



**OFFICE of the
INSPECTOR GENERAL**
U.S. GOVERNMENT PUBLISHING OFFICE

Date

November 19, 2020

To

Director, U.S. Government Publishing Office

From

Inspector General

Subject

Management Implication Report — DLUX (OIG Case Number 18-0009-I)

I am forwarding the results of our investigation involving violations of 18 U.S.C. §§ 641, Theft of Government Money or Property, and 287, False Claims against the United States Government, involving several United States Government Publishing Office (GPO) contracts. The report is detailed in order to provide the GPO with sufficient information to identify any possible vulnerabilities in its direct-mail services contracts.

Background

In April 2018, the GPO Office of the Inspector General (OIG), Investigations Division, received a referral from the Federal Bureau of Investigation (FBI) alleging fraudulent activities committed by DLUX Printing & Publishing, Inc. (DLUX) – a business located in Pensacola, FL. The complainant, who had intimate knowledge of DLUX's day-to-day operations, reported that Gerald Mandel (Mandel), the owner of DLUX, directed employees to produce and distribute a fraction of the contracted materials, while still invoicing the GPO for the full amount.

Investigative Summary

Our investigation revealed that between January 1, 2013, and May 15, 2018, DLUX submitted approximately 115 invoices under several GPO contracts. Thirty-three of these contracts were for direct-mail services. Generally, contracts for direct-mail services require contractors to print items on behalf of a government agency and then mail the items directly to individuals. In this case, within the 33 direct-mail contracts ("Jackets"), 11 shipments were identified as containing falsified mailing documents.

On June 4, 2020, Mandel appeared at the United States District Court for the Northern District of Florida and entered a guilty plea to a two-count Information charging Theft of Government Funds and False Claims in violation of 18 U.S.C. §§ 641 and 287, respectively. Subsequently, Mandel was sentenced on the aforementioned charges on August 20, 2020. Mandel and DLUX were debarred from doing business with the GPO for three years.

Details of Investigative Findings

Responding to the FBI referral, the Investigations Division initiated an investigation into the allegation that DLUX and its owner, Mandel, were submitting falsified documents for GPO payment. The Investigations Division found that DLUX used the United States Postal Service (USPS) to mail letters, postcards, and bulk mail to GPO customers. Due to the frequency and bulk of this kind of mailing, the USPS has a system in place to make the process more efficient that allowed DLUX to generate Postage Statement Form 3602-R1 electronically to provide to the USPS. These forms included the mailing date, total number of pieces, total weight, and cost. Once the bulk mailing was prepared, DLUX would bring the shipment to the post office to complete the mailing process. The USPS would generate a USPS Postal One receipt that included the mailer's declared total pieces, declared total weight, mailing date, cost of the postage, and payment transaction number. Each postal shipment had its own transaction number.

The Investigations Division developed sources of information who provided two examples of GPO contracts associated with the fraudulent shipping documents. The first contract involved the United States Department of Housing and Urban Development (HUD) production and mailing of information related to the Free Application for Federal Student Aid. The second contract involved the District of Columbia Public Schools (DCPS) production and mailing of information related to school enrollment. The sources also provided USPS forms that DLUX had falsified for these contracts and said that DLUX had been inflating the numbers of items shipped under GPO contracts for as long as five years.

The Investigations Division learned that Mandel directed DLUX employees to produce duplicate USPS documents tied to GPO contracts: one set reflecting the actual number of items mailed through the USPS and one fraudulent set for submission to the GPO showing that the contracted items were mailed. DLUX's graphics department would then manipulate the numbers on postal documents to make them appear to list the contracted number of items. DLUX then sent to the GPO the falsified USPS Postal One receipts and related shipping documents as proof of delivery with an order invoice for payment.

As previously stated, DLUX submitted approximately 115 GPO contract related invoices from January 1, 2013 to May 15, 2018. Thirty-three of these contracts were for direct-mail services. Eleven of the 33 shipments were identified as containing falsified mailing documents. Details of those shipments are as follows:

- A. Jacket 625-120: In August 2016, DLUX was contracted to produce and mail retiree newsletters for the Defense Logistics Agency (DLA). As part of its invoice documentation, DLUX claimed it mailed 24,703 newsletters to individual addresses in support of this Jacket in September 2016. USPS records for September 2016 revealed DLUX only mailed 15,349 newsletters. The amount paid by GPO to DLA was \$9,041.03 resulting in a loss of \$3,423.46.

B. Jackets 730-330 and 730-403: In January 2017, DLUX was contracted to produce and mail two separate monthly issues of the *Tip of the Spear* magazine for the United States Special Operations Command (SOCOM). As part of its invoice documentation, DLUX claimed it mailed 4,875 of each issue (9,750 total) to individual addresses in support of this Jacket in February 2017. USPS records revealed only 780 issues were mailed. The amount paid by GPO to SOCOM was \$9,800.00 resulting in a loss of \$9,016.00.

C. Jacket 399-431: An analysis of the GPO's contract to produce and mail over 100,000 items for HUD revealed that DLUX claimed it mailed 25,304 items in each of four separate waves (101,216 total) from February to April 2017. USPS records indicated DLUX mailed four shipments of only 12,054 pieces each (48,216 total) during that time. The amount paid by GPO to HUD was \$39,275.32 resulting in a loss of \$20,565.84.

D. Jacket 647-865: A review was conducted of a contract to produce postcard mailers for the United States Department of the Army (DA) in June 2017. DLUX claimed it mailed 30,645 postcards to individual recipients. USPS records revealed DLUX mailed only 23,492 postcards. The amount paid by GPO to DA was \$13,453.81 resulting in a loss of \$3,140.32.

E. Jackets 400-528, 400-604, and 404-643: Under two separate contracts in August 2017 and one contract in March 2018, DLUX agreed to produce and mail enrollment information cards for DCPS. In each of its three invoice submissions to the GPO, DLUX claimed to have mailed 40,363, 40,364, and 54,340 items (135,067 total). USPS records revealed DLUX mailed only 25,119, 20,086, and 34,057 items (79,262 total). The amount paid by GPO to DCPS was \$29,050.58 resulting in a loss of \$11,109.86.

In summary, the GPO paid a total of \$100,620.74 for the direct-mail services contracts identified above and suffered a net loss of \$47,255.48 as a result of this scheme.

References

Statutes associated to this investigation are:

- 18 U.S.C. § 641, Theft of Government Funds
- 18 U.S.C. § 287, False Claims

Conclusion

The GPO produces and distributes information products and services for all three branches of the Federal government. The GPO procures much of its work from commercial sources and private-sector vendors such as DLUX.

We note that without the complainant's allegations, GPO would have likely remained unaware of Mandel's fraudulent actions. To ensure due diligence and oversight in future matters, we recommend the following to assist with combatting fraud:

- The GPO conduct a review of its on-going direct-mail services contracts to determine any additional oversight measures that could be implemented to include but not limited to random inspections to independently verify quantities shipped versus quantities reported.

As a reminder, if the GPO identifies suspected fraudulent activities while conducting quality control activities the OIG should be contacted without delay for an appropriate law enforcement response, per its policies and procedures. These oversight activities may decrease the potential for fraud in GPO contracting.

Please provide a written response to the OIG no later than 60 days from receipt of this memorandum. If you have any questions or concerns, please do not hesitate to contact me.



MICHAEL P. LEARY
Inspector General

cc:

Deputy Director, GPO
Acting Chief of Staff, GPO
General Counsel, GPO