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Department of Justice

X STATEMENT OF

WILLIAM S. LYNCH

BEFORE THE

SUBCOMMITTEE ON FEDERAL SPENDING PRACTICES
AND OPEN GOVERNMENT

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ON

GENERAL SERVICES ADMINISTRATION INVESTIGATIONS

JANUARY 29, 1980

10:00 A. M.

NCJRS
FEB 21 1980
ACQUISITIONS

65/55

MR. CHAIRMAN AND SENATOR PRYOR, MEMBERS OF THE SUBCOMMITTEE:

I APPRECIATE THE OPPORTUNITY TO APPEAR NOW BEFORE THIS SUBCOMMITTEE, IN ORDER TO REPORT UPON GSA TASK FORCE OPERATIONS. SINCE MY LAST APPEARANCE BEFORE THE SUBCOMMITTEE, THERE HAVE BEEN A NUMBER OF DEVELOPMENTS; I WILL SUMMARIZE THEM BRIEFLY.

IN OCTOBER OF 1979 I HAD THE PLEASURE OF APPEARING BEFORE THIS SUBCOMMITTEE IN ORDER TO GIVE THE SUBCOMMITTEE AN OVERVIEW OF THE STATUS OF PROSECUTIVE ACTIVITY UNDERTAKEN BY THE GSA TASK FORCE SINCE ITS INCEPTION IN SEPTEMBER OF 1978.

THE GSA TASK FORCE CONTINUES TO PERFORM THE MISSION ASSIGNED BY THEN-DEPUTY ATTORNEY GENERAL CIVILETTI ON SEPTEMBER 18, 1978; AS YOU WILL RECALL, IN THE DEPUTY ATTORNEY GENERAL'S TESTIMONY AT THAT TIME HE STATED THAT "WE DO NOT KNOW FROM EVIDENCE GATHERED HOW FAR CORRUPTION EXTENDS, WHETHER AT ANY LEVEL CORRUPTION IS PERVASIVE, OR HOW MANY INDICTMENTS MAY BE POSSIBLE. OUR PURPOSE IS TO FIND OUT . . ."

IN THE THREE MONTHS SINCE MY LAST APPEARANCE, THE GSA TASK FORCE HAS CONCLUDED TWO SIGNIFICANT PROSECUTIONS BY TRIALS IN THE DISTRICT OF NEW JERSEY AND IN THE EASTERN DISTRICT OF VIRGINIA.

IN NEW JERSEY, AFTER A TRIAL EXTENDING OVER FIVE WEEKS, A JURY CONVICTED ARTHUR S. LOWELL, A MEMBER OF THE NEW YORK BAR, AND ANTHONY PIONZIO, A FORMER BRANCH CHIEF AND ACTING CHIEF OF QUALITY CONTROL FOR GSA REGION 2.

MR. LOWELL WAS CONVICTED BY THE JURY OF PARTICIPATING IN A SCHEME OF NINE YEARS' DURATION, TO DEFRAUD THE UNITED STATES OF THE HONEST AND FAITHFUL SERVICE OF QUALITY CONTROL EMPLOYEES IN THE REGION 2 (NEW YORK-NEW JERSEY) AREA IN A MATTER INVOLVING PAINT PROCUREMENT.

MR. PIONZIO, WHO HELD A RANK OF GS-I4 PRIOR TO HIS POST-INDICTMENT RETIREMENT FROM GSA, WAS CONVICTED AS A MEMBER OF THE CONSPIRACY WITH MR. LOWELL; HE WAS ALSO CONVICTED OF THREE SUBSTANTIVE TRAVEL ACT COUNTS INVOLVING BRIBES WHICH MR. PIONZIO PERSONALLY ACCEPTED ON THREE SUCCESSIVE YEARS AT CHRISTMAS. WHILE THIS MATTER INVOLVED A PAINT COMPANY IN NEW JERSEY, INVESTIGATIONS OF MR. LOWELL AND MR. PIONZIO IN RELATION TO OTHER CORPORATIONS ARE CONTINUING.

IN THE COURSE OF THE INVESTIGATION AND TRIAL OF THE PAINT PROCUREMENT MATTER IN NEW JERSEY, TESTIMONY WAS PRESENTED RELATING TO ALLEGED CORRUPTION IN WASHINGTON, D. C. OUR INVESTIGATION OF THAT ALLEGATION OF CORRUPTION CONTINUES, AND WILL CONTINUE UNTIL WE HAVE ACCOMPLISHED OUR ASSIGNED PURPOSE, WHICH IS TO FIND OUT WHAT THE CORRUPTION IS AND HOW PERVASIVE

IT MAY BE. I MIGHT ADD THAT THIS MATTER IS AN INVESTIGATION INITIATED AND DEVELOPED BY THE TASK FORCE AND WAS NOT A SPECIFIC REFERRAL FROM THE GENERAL SERVICES ADMINISTRATION.

