IRREGULARITIES INVOLVING ALASKA NATIVE TECHNOLOGIES, LLC

Report Number: 10-11
Date Issued: April 29, 2010

U.S. Small Business Administration
Office of Inspector General

Memorandum

To: Joseph G. Jordan
Associate Administrator, Government Contracting and Business Development

Jess B. Knox
Associate Administrator, Office of Field Operations

Date: April 29, 2010

/s/ Original Signed

From: Debra S. Ritt
Assistant Inspector General for Auditing

Subject: Irregularities Involving Alaska Native Technologies, LLC
Report No. 10-11

The purpose of this memorandum is to share with you information, which suggests that Alaska Native Technologies, LLC (ANT)[1]—an 8(a) participant—is not owned and controlled by its disadvantaged owner, and that ANT's non-disadvantaged owner has other business interests that conflict with his managerial duties at ANT. Additionally, the propriety of fees charged ANT by one of the non-disadvantaged owner's companies and the ability of this owner to approve his own company's invoices for payment are in question. The OIG performed a limited review of ANT in response to a referral from the Defense Contract Audit Agency (DCAA) about billing irregularities and ANT's apparent concealment of the extent of the non-disadvantaged owner's involvement with the firm.

To address the issues raised in the complaint, we reviewed ANT's records, including its 8(a) application, annual audited financial statements, and other documentation from SBA's 8(a) files. We also reviewed information obtained from representatives of ANT and the Native Village of Eyak, and various public websites. We interviewed individuals from SBA's Office of Business Development and the Alaska District Office, and reviewed SBA 8(a) regulations and procedures.

---

[1] On December 21, 2009, Alaska Native Technologies, LLC formally amended its Articles of Organization to change the name of the company to ANT, LLC. However, the company continues to participate in the 8(a) program under the name, Alaska Native Technologies, LLC.

ANT was formed in January 2003 by Patrick Simpson, a non-disadvantaged individual, as a spin-off division of his research and development company (Scientific Fishery Systems, Inc.) for his defense contract business. ANT is 51-percent owned by the Native Village of Eyak through its holding company, Alaska Native General Services, LLC[2] (ANGS) and 49-percent owned by Skookum Technologies, Inc.—another business for which Mr. Simpson is the majority owner.

Our review identified irregularities regarding the formation of ANT, indicating that Patrick Simpson, the non-disadvantaged owner of Skookum, may be controlling ANT and operating it for the benefit of his defense contract business. Mr. Simpson also entered into multiple business arrangements that allowed him to capitalize on the firm's 8(a) status and to profit through services performed for ANT by other companies that he owned. Further, Mr. Simpson was involved in managing the day-to-day activities of ANT and, through management services performed by Skookum for ANT, had control over the payment of invoices that were billed to ANT by other companies he owned. Consequently, DCAA identified irregularities in fees invoiced and paid by Skookum. Following is a summary of the red flags noted by DCAA and our office that require management attention.

Irregularities in the Establishment of ANT and its Application to the 8(a) Program

1. ANT was formed with no tangible assets and with no cash on its books. Instead, the firm was established with [FOIA ex. 4] of goodwill [3] that was transferred to ANT by Skookum and ANGS. Annual audited financial statements for ANT prepared from October 2003 to September 2008 do not reflect the [FOIA ex. 4] of goodwill used to establish ANT.

2. The tribe's ownership interest in ANT was conveyed through a Memorandum of Understanding between ANGS and Skookum. Although ANGS purchased [FOIA ex. 4] of goodwill from Skookum that it then transferred to ANT, the purchase was made without any exchange of funds. Instead, ANGS agreed to pay Skookum the [FOIA ex. 4] from its share of the future profits of ANT. Skookum provisionally forgave ANGS' debt on the same day that the [FOIA ex. 4] debt was incurred. The two parties agreed that

[2] In March 2004, the holding company's name was changed from Alaska Native Government Services, LLC to Alaska Native General Services, LLC.

[3] According to Generally Accepted Accounting Principles, goodwill is that portion of the purchase price for a business that is related to the intangible value of the company, which may be due to a particularly favorable location; or the business' reputation in the community; or the quality of its employer and employees. It is calculated by subtracting the value of all net assets received upon purchase of the business from the purchase price.

if ANT was dissolved with any amount of the [FOIA ex. 4] debt outstanding, ANGS would not owe Skookum anything further, regardless of the actual debt balance.

3. Mr. Simpson did not offer and was not required to enter into a covenant not to compete, which would have prevented him from taking his goodwill (i.e., his expertise and contacts) elsewhere and using it to do business as a competitor of ANT.

