

## CNSI INTERVIEWS - BACKGROUND

Client Network Services, Incorporated (CNSI) is a Rockville-based corporation that provides information technology services to federal and state governments. Formed in 1994, the company employs more than 1,300 individuals worldwide and posted revenue of more than \$160 million for FY 2008. Federal clients have included DHS, FAA, USDA, ATF, and NIH. CNSI also has and has had contracts with the States of Washington, Maine, South Dakota, Maryland, and Michigan.

The four owners of CNSI are, Bishwajeet Chatterjee - President, Adnan Ahmed - Chief Strategic Officer, Jaytee Kanwal - Chief Financial Officer, and Reet Singh - Chief Administrative Officer.

CNSI has no outside investments, all of their cash flow used to fund daily operations comes from a line of credit (LOC). Somewhere between 2002 and 2005, CNSI used to have an LOC from Chevy Chase Bank for approximately \$20 million. In or around 2005, CNSI obtained a \$35 million LOC from Bank of America (BOA). CNSI also has a Sun Trust Bank account for deposits. In December of 2007, CNSI began using a syndicate of banks to meet their financial needs. The syndicate is comprised of BOA, M&T Bank, and 1st Commonwealth Bank. The total LOC with this set-up is \$75 million. \$50 million of this was a revolver; every month CNSI prepared a certification to be sent to the bank detailing their billed and unbilled receivables. They were allowed to borrow against 80% of that. The remaining \$25 million was a term loan, secured on the retainage amount for fixed-price contracts; 7 - 10% of billed amounts would be held to repay the loan. Unbilled receivables means that contract obligations have not yet been met.

The following illegal conduct has been witnessed/alleged at CNSI:

- Each quarter, \$10,000 went to each owner. Kanwal then told the accountant to credit employee receivables (used to keep track of what was owed to employees) and to debit corporate travel, so that the owners were getting reimbursed for travel never taken.

- The owners would use their corporate American Express cards for personal use. Charges for things like Neiman Marcus and trips to Las Vegas and meals that were not business-related would be marked as business by the owner's personal assistants and they never provided back-up or receipts to the accounting staff and told the accountant that the owners would never provide receipts and not to bother asking.

- CNSI had an account called shareholder loans payable. In order to hide profit from the bank, Kanwal ordered a staff accountant to debit the extra money from bonuses and put it in shareholder loans payable so that it would look like the company owed the owners money. The owners were then getting repaid for loans never made in the first place.

- Owners were giving themselves monthly car allowances of \$1500 each, as well as \$750 for entertainment and \$750 for travel. No receipts were ever submitted, just a one page expense report prepared by their assistants. None of the owners claimed this additional income on their taxes.

- CNSI has a contract with the State of Washington to create a claims management processing system for Medicare and Medicaid. The original contract price was for \$178 million, but is now up to \$196 million or more. The design, development, and implementation phase (DD&I) was funded for \$93 million. This means that the cost from the start of the project until they go live was supposed to be \$93 million. Two and a half years later, the go live date has been moved several times and CNSI has only been paid \$60 or 70 million, but has recognized \$150 million in revenue on the books when the project is only funded for \$93 million. Anything over that initial contract price is eating into the budget for operations and maintenance, which can't be billed until the project goes live. CNSI is hiding from the bank the fact that they are going to lose money (about \$40 million) on this project.

- Every month and quarterly, CNSI is required to submit certifications to BOA that their projects are on-time and profitable. Project staff are ordered to adjust the numbers on reports sent to the bank in order to show profit. If the bank knew the real numbers they would pull CNSI's LOC.