IN THE EASTERN DISTRICT OF VIRGINIA, AFTER ANOTHER SIGNIFICANT TRIAL, MR. BLECKER, THE PRESIDENT OF THE ICARUS CORPORATION, AND THE ICARUS CORPORATION ITSELF WERE CONVICTED OF A VARIETY OF COUNTS INVOLVING DEFRAUDING THE UNITED STATES BY THE PRESENTATION OF FALSE CLAIMS TO THE UNITED STATES FOR COMPUTER-RELATED ACTIVITIES. SENTENCES WILL BE IMPOSED ON FRIDAY, FEBRUARY 1.

OUR INVESTIGATION IN THE ICARUS MATTER INDICATES THAT THERE IS MUCH MORE WORK TO BE DONE; WE ARE PROCEEDING. THE MATTER INVOLVING ICARUS CORPORATION WAS ONE OF THE MATTERS INITIALLY REFERRED BY GSA TO THE TASK FORCE WHEN THE TASK FORCE WAS FORMED. IT IS THE ONLY MATTER OF THAT GROUP OF ITEMS WHICH WERE REFERRED TO THE TASK FORCE WHICH HAS BEEN DEVELOPED INTO A CASE BY THE TASK FORCE. DEVELOPMENT FROM DATE OF REFERRAL TO INDICTMENT REQUIRED ALMOST A YEAR OF JOINT FBI AND GSA INVESTIGATIONS.

IN PRIOR TESTIMONY, I RECITED SOME STATISTICS FOR THE SUBCOMMITTEE. ON OCTOBER 10, I ADVISED THE SUBCOMMITTEE THAT,

SINCE MR. CIVILETTI'S TESTIMONY IN SEPTEMBER OF 1978, 78 INDIVIDUALS AND THREE CORPORATIONS HAD BEEN CHARGED WITH VARIETIES OF FRAUD AND CORRUPTION IN CONNECTION WITH GSA ACTIVITIES, AND THAT THREE CORPORATIONS AND 69 INDIVIDUALS HAD BEEN CONVICTED. AS OF TODAY, 101 PERSONS HAVE BEEN CHARGED AND 84 CONVICTED; FOUR CORPORATIONS HAVE BEEN CHARGED AND FOUR CONVICTED; AND THREE INDIVIDUALS HAVE BEEN ACQUITTED.

I WISH TO REMIND THE SUBCOMMITTEE THAT GENERALLY IN THE FRAUD AND WHITE-COLLAR CRIME AREA PROSECUTIVE ACTIVITY IS LONG-TERM AND MAY BEAR RESULTS ONLY AFTER EXTENSIVE INVESTIGATIVE WORK HAS BEEN DONE.

FOR EXAMPLE, THE MATTER INVOLVING THE ICARUS CORPORATION STARTED WITH AN AUDITOR'S REPORT IN 1977, WHICH BECAME PART OF A GSA SPECIAL AGENT'S ANALYSIS WHICH WAS REFERRED TO THIS TASK FORCE IN OCTOBER OF 1978 AND WAS NOT READY FOR PROSECUTION UNTIL THE FALL OF 1979. THIS LONG-TERM PRODUCTION PROCESS IS ONE WHICH I FEEL MUST BE EMPHASIZED, FOR THERE IS A POSSIBILITY OF THE GENERATION OF INAPPROPRIATE EXPECTATION IF ANY OTHER CONCEPT OF PROSECUTIVE PROCESS IS ADOPTED.