4. The financial statements of ANT do not recognize the shared ownership arrangement between Skookum and ANGS. For example, owner's equity is not divided into separate capital accounts for each owner on the financial statements of ANT. Further, ANT's 2007 financial statements reported a related party transaction between ANGS and ANT, which should not have been classified in this manner if ANGS was an owner. According to Generally Accepted Accounting Principles, distributions to owners reduce their respective capital accounts, and therefore, are not treated as related party transactions that are expensed against operations.

5. Although all of Eyak's tribal business is conducted by Tribal Council vote and resolution, the Council President told us that no resolution related to purchasing an ownership interest in ANT existed, and that the Memorandum of Understanding was the only document supporting the decision. Further, neither ANGS nor ANT was included on the list of investments supporting the tribe's 2006 financial statements presented to the Tribal Council in January 2007.

6. Mr. Simpson transferred key employees from Scientific Fishery to ANT to serve as ANT's General Manager and Chief Systems Engineer. Mr. Simpson also novated one of Scientific Fishery's defense contracts to ANT.

7. Despite the transfer of two Chief Engineers to ANT, the firm was unable to provide SBA with the engineering credentials necessary to support a primary North American Industrial Classification System (NAICS) Code of 541330 (Engineering Services) when it applied to the 8(a) program in December 2003. As a result, ANT resubmitted its 8(a) application in January of 2004 under the NAICS code 541512 (Computer Systems Design Services).

Current Ownership Status Needs to Be Examined

8. Evidence suggests that the disadvantaged owner, Alaska Native General Services, may no longer exist. A current Dun and Bradstreet Report stated that as of November 23, 2007, operations for Alaska Native General Services at its designated location could not be confirmed. In addition, a search of the Alaska State Corporations' website showed that Alaska Native General Services had not made biennial filings with the Alaska Department of Commerce since November 9, 2005. Finally, the Federal Employer Identification Number (FEIN) 02-0653329 provided to SBA for tax verification of Alaska Native Government Services (on Form 4506) and reported on ANT's 1065 Partnership Return could not be located in the FEIN database, which contains more than 12 million numbers. The data base contained no records for either Alaska Native Government Services or Alaska Native General Services.

Mr. Simpson Was Heavily Involved in the Day-to-Day Management of ANT

9. Although SBA approved a business partner of Mr. Simpson as the General Manager of ANT, it appears that Mr. Simpson was heavily involved in managing the day-to-day activities of ANT. ANT stated that Mr. Simpson was its Director due to company oversight responsibilities passed onto Mr. Simpson by the Village of Eyak. Further, DCAA's review of 1,500 of Mr. Simpson's emails showed that he was involved with employee clearances, timecards, and other operational issues, which are consistent with performing as a Director.

10. Mr. Simpson obligated ANT to lease payments by signing leases for office space as either its "President," "Director," or "member."

11. Mr. Simpson signed ANT's tax returns as "President" or "Director."

12. Although non-disadvantaged individuals are allowed to provide management services to a tribally-owned concern with SBA's approval, such an approval was not sought from or granted by SBA for Mr. Simpson.

13. In addition to his Director role at ANT, Mr. Simpson is also the President of Scientific Fishery, and owner of RV Montague, Skookum, PKS Consulting, Inc., P&P Properties, LLC, and 6100 A Street, LLC.

Mr. Simpson's Other Business Interests Conflicted with His Management of ANT

14. Although members, directors, and officers of a tribally-owned firm are precluded from having other business interests that conflict with the

management of the concern, Mr. Simpson entered into business arrangements with ANT on behalf of other companies that he owned. According to ANT's audited financial statements, from October 2003 through September 2008, Mr. Simpson:

- rented equipment to ANT through a company he owned, called P&P Properties, LLC;

- rented office space to ANT through another one of his companies, 6100 A Street;

- provided subcontracting services to ANT through his company, Scientific Fishery;

- provided consulting services to ANT through his company, PKS consulting;

- provided professional services to ANT through his company, Skookum, including the processing of payroll, accounts payable, and accounts receivable.

15. According to DCAA, Mr. Simpson also leased the exclusive use of his boat (the Research Vessel Montague) to ANT.

16. Originally ANT used a credit card that actually belonged to Mr. Simpson. The bill was then either paid directly by ANT or Mr. Simpson filed an expense report with a copy of the bill for reimbursement.

