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Anonymous Companies Increase Waste, Fraud, and Abuse in Defense Spending

A TI-US FACTSHEET

What is an Anonymous Company?

- When a person sets up a U.S. company, they aren't required to disclose the people who actually profit from the company's existence or control its activities (known as its "beneficial owners").
- As a result, these "anonymous companies" have become attractive vehicles for those hoping to obscure their identities and facilitate their illicit activities, including those who would defraud the U.S. government and drive up waste or abuse.
- The defense sector is no exception. In fact, as outlined below, some of the most notorious cases of waste, fraud, and abuse in U.S. defense spending have involved anonymous companies.

About two-thirds of all federal contracts are defense-related. In 2018, this amounted to about 570,000 contracts valued at \$350 billion.

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- A recent report by Transparency International's Defense and Security Program concludes that "Anonymous shell companies are a well-established means of diverting contract funds to political cronies and those tied to insurgents, terrorists, warlords, criminal networks, and other malign actors."¹
- Last year, the Government Accountability Office concluded that from 2012-18 the Department of Defense lost some \$875 million to scams involving anonymous companies. One prominent case involved an ineligible foreign manufacturer who illegally exported sensitive military data and then provided defective parts that led to the grounding of nearly 50 fighter aircraft.²

"The companies the U.S. government does business with are not required to provide information about their beneficial owners, which leads to waste, fraud, and abuse."

- ***Global Witness's 2016 report, Hidden Menace***

¹ Colby Goodman, "Holes In The Net: U.S. Arms Export Control Gaps In Combatting Corruption," Transparency International Defense and Security Program, Jan. 14, 2020, available at ti-defence.org/publications/united-states-arms-export-sales-corruption-fraud-risk/.

² See Max de Haldevang, "The U.S. Department of Defense lost \$875 million to scams involving shell companies," Quartz, Nov. 27, 2019, available at <https://qz.com/1755722/defense-department-has-lost-875-million-to-shell-company-scams/>.

- In a report from the Commission on Wartime Contracting in Iraq and Afghanistan discussing how the U.S. lost \$31-60 billion from fraud and waste in government contracting, the Commission highlighted the case of four trucking companies that had been contracted to move military supplies through Afghanistan that were actually linked to criminal networks or support for the Taliban.³
- In 2011, criminals used anonymous companies created in eight states to defraud the Department of Defense of over \$10 million, providing faulty or defective supplies during a time of armed conflict. If one anonymous company was eventually barred from getting a defense contract, the group would simply shift its bidding to another anonymous company that wasn't. From malfunctioning equipment to defective parts, these activities "put the men and women in the U.S. military in harm's way."⁴
- In a separate scheme, anonymous companies allowed criminals to defraud the Department of nearly \$50 million in a contract for supplying basic food and water for U.S. troops in Afghanistan.⁵

A 2014 academic study found that the U.S. is the easiest country in the world for criminals to open anonymous shell companies.

A Bipartisan, Tailored Solution

- The bipartisan Corporate Transparency Act, ILLICIT CASH Act, and Anti-Money Laundering Act would all require companies to disclose their beneficial ownership information to a secure directory housed in the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN). This information would be made available to law enforcement and relevant financial institutions.
- This long-overdue reform would provide national security and law enforcement agencies with a powerful new tool for uncovering and preventing waste, fraud, and abuse in the defense sector.

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³ See Commission on Wartime Contracting in Iraq and Afghanistan, "Transforming Wartime Contracting," Aug. 2011, available at https://cybercemetery.unt.edu/archive/cwc/20110929213820/http://www.wartimecontracting.gov/docs/CWC_FinalReport-lowres.pdf.

⁴ See United States Attorney's Office, Eastern District of Virginia, "Former America's Most Wanted Fugitive sentenced to 105 years for leading international conspiracy to defraud the military," Dec. 15, 2011, available at <https://www.justice.gov/archive/usao/vae/news/2011/12/20111215daynr.html>.

⁵ See U.S. Department of Justice, "Defense Contractor Pleads Guilty to Major Fraud in Provision of Supplies to U.S. Troops in Afghanistan," Dec. 8, 2014, available at <https://www.justice.gov/opa/pr/defense-contractor-pleads-guilty-major-fraud-provision-supplies-us-troops-afghanistan>.