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ONE HUNDRED THIRTEENTH CONGRESS

# Congress of the United States

## House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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June 30, 2014

The Honorable Darrell E. Issa  
Chairman  
Committee on Oversight and Government Reform  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing to request that the Committee conduct a transcribed interview of Sterling Phillips, the Chief Executive Officer of USIS, a corporation that conducts more background checks for the federal government than any other contractor. The Department of Justice filed a civil fraud complaint against USIS for violating the False Claims Act and is seeking over a \$1 billion on behalf of American taxpayers. To date, Mr. Phillips has refused to respond to questions from the Committee about bonuses paid to USIS executives during this period of alleged fraud, and he has also refused to identify any executives at Altegrity, the parent company of USIS, or Providence Equity Partners, which acquired USIS in 2007, who were involved with determining these bonuses.

### Background

USIS is a privately-held company based in Falls Church, Virginia, that conducts nearly half of all background investigations assigned by the federal government to contractors.<sup>1</sup> According to its website, USIS today holds 100 federal contracts.<sup>2</sup>

USIS started as an Employee Stock Ownership Plan in 1996 when the federal Office of Investigations, a division of OPM, was outsourced during a wave of privatizations of federal government services.<sup>3</sup> At the time, the Office of Investigations' largest customers for

<sup>1</sup> Congressional Research Service, *Security Clearance Process: Answers to Frequently Asked Questions* (Sept. 9, 2013) (R43216).

<sup>2</sup> USIS, *Fact Sheet* (online at [www.usis.com/Fact-Sheet.aspx](http://www.usis.com/Fact-Sheet.aspx)) (accessed on June 27, 2014).

<sup>3</sup> OPM, *in a First, Acts to Convert an Operation Into Private Firm*, Washington Post (Apr. 14, 1996).

background investigations were the U.S. Postal Service, the Department of Energy, and the Immigration and Naturalization Service.<sup>4</sup>

In 2007, USIS was purchased for \$1.5 billion by Providence Equity Partners, a private equity firm that owns or has owned brands such as Metro-Goldwyn-Mayer, Warner Music Group, Univision, and Whitepages.<sup>5</sup> Providence Equity Partners formed a holding company known as Altegrity to house two background investigation businesses, USIS and a company known as HireRight. Altegrity has grown to include two additional entities: Kroll Advisory Solutions and Kroll On-Track.<sup>6</sup> Through its wholly-owned subsidiaries, Altegrity holds more than \$2 billion in federal contracts.<sup>7</sup>

The Justice Department has alleged that top USIS management devised a scheme of “dumping” incomplete background investigation reports to the Office of Personnel Management without performing quality reviews required by its contracts. According to the Justice Department:

Beginning in at least March 2008 and continuing through at least September 2012, USIS management devised and executed a scheme to deliberately circumvent contractually required quality reviews of completed background investigations in order to increase the company’s revenues and profits.<sup>8</sup>

According to the Department, USIS “dumped” at least 665,000 background investigations, comprising 40% of the total background investigations conducted by the company during the 4-1/2 year period.

#### **Unanswered Questions About Supervision of USIS Executives**

On February, 11, 2014, the Committee held a hearing with Mr. Phillips on the security clearance process entitled, “DC Navy Yard Shooting: Fixing the Security Clearance Process.” At that hearing, I issued a staff report revealing that, after USIS was acquired by Providence Equity Partners, the company adopted an aggressive new compensation plan to speed up its background investigations work. During the time period of the company’s alleged fraud from 2008 to 2012, Bill Mixon, who was the CEO at that time, received more than \$1 million in

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<sup>4</sup> *Id.*

<sup>5</sup> Providence Equity Partners, *Portfolio* (online at [www.provequity.com/Portfolio/All-Regions](http://www.provequity.com/Portfolio/All-Regions)) (accessed on June 27, 2014).

<sup>6</sup> Altegrity, *Our Companies* ([www.altegrity.com/Our-Companies.aspx](http://www.altegrity.com/Our-Companies.aspx)) (accessed on June 27, 2014).

<sup>7</sup> Data based on search conducted on System for Award Management website ([www.sam.gov/portal/SAM/#1](http://www.sam.gov/portal/SAM/#1)) for Altegrity contracts with the federal government.

<sup>8</sup> United States’ Complaint, ¶42 (Jan. 22, 2014), United States of America ex rel. Blake Percival v. U.S. Investigations Services, Inc., M.D. Ala (No. 11-CV-527-WKW).

bonuses, and the company's Chief Financial Officer received about \$470,000. The USIS bonus policies were printed on Altegrity letterhead.<sup>9</sup>

At the hearing, Mr. Phillips confirmed that Altegrity determined the bonus formula for USIS executives and evaluated the performance of USIS CEOs. Mr. Phillips also revealed a connection between the Altegrity Board of Directors and Providence Equity Partners:

Mr. Cummings: So the bonuses awarded to the top officials at USIS during the alleged fraud were made according to a formula devised by the parent company, Altegrity, is that right?

Mr. Phillips: Yes, sir.

