CASE STUDY

Fraud

Craig Klund

- Age 58
- U.S. Defense Contractor

WHAT HAPPENED

Craig Klund, formerly from Chippewa Falls, Wisconsin, was a military contractor who supplied electrical parts to the various branches of the U.S. military, including the U.S. Army for the Patriot Missile System and the U.S. Air Force for the F-16 jet fighter.

From 2011 through July 17, 2019, Klund executed a scheme to defraud the DOD by obtaining defense contracts under false pretenses. His fraud schemes included: Use of 15 shell corporations to hide his control of entities bidding on DOD contracts; use of multiple aliases; repeated identify theft; collusive bids submitted by multiple Klund entities on the same contract; knowingly shipping nonconforming parts and requesting payments for these parts; and signing Federal Acquisition Regulation certificates using fake names. He also lied to Defense Contract Management Agency (DCMA) inspectors by claiming to be someone other than himself; relocated his business from Wisconsin to South Dakota to evade DCMA inspectors who were questioning his operations in Wisconsin; concealed receipt of DOD proceeds by not reporting these monies on his federal income tax returns; and laundered DOD proceeds by moving the funds between accounts.

By using 15 different shell entities, Klund submitted 5,750 bids and was awarded 1,928 contracts worth $7,468,638. These contracts were for parts for the U.S. Army, Air Force, Navy, and Marine Corps. He was paid $2,905,484 during the fraud scheme. Klund pleaded guilty to wire fraud on January 20, 2022, in the Western District Court of Wisconsin and was sentenced by U.S. District Judge James D. Peterson to a total of 120 months to be followed by three years of supervised release. Klund was also ordered to pay $435,822.71 in restitution.

Judge Peterson said he thought Klund was a liar, who lied to the DOD over a long period of time and to the judge as well. Judge Peterson also noted Klund was an unusual fraud defendant because he had three previous federal felony convictions, two of which were for defense contracting fraud, making his criminal history a very important factor in the judge's sentencing analysis.

Judge Peterson explained this case involved an extensive fraud scheme that caused significant harm to the government because it was duped into contracting with a two-time convicted defense contracting felon and received parts from someone with whom it did not want to deal.

INDICATORS

- **Financial Considerations**: Klund was involved in deceptive and illegal financial practices, including fraud.
- **Criminal**: Klund had two previous felony convictions.
- **Personal Conduct**: Klund had a pattern of dishonesty, falsifying information, and rule violations.

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IMPACT

- Craig Klund pleaded guilty to a number of fraud-related charges and received a prison sentence of 120 months, three years of supervised release, and was ordered to pay almost $436,000 in restitution.
- Klund's extensive fraud scheme caused significant harm to the government in that he supplied defective parts to the military that had the capacity to harm military personnel and the public.
- The district court noted deserving contractors who played by the rules were also victimized by Klund's criminal conduct.

ADDITIONAL INFO

- The charges against Klund were the result of an extensive investigation conducted by a number of agencies, which includes: the Internal Revenue Service Criminal Investigation; DOD Office of the Inspector General; Defense Criminal Investigative Service; General Services Administration Office of the Inspector General; Air Force Office of Special Investigations; Army Criminal Investigation Command's Major Procurement Fraud Unit; and Naval Criminal Investigative Service.
- The case was prosecuted by Timothy O'Shea, United States Attorney for the Western District of Wisconsin.
- Klund had two previous convictions.

Questions to Consider:

- How was a two-time convicted felon able to successfully compete for DOD contracts and commit such an extensive fraud scheme?
- Complex fraud schemes often involve many parties who are complicit. How could Klund have executed this fraud scheme by himself?
- What mechanisms are in place for the DOD to counter acquisition fraud?
- What is the role of today's insider threat programs in deterring such activities?

Resources for Further Exploration:

- Insider Threat Toolkit – Fraud Tab
  (https://www.cdse.edu/Training/Toolkits/Insider-Threat-Toolkit/#fraud)
- Job Aid – Insider Threat Fraud
  (https://www.cdse.edu/Portals/124/Documents/jobaids/insider/INT_Fraud_JobAid.pdf)
- Fraud Resource – Association of Certified Fraud Examiners Report to the Nations
  (https://legacy.acfe.com/report-to-the-nations/2022/)

Supporting Through Reporting!

Contact the appropriate POC to report any observed potential risk indicators:

Name: ____________________________ Agency/Department: ____________________________
Title: Supervisor/Security Officer/ITP Senior Official/ITP Manager