ANOTHER ILLUSTRATION OF THIS REQUIREMENT FOR PATIENT AND DETAILED INVESTIGATIVE WORK IS FOUND IN THE DEVELOPMENT OF

PROSECUTIONS IN THE CONTRACT FRAUD AREA IN PUBLIC BUILDINGS SERVICE IN WASHINGTON, D. C. THE UNITED STATES ATTORNEY, MR. RUFF, HAS RECENTLY ANNOUNCED SOME TEN ADDITIONAL CASES HAVE BEEN BROUGHT IN THE LAST TWO WEEKS, BY CHARGES AGAINST CONTRACTORS OR BRIBED GSA EMPLOYEES WHO HAD DEFRAUDED THE GOVERNMENT. THE INFORMATION, WHICH ULTIMATELY RESULTED IN THESE CHARGES IN 1980, WAS DEVELOPED IN INVESTIGATION BY THE FBI AND THE GSA AND FROM THE PERIOD OF 1975 THROUGH 1980. THESE CHARGES THUS DEPENDED UPON MASSIVE INVESTMENT OF INVESTIGATIVE EFFORT OVER A PERIOD OF SOME YEARS, BY THE FEDERAL BUREAU OF INVESTIGATION WORKING IN COOPERATION WITH GSA. I MAKE THIS POINT BECAUSE THE PUBLIC PERCEPTION OF THE PROSECUTIVE UNDERTAKING MAY DIFFER FROM REALITY, AND I WISH TO TAKE THIS OPPORTUNITY TO EMPHASIZE FOR THE SUBCOMMITTEE THE NEED FOR PATIENCE AND PERSISTENCE WHICH ARE THE HALLMARK OF EFFECTIVE ONGOING INDISPENSABLE INVESTIGATIVE ACTIVITIES BY THE FEDERAL BUREAU OF INVESTIGATION, COOPERATING WITH THE OFFICE OF THE INSPECTOR GENERAL OF THE GENERAL SERVICES ADMINISTRATION.

ANOTHER EXAMPLE OF THE OFTEN ATTENUATED DISTANCE BETWEEN INVESTIGATION AND CONVICTION IS PRESENTED IN THE AREA OF THE GSA SELF-SERVICE STORES. A SUBSTANTIAL NUMBER OF CONVICTIONS RELATED TO FRAUD IN SELF-SERVICE STORES HAVE BEEN SECURED THROUGH THE VIGOROUS ACTIVITY OF THE UNITED STATES ATTORNEY

FOR THE DISTRICT OF MARYLAND WORKING IN CONJUNCTION WITH THE FEDERAL BUREAU OF INVESTIGATION AND THE GENERAL SERVICES ADMINISTRATION PERSONNEL ASSIGNED TO ASSIST THAT OFFICE. THIS INVESTIGATIVE ACTIVITY DEVELOPED, IN PART, AS A RESULT OF A COMPLAINT BROUGHT TO THE ATTENTION OF GSA MANAGEMENT IN APRIL, 1977, IN CLEVELAND. THERE, AS A RESULT OF INFORMATION GIVEN BY A GSA EMPLOYEE AS TO QUESTIONABLE ACTIVITY IN A SELF-SERVICE STORE, AN INVESTIGATION WAS UNDERTAKEN IN APRIL OF 1977, AS A RESULT OF THE CLEVELAND MATTER; THE GSA OFFICE OF AUDITS AND INVESTIGATIONS OF GSA WAS DIRECTED BY THE ADMINISTRATOR TO CONDUCT SELECTIVE REVIEWS OF SELF-SERVICE STORES. THESE ANALYSES, COMMENCED IN 1977, ARE STILL PRODUCING PROSECUTIONS IN 1980.

SIMILARLY, PUBLIC BUILDINGS SERVICE RECORD IRREGULARITIES WERE DISCOVERED IN CHICAGO IN AUGUST OF 1976 DURING SPOT-CHECK BY A FINANCE CLERK. THIS RESULTED IN AN INVESTIGATION BY THE FBI AND A GUILTY PLEA IN THIS MATTER IN APRIL OF 1977 IN CHICAGO. MEANWHILE, DURING OCTOBER OF 1976, BASED UPON THE VULNERABILITY DISCLOSED BY THE CHICAGO INVESTIGATION, THE THEN-ADMINISTRATOR OF GSA ORDERED SPECIAL REVIEWS TO BE UNDERTAKEN NATIONALLY TO DETERMINE THE ADEQUACY OF PBS INTERNAL CONTROLS. HOWEVER, BECAUSE OF THE NECESSARILY DELIBERATE NATURE OF INVESTIGATIVE ACTIVITY REQUIRING DEVELOPING AND MARSHALING THE FACTS BEFORE ANY PROSECUTION IS COMMENCED, THESE UNDERTAKINGS

