

**IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA**

UNITED STATES OF AMERICA : **CRIMINAL NO. 14-**
v. : **DATE FILED: July 17, 2014**
KENNETH NARZIKUL : **VIOLATIONS: 18 U.S.C. § 1031**
 : **(major fraud against the United States -- 1**
 : **Count)**
 : **18 U.S.C. § 1516 (obstructing a federal audit**
 : **- 1 Count)**
 : **18 U.S.C. § 287 (making false claims – 1**
 : **Count)**

INFORMATION

Count One

(Major Fraud Against the United States)

THE UNITED STATES ATTORNEY CHARGES THAT:

BACKGROUND

At all times material to this Information:

1. NP Precision, Inc. (NP Precision), located in Folcroft, Pennsylvania, was a subchapter S corporation, incorporated under the laws of the Commonwealth of Pennsylvania, and engaged in the machine tool business.
2. Defendant KENNETH NARZIKUL was the President and 85% owner of NP Precision, responsible for all aspects of NP Precision's business, which included contracting with federal agencies to produce critical hardware components used in military helicopters and other aircraft.
3. The United States Army Aviation and Missile Command (AAMCOM) was primarily responsible for life cycle management of army missile, helicopter, unmanned ground

vehicle and unmanned aerial vehicle weapon systems. Among other things, AAMCOM developed, acquired, fielded and sustained aviation, missile and unmanned vehicle systems for the United States Army.

4. On or about November 30, 2007, AAMCOM contracted with NP Precision in contract W58RG-08-D0038 for NP Precision to manufacture drive shaft couplings, Part Number 145D3500-17, for the U.S. Army helicopter Model CH-47, commonly known as a Chinook helicopter. Under contract W58RG-08-D0038 as modified, NP Precision agreed to manufacture 626 drive shaft couplings within a seven-year time period. During this time NP Precision would receive “progress payments,” which are payments based on the company’s progress and/or cost incurred during the performance of a contract.

5. On or about December 18, 2007, AAMCOM contracted with NP Precision in contract W58RGZ-08-C-0054 for NP Precision to manufacture drive shaft couplings, Part Number 145D3500-16, for the U.S. Army helicopter Model CH-47, commonly known as a Chinook helicopter. Under contract W58RGZ-08-C-0054 as modified, NP Precision agreed to manufacture 100 drive shaft couplings within a seven-year time period, during which time, NP Precision would receive “progress payments.”

6. Progress payments pay contractors for costs on an ongoing basis to enable those contractors to pay for materials and labor as completed but before the contract item is fully manufactured and shipped. Progress payments are intended to assist small contractors who cannot maintain substantial overhead and contractors who manufacture “long-lead” items that may require months to manufacture, process and ultimately ship to the government customer. Progress payments are not intended to pay the prime contractor’s profit or general overhead expenses but must only be used to pay direct costs incurred under the contract (i.e., costs of

materials, subcontractor costs or labor costs). See Federal Acquisition Regulations (FAR) 232.501-1a.

7. The value of contract W58RG-08-D0038 as modified exceeded \$1,000,000 in fees from the United States to NP Precision.

8. The United States Air Force (Air Force) was a military service within the Department of the Air Force, one of the three military departments of the U.S. Department of Defense (DoD or the Department of Defense), an agency of the United States. The Air Force provided air support to ground troops and aided in the recovery of troops in the field. As of 2013, the Air Force operated more than 5,000 aircraft.

9. The Defense Contract Audit Agency (DCAA) provided audit and financial advisory services to Department of Defense (DoD) and other federal entities responsible for acquisition and contract administration. DCAA operated under the authority, direction, and control of the Under Secretary of Defense (Comptroller)/Chief Financial Officer.

10. The Defense Logistics Agency (DLA) was a logistics combat support component of the Department of Defense. Among other things, DLA provided the Army, Navy, Air Force, Marine Corps, other federal agencies, and allied forces with the full spectrum of logistics, acquisition and technical services. DLA was responsible for the acquisition of many of NP Precision's government contracts.

11. The Defense Contract Management Agency (DCMA) was the DoD component that worked directly with Defense suppliers to help ensure that DoD, Federal, and allied government supplies and services are delivered on time, at projected cost, and meet all performance requirements. DCMA professionals served as "information brokers" and in-plant representatives for military, Federal, and allied government buying agencies -- both during the

initial stages of the acquisition cycle and throughout the life of the resulting contracts. Prior to the award of a contract, DCMA provided advice and information to help construct effective solicitations, identify potential risks, select the most capable contractors, and write contracts that met the needs of DoD, Federal and allied government agencies. After contract award, DCMA monitored contractors' performance and management systems to ensure that cost, product performance, and delivery schedules were in compliance with the terms and conditions of the contract.