17. In October 2003, ANT signed a promissory note supporting a [FOIA ex. 6, 7C] loan that Simpson made to ANT. However, ANT's comparative audited financial statements for the years ending in September 30, 2004 and September 30, 2005 reported that ANT borrowed [ex. 6, 7C] from Mr. Simpson during fiscal year 2004. We reviewed all of ANT's board minutes from ANT's inception through December 2008 and the loan for [ex. 6, 7C] was the only loan to Mr. Simpson discussed and voted on by the board.

Potential Improper Fees Charged ANT by One of Mr. Simpson's Other Businesses

18. As indicated above, as majority owner of Skookum, Mr. Simpson was in a position to process invoices sent to ANT by other companies he owned that were performing work for ANT.

19. In 2008, DCAA questioned the validity of $124,000 of fees paid to PKS Consulting for consulting services supposedly provided to ANT on one contract. Mr. Simpson's FY 2006 average of 140 hours of consulting services per month on this cost-type contract may have been excessive as Mr. Simpson had little time to perform these services, given his role as ANT Director, President of Scientific Fishery, and as owner of RV Montague and Skookum. DCAA also reported a lack of documentation supporting these fees. Further, Mr. Simpson appeared to be managing the day-to-day activities of ANT that were unrelated to providing ANT with systems engineering expertise.

CONCLUSION

Our review disclosed a number of irregularities representing a questionable framework under which ANT was organized and continues to operate. The most significant of these involves an agreement signed by Mr. Simpson and the President of the Tribal Council that has caused the tribe that owns ANT to effectively retain only 25 percent of its net profits from 8(a) contract awards.[4] Furthermore, Mr. Simpson and his other companies earn significant fees from ANT for rent and other services. As a result, it appears that ANT's primary purpose is to benefit Mr. Simpson, which is contrary to what Congress intended when it allowed firms owned by Indian tribes to participate in the 8(a) program. We believe that SBA needs to take action to protect the interest of the Agency and the 8(a) program.

RECOMMENDATIONS

We recommend that the Associate Administrator for Government Contracting and Business Development:

1. Determine whether Alaska Native Technologies, LLC currently meets eligibility requirements for the 8(a) program, in light of the irregularities identified, and if not, initiate termination from the 8(a) program.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

On March 8, 2010, we provided a draft report to SBA's Office of Government Contracting and Business Development for comment. On April 8, 2010, the

---

[4] SBA/OIG Report No. 10-07, *Regulations Relating to Unconditional Ownership Requirements for Indian Tribes*, January 2010.

Associate Administrator for the Office of Government Contracting and Business Development provided written comments, which are contained in their entirely in Appendix I.

The Associate Administrator agreed with the recommendation and stated that the Office of Government Contracting and Business Development will conduct a thorough review of Alaska Native technologies, LLC to determine the firm's compliance with 8(a) Business Development Program rules and regulations. The Associate Administrator emphasized that SBA will pursue appropriate action if the 8(a) firm is found to be ineligible for the 8(a) Business Development Program.

The Associate Administrator's comments were responsive to the recommendation.

ACTIONS REQUIRED

Please provide your response to the recommendation on the attached SBA Form 1824, *Recommendation Action Sheet*, within 30 days from the date of this report. Your response should identify the specific action taken or planned for the recommendation and the target date for completion.

We appreciate the courtesies and cooperation of the Small Business Administration during this audit. If you have any questions concerning this report, please call me at (202) 205- [ex. 2] or Riccardo R. Buglisi, Director, Business Development Programs Group at (202) 205- [ex. 2]

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

MEMORANDUM

DATE: April 8, 2010

TO: Debra S. Ritt
Assistant Inspector General for Auditing
Office of Inspector General

FROM: Joseph G. Jordan [FOIA ex. 6]
Associate Administrator
Office of Government Contracting and Business Development

[FOIA ex. 6]

THROUGH: Joseph P. Loddo
Associate Administrator
Office of Business Development

SUBJECT: Response to Draft Audit Report on "Irregularities Involving Alaska Native Technologies, LLC" (Project No. 9008A)

Thank you for the opportunity to comment on the draft audit report issued March 8, 2010, entitled, "Irregularities Involving Alaska Native Technologies, LLC."

We have reviewed the draft audit report and concur with your office's recommendation that the Office of Government Contracting and Business Development determine the eligibility status of Alaska Native Technologies, LLC in light of the areas of potential concern. Please be assured that we will conduct a thorough review of Alaska Native Technologies, LLC to determine the firm's compliance with 8(a) Business Development Program rules and regulations. Appropriate action will be pursued if Alaska Native Technologies, LLC is found to be ineligible for the 8(a) Business Development Program.

We look forward to working with the Office of Inspector General as we continue to improve program delivery and strengthen our oversight of the 8(a) Business Development Program.