- The owners formed an LLC called KASC Properties that they used to purchase about ten town homes and condominiums worth \$2 - 3 million with CNSI funds. These properties were not on the books at CNSI, and in turn KASC was then renting these properties back to CNSI for approximately \$30,000 per month along with a \$5400 monthly management fee (although CNSI maintenance personnel were used for maintenance on the homes) and about \$2,000 per month in property taxes. The funds used to purchase these properties were billed to projects. 7 of the 10 properties were purchased outright with CNSI funds, the other 3 were townhouses in the King farm development in Rockville, MD. The mortgages on these 3 homes are being paid for by CNSI and the money is being billed on the books as interest expenses. In addition these properties are being rented out, but the rent payments are going to KASC and not CNSI. None of the property purchased is in CNSI's name.

- Each of the four owners has a parent on the payroll, none have ever shown up for a day of work. It is believed that the parents were added to the payroll in order for them to receive the corporate health insurance plan.

- There have also been transfers of money to Singh and Kanwal that were booked as project expenses.

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## FEDERAL BUREAU OF INVESTIGATION

Date of transcription 09/18/2009

MATTHEW HOFFMAN, date of birth [REDACTED] Social Security Account Number [REDACTED], was interviewed at the Office of the United States Attorney in Greenbelt, Maryland. Also present for the interview were Internal Revenue Service - Criminal Investigation Special Agent Rolando Velez, and Assistant United States Attorneys Michael Pauze and Christen Sproule. After being advised of the identities of the participants and the nature of the interview, HOFFMAN provided the following information:

HOFFMAN graduated from George Mason with an undergraduate degree in Government and International Relations in 1996. He received his law degree from George Mason in 1999. In March of 2000, HOFFMAN began working at CLIENT NETWORK SERVICES, INCORPORATED (CNSI) as their director of contracts, and shortly thereafter when he passed the Virginia Bar exam, HOFFMAN also became CNSI's Corporate Counsel. In 2004 or 2005, he was named Vice President and Corporate Counsel. At CNSI HOFFMAN had a junior attorney/Legal Specialist who worked for him named SYLVIA YARDLEY, as well as a junior assistant named EDMOND YARBO. HOFFMAN was terminated from CNSI on July 31, 2009. HOFFMAN currently works for EVOLVER, in Reston, Virginia as Corporate Counsel. EVOLVER is a small government contractor with contracts at DHS, the Census Bureau, and Patent.

When HOFFMAN left CNSI, there were four owners. INDERPAL aka JAYTEE KANWAL, the Chief Financial Officer, BISHWAJEET CHATTERJEE, the President, REET SINGH, the Chief Administrative Officer, and ADNAN AHMED, the Chief Strategic Officer. These four owners also comprised the Board of Directors. Under the four owners were multiple Senior Vice President's. BRUCE ADAMS, a Senior VP who has been there since almost the start of the company is a 9% equity shareholder. Somewhere along the line ADAMS' name was no longer listed as a shareholder. HOFFMAN knows this from seeing bank documents and security clearance paperwork as well as the stock register. ADAMS told HOFFMAN that the removal of his name was not with his consent.

Four or five years ago, HOFFMAN was asked by the owners to form a company, but he did not represent any of them as a lawyer. They told him they wanted to form a real estate company as

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a secondary business venture. The company is called KASC Properties, LLC. The letters KASC are the first letters of the last names of the four owners. HOFFMAN received no additional compensation for assisting them with forming this company. HOFFMAN has had no other involvement since filing. KASC used the home address of SINGH, which he believes is on Stringfellow Place, in Montgomery Village.

From public documents and observed conduct, HOFFMAN knows that the owners purchased a house in Augusta, Maine located at 108 Parkwood Avenue in the company's name. This house was purchased prior to the formation of KASC. In early 2005, Chevy Chase Bank was requiring updates from CNSI about their assets. The document given to Chevy Chase did not list the house in Maine as an asset. HOFFMAN then accessed the property register in Kennebunk County in Maine, and saw that the house purchased in CNSI's name with CNSI funds was transferred to the names of the owners. The owners never compensated the company in exchange for the house. Later, from viewing invoices in the regular course of his job, HOFFMAN learned that CNSI was paying KASC for leasing the house. The house in Maine was purchased in 2002 for \$195,000 and was sold in 2008 for \$193,000.

