's employees had performed the required percentage of work on these contracts. Through these unlawful efforts, WGESystems and the 8(a) company with which it conspired obtained, at least, approximately \$17,711,405 in U.S. government contracts related to work at eight different federal buildings. When these contracts were awarded, the 8(a) company's registered place of business was the president of the company's home, and the company had no employees who could provide design-build or contracting services.

WGESystems assisted the 8(a) company with identifying a project manager for the work at the eight buildings who was nominally an employee of the 8(a) company, but who, in actuality, took direction from WGESystems employees. For much of the relevant period, this project manager was the only employee of the 8(a) company performing work for any of the eight projects.

Under the agreement with WGESystems, the 8(a) company was entitled to 5.8 percent of the \$17,711,405 total value of the contracts, which equals \$1,027,261. To date, with all but one of the eight contracts completed or suspended, WGESystems has lost approximately \$1,122,581 on the projects. WGESystems initially anticipated a profit margin that would have equaled about \$1,560,000.

Since being informed of this investigation by the Justice Department, WGESystems has taken steps to enhance and optimize its internal controls, policies and procedures.

In light of the company's remedial actions to date and its willingness to acknowledge responsibility for its actions, the U.S. Attorney's Office for the District of Columbia and the Antitrust Division will recommend the dismissal of the Information in two years, provided WGESystems fully cooperates with, and abides by, the terms of the deferred prosecution agreement.

This investigation was conducted by the Inspector General's Offices of the U.S. General Services Administration and the Small Business Administration and the FBI's Washington Field Office. The prosecution is being handled by Assistant U.S. Attorney Matt Graves of the Fraud and Public Corruption Section of the U.S. Attorney's Office for the District of Columbia, and Assistant Chief Craig Y. Lee and Trial Attorney Diana Kane, both of the Antitrust Division's Washington Criminal I Section.

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