Mr. Cummings: According to Altegrity bonus formula, between 20 percent and 25 percent of an executive bonus was dependent upon whether he met his objectives and whether he performed well. So if you are the CEO of USIS, Altegrity determines your bonus, is that right? They determine yours.

Mr. Phillips: Yes, they do.

Mr. Cummings: Who evaluates your performance as the CEO?

Mr. Phillips: Altegrity and the board of directors.

Mr. Cummings: And so do we have any names?

Mr. Phillips: We are in the process of reorganizing Altegrity. The board of directors is comprised of principals with Providence Equity, the owners of the company. So I report directly to the board, today.<sup>10</sup>

Mr. Phillips did not provide the Committee with the names of Altegrity's Board of Directors or officials from Providence Equity Partners:

Mr. Cummings: Well, who specifically at Altegrity approved the more than \$1 million in bonuses for your predecessor, former CEO Bill Mixon, who has been accused of directing this fraud?

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<sup>9</sup> Minority Staff, House Committee on Oversight and Government Reform, *Contracting Out Security Clearance Investigations: The Role of USIS and Allegations of Systemic Fraud* (Feb. 11, 2014) (online at [www.democrats.oversight.house.gov/uploads/USIS%20Security%20Clearance%20Report%2002-11-2014.pdf](http://www.democrats.oversight.house.gov/uploads/USIS%20Security%20Clearance%20Report%2002-11-2014.pdf)).

<sup>10</sup> House Committee on Oversight and Government Reform, *Hearing on DC Navy Yard Shooting: Fixing the Security Clearance Process*, 113th Cong. (Feb. 11, 2014).

Mr. Phillips: Specifically, I do not know who was CEO at the time these bonuses were paid. I would have to look at the timing. There have been a series of CEOs over the last 10 years at Altegrity.<sup>11</sup>

At the conclusion of the hearing, you advised Mr. Phillips and the other witnesses that the Committee would be pursuing these issues further. You stated:

Mr. Phillips, Mr. Rhodes, and Ms. Ordakowski, we are going to be looking at your companies on an ongoing basis. This Committee has the primary jurisdiction for the Federal workforce and their contractors, and it is an area of interest that we are going to do on an ongoing basis. We certainly want to make sure that what Mr. Phillips says has been straightened at his organization has been.<sup>12</sup>

On March 18, 2014, you sent a letter to Mr. Phillips requesting that he provide the Committee with answers to questions I submitted, including the identities of Altegrity's Board of Directors and the partners of Providence Equity Partners. You explained that the hearing record would remain open pursuant to "the direction of the Chairman," and you requested a response by April 1, 2014.<sup>13</sup>

#### **Refusal to Provide Information Requested by Committee**

Mr. Phillips did not respond to the Committee by the deadline of April 1, 2014. On April 9, 2014, my staff followed up with attorneys for USIS by e-mail, asking when Mr. Phillips would be sending his responses. On April 10, 2014, a USIS attorney responded with an email stating: "The company does not anticipate making a further response."<sup>14</sup> In April and May, my staff unsuccessfully sought the assistance of your staff in obtaining answers from the company.

USIS's refusal to answer Committee questions is unacceptable, and it contradicts the oath Mr. Phillips took at the outset of the hearing to tell the entire truth about the role of his company in an alleged conspiracy to perpetrate a multi-year, billion-dollar fraud against the U.S. taxpayers.

In addition, there are indications of ongoing problems at USIS. On June 4, 2014, the Inspector General of the Office of Personnel Management issued an audit of background investigations completed between October 1, 2012, and August 31, 2013. The Inspector General found that two USIS employees reviewed an unusually high number of background

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<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> Letter from Chairman Darrell E. Issa, House Committee on Oversight and Government Reform, to Sterling Phillips, Chief Executive Officer, USIS, LLC (Mar. 18, 2014).

<sup>14</sup> Email from Attorney for Mr. Phillips, McDermott, Will & Emery, to Minority Staff, House Committee on Oversight and Government Reform (Apr. 10, 2014).

investigations during that time period. One employee reviewed over 15,000 cases in one month, with most reviews occurring within minutes of each other. These cases were completed after the time period involving alleged fraud identified in the Department of Justice complaint against USIS.<sup>15</sup>

**Request for Transcribed Interview**

In light of Mr. Phillips' failure to respond to these questions at the hearing and his refusal to answer them since, I request that the Committee conduct a transcribed interview of Mr. Phillips by July 11, 2014. Mr. Phillips should be prepared to provide detailed information in response to all of the questions we originally posed more than four months ago.

There have been numerous instances over the past several years when you have approved transcribed interviews of witnesses who you believed were not cooperating with the Committee's investigations. This case should be no different.

Thank you for your consideration of this request.

Sincerely,



Elijah E. Cummings  
Ranking Member

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<sup>15</sup> Office of the Inspector General, Office of Personnel Management, *Final Audit Report: Audit of the Federal Investigative Services' Case Review Process Over Background Investigations* (June 4, 2014) (4A-IS-00-13-062).