In early 2005, CNSI landed a contract with the State of Washington, and as a result, had to open an office in Olympia, Washington. HOFFMAN ultimately saw the project accounting records and saw transfers of money to [REDACTED] or [REDACTED] that were booked as project expenses. Also, CNSI began renting the house in Olympia from KASC, HOFFMAN knows this because he saw the invoices. HOFFMAN pulled the records and saw that the house was purchased by the four owners. The purchase price was equal to the amount of money HOFFMAN saw transferred to the owners.

CNSI also purchased condominiums in Lansing, Michigan when they won a contract there. HOFFMAN initially reviewed the purchase documents for about three condominiums, and thought the condos would be for use by the staff. HOFFMAN stayed in one of them once when he traveled to Michigan on business. After conducting a records search, HOFFMAN learned that the condominiums had been purchased in the individual owners' names, a different owner for each condo, and that they had transferred several hundred thousand dollars for the purchase and then charged the money to the project. The project manager for the Michigan project was JEFF GOTTLIEB. HOFFMAN had no involvement in the decision to remove the condos from the balance sheet.

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In July of 2008, CNSI won a fixed price contract with the State of South Dakota. When HOFFMAN was there for contract negotiations, he did walk-thrus with the owners of properties in Pierre. Through public records HOFFMAN saw that the property was purchased in the name of one or more of the owners, and then based on invoices saw that they were renting the property back to CNSI even though it had been purchased with CNSI funds. All of the properties purchased were in the name of one or more of the owners, SINGH was usually listed as one.

Through invoices, HOFFMAN learned that several townhouses in the King Farm development in Rockville, Maryland were being rented to CNSI through KASC properties. HOFFMAN noted that CNSI was paying well above market rate; about \$20,000- \$30,000 per month, and this money was being allocated to interest expenses (like what they pay to Bank of America for their line of credit). KASC also invoiced about \$5,000 per month for a monthly management fee to CNSI, although CNSI maintenance personnel were used for maintenance on the homes.

50-70% of CNSI's revenue base comes from Federal Government contracts. When you have these contracts you must adhere to government cost accounting standards. Under these rules, the hourly rate is determined by time and materials; the actual direct cost of an employees time, plus other indirect costs and overhead, such as corporate facilities.

The owners of CNSI employed at least one of each's parents at a salary of approximately \$30,000 per year. HOFFMAN had conversations with people in Human Resources related to employee health insurance for the owners parents.

The owners of CNSI also purchased possibly \$2-3 million dollars in properties with CNSI funds. For all of the properties, when HOFFMAN saw that records reflected the individual owners as the owners of the properties, he talked to the owners about it, but he spoke to [REDACTED] the most. And during the purchase of the Michigan properties, HOFFMAN made it clear to them that he was not their attorney with respect to real estate. There was some email traffic to that effect, and as a result, [REDACTED] emailed JEFF GOTTLIEB, the Michigan project manager, and told him to leave HOFFMAN off of the emails about the properties because he was not their counsel for that matter.

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HOFFMAN also spoke to the company's auditors about the misconduct at CNSI. One of the auditing firms they used was called ARGY, WILTSE, and ROBINSON (ARGY), in McLean, Virginia. They handled CNSI's annual financial audit and corporate tax returns. In February of 2009, HOFFMAN spoke to one of the ARGY auditors, KATHY MORAN about the illegal activity at CNSI, including the real estate transactions. He answered her questions, and she subsequently withdrew from the CNSI audit.