THE SCHEME TO DEFRAUD

12. From at least in or around December 2007, through in or around May 2013, in Folcroft, in the Eastern District of Pennsylvania and elsewhere, the defendant,

KENNETH NARZIKUL,

knowingly devised and intended to devise a scheme to defraud the United States and to obtain money and property of the United States, by knowingly false and fraudulent pretenses, representations and promises.

13. It was the object of the scheme described in paragraph 12 that defendant KENNETH NARZIKUL would fraudulently divert and steal approximately \$1.2 million in progress payments that the United States paid NP Precision under contracts W58RG-08-D0038 and W58RGZ-08-C-0054. Consequently, the United States government received a very belated and many times incomplete product, far later than required under the delivery schedule. NP Precision made false statements and false claims to falsely reflect progress on numerous Army and Air Force contracts and to continue to receive progress payments from the United States. NP Precision would then use those embezzled progress payment funds to pay outstanding obligations on other contracts or for other business and personal expenses.

MANNER AND MEANS

It was a part of the scheme that:

14. Defendant KENNETH NARZIKUL, on behalf of NP Precision, entered into contracts with federal agencies, including the Defense Logistics Agency, AACOM and the Air Force.

15. Defendant KENNETH NARZIKUL, on behalf of NP Precision, and aided by persons known to the United States Attorney, requested progress payments under the contracts with the various federal agencies for costs that NP Precision had not actually incurred, and without the intention of using the progress payments on the cost and contract at issue, in violation of Federal Acquisition Regulation (FAR) 52-232-16.

16. Defendant KENNETH NARZIKUL, on behalf of NP Precision, and aided by persons known to the United States Attorney, requested progress payments under the contracts with the various federal agencies for overhead and other costs that may not be obtained via progress payments, in violation of FAR 232.501-1(a).

17. Defendant KENNETH NARZIKUL, on behalf of NP Precision, aided by persons known to the United States Attorney, obtained modifications of its contracts with the federal agencies, to get more time to produce the contracted-for goods.

18. During an audit of NP Precision performed by DCAA in April 2011, defendant KENNETH NARZIKUL, aided by persons known to the United States Attorney, made false statements to DCAA auditors who were performing the audit in order to verify that the costs being requested in progress payments on Army contract number W58RGZ-08-C-0054 were legitimately incurred and were being paid to vendors and subcontractors necessary to begin performance on that contract.

19. During another audit of NP Precision, performed by DCMA, also in April 2011, defendant KENNETH NARZIKUL, aided by persons known to the United States Attorney, made false statements to DCMA auditors who were performing the audit in order to verify that the costs being requested in progress payments on Army contract number W58RG-08-D0038 were legitimately incurred and were being paid to vendors and subcontractors necessary to begin performance on that contract.

20. Defendant KENNETH NARZIKUL, aided by persons known to the United States Attorney, fraudulently diverted and stole progress payments that the United States paid NP Precision under initial contract W58RG-08-D0038, instead of using the progress payments to produce the contracted-for goods:

a. On or about March 21, 2008, NP Precision received a progress payment, number PPRA001, in the amount of \$50,067.

b. On or about October 9, 2009, NP Precision received a progress payment, number PPRA002, in the amount of \$129,544.

c. On or about December 8, 2010, NP Precision received a progress payment, number PPRA0003, in the amount of \$411,085.

d. On or about April 5, 2011, NP Precision received a progress payment, number PPRA0004, in the amount of \$168,537.

e. On or about July 11, 2012, NP Precision received a progress payment, number PPRA0005, in the amount of \$35,201.

f. On or about August 17, 2012, NP Precision received a progress payment, number PPRA0006, in the amount of \$45,760, for a total of \$840,195.

21. Defendant KENNETH NARZIKUL, aided by persons known to the United States

Attorney, fraudulently diverted and stole progress payments that the United States paid NP Precision under contract W58RGZ-08-C-0054, instead of using the progress payments to produce the contracted-for goods:

- a. On or about February 29, 2008, NP Precision received a progress payment, number PPRA001, in the amount of \$24,861;
- b. On or about November 17, 2009, NP Precision received a progress payment, number PPRA002, in the amount of \$78,480;
- c. On or about December 17, 2010, NP Precision received a progress payment, number PPRA003, in the amount of \$366,570;
- d. On or about April 8, 2011, NP Precision received a progress payment, number PPRA004, in the amount of \$110,664;
- e. On or about May 27, 2011, NP Precision received a progress payment, number PPRA005, in the amount of \$36,225; for a total of \$616,800.00.