ATTRACTED NO ATTENTION; AND THAT WAS PERFECTLY APPROPRIATE. HOWEVER, THE RESULTS OF THESE INVESTIGATIVE ACTIVITIES, COUPLED WITH INFORMATION DEVELOPED IN THE DISTRICT OF COLUMBIA, ARE NOW BEARING SIGNIFICANT PROSECUTIVE RESULTS. A SIMILAR STATEMENT COULD BE MADE REGARDING THE INVESTIGATION AND PROSECUTION OF THE CONTRACTOR FRAUD INVOLVING REPAIR UNDER THE DMISA CONTRACTS IN EAST ST. LOUIS, MISSOURI, AND IN SAN ANTONIO, TEXAS. IN THOSE MATTERS, AS IN SUBSEQUENT INVESTIGATIONS WHICH HAVE DEVELOPED FROM THOSE MATTERS, TWO OR THREE YEARS OF INVESTIGATIVE ACTIVITIES HAVE SUPPORTED THE SUCCESSFUL PROSECUTIONS.

I AM HAPPY TO REPORT TO THE SUBCOMMITTEE THAT THE REFERRAL ACTIVITY AND THE INTERACTION BETWEEN THE OFFICE OF THE INSPECTOR GENERAL AT GSA AND THE DEPARTMENT OF JUSTICE HAS BEEN, AND CONTINUES TO BE, FROM MY POINT OF VIEW, EFFICIENT AND EFFECTIVE. MR. MUELLENBERG'S OFFICE REFERS MATTERS TO JUSTICE CONSISTENT WITH THE STATUTORY RESPONSIBILITIES IMPOSED ON HIS OFFICE, AND THOSE MATTERS WHICH HAVE BEEN REFERRED HAVE BEEN EITHER FORWARDED TO THE UNITED STATES ATTORNEY FOR PROSECUTION IN THE APPROPRIATE DISTRICT OR, AS MAY BE APPROPRIATE, HAVE BEEN RETURNED TO THE OFFICE OF THE INSPECTOR GENERAL OF THE GENERAL SERVICES ADMINISTRATION FOR ADMINISTRATIVE ACTIONS WHEN THE PROSECUTIVE POTENTIAL HAS BEEN FOUND TO BE INADEQUATE AFTER FURTHER INVESTIGATION.

IN THIS OVERSIGHT HEARING, I RESPECTFULLY SUBMIT TO THE SUBCOMMITTEE THAT, DESPITE THE SERIOUS COMMITMENT OF THE OFFICE OF THE GSA INSPECTOR GENERAL TO LAW ENFORCEMENT, THE INTEGRATION OF THE INVESTIGATIVE MANDATE OF THE OFFICE OF THE INSPECTOR GENERAL WITH THE INVESTIGATIVE RESPONSIBILITY OF THE FEDERAL BUREAU OF INVESTIGATION, THE DEVELOPMENT OF A PROCESS OF REFERRAL, AND THE DEVELOPMENT OF IMPORTANT CASES, IS, TAKEN AS A WHOLE, A TIME-CONSUMING AND COMPLEX MANAGEMENT PROCESS. THE INSPECTOR GENERAL IS REQUIRED TO DEVELOP EFFECTIVE STAFF RELATIONSHIPS INTERNALLY, EXPAND INVESTIGATIVE ACTIVITIES THROUGHOUT GSA, AND PREPARE ADEQUATE CASES FOR PROSECUTION REFERRAL. ON THE OTHER HAND, THE FEDERAL BUREAU OF INVESTIGATION, WHICH HAS JURISDICTION OVER ALL OF THESE INVESTIGATIVE MATTERS, IS THE PRINCIPAL INVESTIGATIVE ARM OF THE DEPARTMENT OF JUSTICE AND MUST INTEGRATE REFERRALS FROM GSA INTO THE WORK WHICH IS REGULARLY DEVELOPED. THERE ARE MANY PROBLEMS TO RESOLVE, MANY PERSONALITIES TO INTEGRATE, AND, APPARENTLY, MANY CASES TO BE DEVELOPED.

I RESPECTFULLY SUBMIT TO THE COMMITTEE THAT THE COMMITMENT OF THE DEPARTMENT OF JUSTICE IS AND WILL CONTINUE TO BE AS IT WAS STATED BY ATTORNEY GENERAL CIVILETTI IN SEPTEMBER OF 1978. THAT IS, WE WILL CONTINUE TO FIND OUT THE SCOPE AND DIRECTION OF CORRUPTION IN GSA AND TO PROSECUTE THOSE INSTANCES OF SUCH CORRUPTION WHEN IT IS FOUND. WE ARE DOING THAT.

I THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE THE
SUBCOMMITTEE, AND I WILL BE GLAD TO TRY TO ANSWER ANY QUESTIONS
WHICH YOU MAY HAVE.

END