Early in 2009, Bank of America (BOA) directed CNSI to get an outside auditor. CNSI subsequently hired FTI, a consulting firm that provided forensic accountants to perform the required audit at CNSI. Two of the main auditors from FTI were BARBARA HORVATH and DAVID FARELL. HOFFMAN had many discussions with FARELL about what was going on with CNSI's finances. Initially, counsel for BOA, MCGUIRE-WOODS, hired FTI. MCGUIRE-WOODS had their main office in North Carolina. Their lead attorney was STACI ROSCHE, their secondary contact was STEVE RITCHIE (not the same person as the one at ARGY). CNSI's main point of contact at BOA was originally JESSICA TENCZA, however she is no longer on the CNSI account and works elsewhere within the bank. The other BOA points of contact for CNSI are RUTH ANN CLARK and BARBARA LEVY, the most recent account representative. CNSI has been moved to the high risk and special assets section at BOA and their account is being handled by JOHN MCDUFFY.

Another issue that HOFFMAN saw was with the State of Washington contract. HOFFMAN was also Senior Director of Contracts in addition to being Corporate Counsel. On the Washington contract he handled amendments and other issues. In the course of these duties HOFFMAN saw documents presented to BOA that were far from accurate. The misstatements were with respect to the status and summary of projects and account receivables. These documents overstated the revenue from the Washington contract and understated the costs. And in these documents the contract price was overstated more than once. These documents were sent to BOA in Tyson's Corner, Virginia, who then forwarded them to M&T and 1ST COMMONWEALTH banks. These three banks formed a syndicate that handled CNSI's lines of credit and accounts. BOA was the lead lender and the administrative agent for the syndicate. Documents sent to the bank were usually signed by [REDACTED]. There were similar misstatements made to the bank on other projects. HOFFMAN spoke to [REDACTED] numerous times about this issue; basically whenever documents were being sent to BOA. HOFFMAN had oral conversations with [REDACTED] about this, and there may have been a few email

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exchanges as well. JEFFREY WEISENBORNE, CNSI's Vice President of Accounting and Finance, may have been present for a few of these conversations, as well as some project staff, like TINA SPHAR, ARVINDER SINGH, and MICHELLE FALETTI. HOFFMAN overheard [REDACTED] talking to the auditors and bank staff, lying about things and he knows she was uncomfortable with it. [REDACTED] is involved in maintaining financial records for healthcare projects. HOFFMAN would not call her honest or a straight-shooter.

GOTTLIEB resigned three weeks ago, he had worked under ARVINDER SINGH. SINGH apparently told GOTTLIEB that he wasn't far behind him. HOFFMAN is not sure who is currently in charge at CNSI. HOFFMAN spoke with a CNSI employee yesterday who told him that someone by the last name of Goldstein is in charge and was put there by BOA.

Another thing that CNSI owners were doing was receiving large bonus payments that were booked as repayments for loans that were never made in the first place.

On 07/31/2009, HOFFMAN was called in to a meeting with CHATTERJEE, SINGH, KANWAL, and an attorney named KAREN SHAPIRO from a firm in Rockville. During this meeting HOFFMAN was told that he was being fired for owning a second company that he does not own. HOFFMAN believes that they were referring to PRO FORCE SOLUTIONS, a company that is owned by an acquaintance of his. HOFFMAN reviewed non-disclosure agreements, and WEISENBORNE provided him with accounting guidance. HOFFMAN was terminated outside of the Human Resources procedures, and believes that the real reason he was fired is that he was cooperating with the auditors. HOFFMAN had been told in the past to shut up or be fired.

On or about 03/07/2009, HOFFMAN attended a Saturday meeting at the CNSI offices in Rockville for a conversation about who should be furloughed or fired. About 15 people attended this meeting in the conference room. HOFFMAN was asked by the owners to stay behind when the meeting concluded. [REDACTED] then told HOFFMAN in front of the other three owners that if he ever disclosed the misconduct at the company they would have him killed. At that point [REDACTED] stepped in and said they should move on. HOFFMAN was once told on a performance review by [REDACTED] to stop telling the owners when he thinks something is illegal.

In or around October of 2008, BOA and M&T received anonymous letters outlining a number of fraudulent acts by CNSI.



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These letters also said that the owners had made death threats to employees not going along with the way things were being done. HOFFMAN has no clue who wrote the letters. These letters are what led to the audit by BOA.