22. Between October 2008 and February 2012, defendant KENNETH NARZIKUL transferred more than \$616,000 from NP Precision to Oakmont Holdings, L.P., an entity controlled by defendant NARZIKUL, to utilize the progress payments for unauthorized expenses, such as payroll and other overhead costs incurred by NP Precision.

23. Defendant KENNETH NARZIKUL, on behalf of NP Precision, refused and failed to pay NP Precision's subcontractors on the contracts with federal agencies, which caused subcontractors to cease work. As a result, NP Precision was not able to provide the United States government with the contracted-for goods for which NP Precision had received 90% of the value of awarded contracts.

24. After obtaining progress payments on existing contracts without producing the

contracted-for goods, defendant KENNETH NARZIKUL entered into new contracts with federal agencies to provide the United States with additional contracted-for goods. Defendant NARZIKUL subsequently used progress payments from the newly awarded contracts to complete production under existing contracts on which NP Precision was delinquent.

25. In order to convince the United States government to release payments on claims for progress payments that were fraudulently submitted, defendant KENNETH NARZIKUL fraudulently represented to government auditors that NP Precision had made payments to its subcontractors and vendors when in fact those payments had not been made, and directed others at NP Precision whose identities are known to the United States Attorney to make such misrepresentations.

All in violation of Title 18, United States Code, Section 1031.

Count Two

(Obstruction of Audit)

THE UNITED STATES ATTORNEY CHARGES FURTHER THAT:

1. The allegations of paragraphs 1 through 11 and 13 through 25 of Count One are incorporated here.

2. In or around early 2011, DCAA notified NP Precision that DCAA would be conducting an audit on Army contract number W58RGZ-08-C-0054 to reconcile labor and material costs against NP Precision's records. In April and May 2011, DCAA conducted an audit.

3. During the DCAA audit, defendant KENNETH NARZIKUL directed two employees of NP Precision known to the United States Attorney to present a copy of a false check, number 1257, to a DCAA auditor, reflecting a payment of \$69,000 to one of NP Precision's subcontractors known to the United States Attorney, when, in truth and in fact, the real check that NP Precision had actually paid the subcontractor, numbered 1257, was for a total of only \$25,000, so that NP Precision could pass the audit and continue to receive progress payments under Army contract number W58RGZ-08-C-0054.

5. From on or about April 15, 2011, through on or about May 15, 2011, at Folcroft, in the Eastern District of Pennsylvania and elsewhere, the defendant,

KENNETH NARZIKUL,

with intent to deceive and defraud the United States, endeavored to influence, obstruct and impede federal auditors in the performance of their official duties relating to NP Precision, a corporation which received in excess of \$100,000 from the United States in the one-year period

of fiscal year 2011 under a contract with the United States, and did so endeavor by presenting a falsified check, number 1257, to a DCAA auditor.

In violation of Title 18, United States Code, Sections 1516 and 2.

Count Three

(Submission of False Claims)

THE UNITED STATES ATTORNEY CHARGES FURTHER THAT:

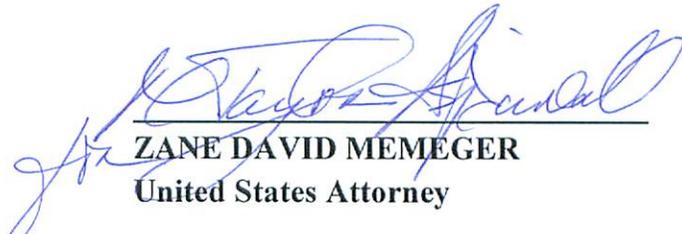
1. The allegations of paragraphs 1 through 11 and 13 through 25 of Count One are incorporated here.

2. On or about July 11, 2012 at Folcroft, in the Eastern District of Pennsylvania and elsewhere, the defendant,

KENNETH NARZIKUL,

did make and present, and willfully cause the making and presentment, to a person or officer in the civil, military and naval service of the United States, and to a department or agency thereof, a claim upon and against the United States for progress payment number five on contact W58RG-08-D0038, in the amount of \$35,201, knowing such claim to be false, fictitious and fraudulent.

In violation of Title 18, United States Code, Section 287.


ZANE DAVID MEMEGER
United States Attorney