After being threatened by [REDACTED], HOFFMAN began looking for a new job. HOFFMAN told BRUCE ADAMS about the threat, as well as his friend in Human Resources, MAYA CHAVEZ. CHAVEZ did not document it. HOFFMAN may have also told WEISENBORNE, but did not tell anyone outside of the company. ADAMS told HOFFMAN he has turned down offers of additional cash from the four owners. HOFFMAN believes he has handwritten notes about the threat made to him. He may have also sent himself an email about it to his personal hotmail account.

HOFFMAN currently has a demand letter in to the company for equity compensation and accrued vacation time. HOFFMAN has retained an attorney for this matter named JIM RUBIN, who is based in Rockville.

Right after he was fired, HOFFMAN received a call from FTI auditor DAVID FARELL expressing his outrage.

CNSI has an international subsidiary based in India, and HOFFMAN is not sure if money is being funneled through there back to the owners. He saw documents indicating that a lot of money was being sent there. The employees there are for the support of CNSI in the United States, and the amount of money being sent over there is above market prices for employee salaries.

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## FEDERAL BUREAU OF INVESTIGATION

Date of transcription 07/15/2010

On 06/28/2010, a telephone call was placed to JEFFREY WEISENBORNE. Also participating in the conversation were Assistant United States Attorney Michael Pauze, and IRS-CI Special Agent Rolando Velez. After being advised of the identities of the participants, WEISENBORNE provided the following information:

WEISENBORNE and MATTHEW HOFFMAN were offered a settlement with respect to their wrongful termination lawsuit against CLIENT NETWORK SERVICES, INCORPORATED (CNSI). They have accepted the offer and the terms of the agreement are sealed. Part of the agreement is that if anyone approaches them with questions about CNSI, they are supposed to notify CNSI's attorneys. WEISENBORNE does not believe that this applies to the Federal government, but will ask his attorney for clarification.

Investigation on 06/28/2010 at Greenbelt, Maryland

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## FEDERAL BUREAU OF INVESTIGATION

Date of transcription 09/14/2009

JEFFREY WEISENBORNE, date of birth [REDACTED], Social Security Account number [REDACTED], telephone number [REDACTED], was interviewed at the Office of the United States Attorney in Greenbelt, Maryland. Also present for the interview were Internal Revenue Service - Criminal Investigation Special Agent Rolando Velez, Assistant United States Attorneys, Michael Pauze, and Christen Sproule. After being advised of the identities of the participants and the nature of the interview, WEISENBORNE provided the following information:

WEISENBORNE was born in Cheverly, Maryland, and earned a Bachelor of Science degree in accounting from the University of Maryland in 1984. WEISENBORNE became a Certified Public Accountant (CPA) in 1987. After college, WEISENBORNE worked in a small public accounting firm in Gaithersburg, Maryland, doing mostly bank reconciliation. He did this for about six to nine months. Then in or around 1985, WEISENBORNE started working as an assistant controller in government contracts for RADIX SYSTEMS, who had contracts with the Department of the Navy. WEISENBORNE stayed there for about ten years, then went to COMMUNICATIONS SYSTEMS TECH in Columbia, Maryland where he was a controller. In 1999, he went to DELTEK SYSTEMS as a Senior Systems Consultant. In September of 2000, WEISENBORNE was called by CLIENT NETWORK SERVICES, INCORPORATED (CNSI) in Gaithersburg, Maryland, to look at their internal accounting system. WEISENBORNE subsequently interviewed for and accepted a job as a controller with CNSI. He was interviewed by JAYTEE KANWAL and PROMOD SHARMA, two of the five owners at the time. SHARMA was the President and CEO of CNSI. CNSI had over 100 employees at the time and was bringing in \$19 million in gross revenue. The company now has over 800 employees and 400 contractors. 50% of CNSI's business is government contracts for IT support and systems integration.

In or about 2004 or 2005, SHARMA was bought out by the other four owners, KANWAL, BISHWAJEET CHATTERJEE, REET SINGH, and ADNAN AHMED. There were some disagreements between SHARMA and the others, and he was at least ten years older than the other four. KANWAL and SINGH were friends growing up, and CHATTERJEE and AHMED went to the University of Maryland together. WEISENBORNE is unsure how the two pairs linked up.

Investigation on 09/11/2009 at Greenbelt, Maryland

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CHATTERJEE is the Chief Operations Officer for CNSI, AHMED is the Chief Strategic Officer in charge of business development, KANWAL is the Chief Financial Officer, and SINGH is the Chief Administrative Officer. As far as WEISENBORNE knows, all five are United States citizens.

CNSI is a S corporation that deals strictly in government contracts. Most of these contracts are Federal with the CENSUS BUREAU being the largest of those. The company also has large contracts with several states. When WEISENBORNE first got to CNSI the company had a contract with the State of Maryland to revamp their accounting systems.

The Chief Technical and Security Officer for CNSI, BRUCE ADAMS, owns 7-9% of the stock in CNSI, and has a letter stating the same, but this fact has never been disclosed to CNSI's bank. There are a total of 75 shareholders for CNSI. Most employees got oral promises of stock options.

While employed at CNSI, WEISENBORNE reported to KANWAL. In 2004 or 2005, WEISENBORNE was given the title of Vice President of Accounting and Finance. WEISENBORNE had two employees under him. They were ROBBIE BHALLA, a controller who is also KANWAL's brother-in-law, and MICHELLE HALL, the Treasury Manager who looked after the cash. Under BHALLA there were four people in accounting and four in accounts payable. There were no employees under HALL.

CNSI had no outside investments, all of their cash flow used to fund daily operations comes from a line of credit (LOC). When WEISENBORNE started at CNSI, the LOC came from UNITED BANK, and was for a couple million dollars. Somewhere between 2002 and 2005, an LOC was obtained from CHEVY CHASE BANK for approximately \$20 million, and in or around 2005, CNSI obtained a \$35 million LOC from BANK OF AMERICA (BOA). CNSI also has a SUN TRUST BANK account for deposits.

The points of contact for BOA were initially RUTH ANN CLARK and JESSICA TENZA. TENZA now works elsewhere in the bank and was replaced on the CNSI account by BARBARA LEVY.

In December of 2007, CNSI began using a syndicate of banks to meet their financial needs. The syndicate was comprised of BOA, M&T BANK, and 1ST COMMONWEALTH. The total LOC with this set-up was \$75 million. \$50 million of this was a revolver; every

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Continuation of FD-302 of JEFFREY WEISENBORNE, On 09/11/2009, Page 3

month CNSI prepared a certification to be sent to the bank detailing their billed and unbilled receivables. They were then allowed to borrow against 80% of that. The remaining \$25 million was a term loan, secured on the retainage amount for fixed price contracts; 7-10% of billed amounts would be held to repay the loan. Unbilled receivables means that the contract obligations have not yet been met. When the unbilled receivables became much greater than the billed receivables, the banks got nervous. WEISENBORNE estimates that the term loan is down to about \$19 million. CNSI makes quarterly payments of approximately \$500k.

During his tenure at CNSI, WEISENBORNE witnessed the owners engage in illegal conduct. Each quarter, \$10,000 went to each owner. WEISENBORNE was told by [REDACTED] to credit the employee receivables (used to keep track of what was owed to employees) and debit corporate travel, so that the owners were getting reimbursed for travel never taken. WEISENBORNE asked for receipts, and [REDACTED] told him that the owners will never provide receipts, so he shouldn't bother even asking. The employee receivables account would be zeroed out at [REDACTED]'s discretion, and checks would be cut to the owners. This happened at least yearly. The owners also engaged in personal use of their corporate America Express cards. WEISENBORNE saw charges for NEIMAN MARCUS, trips to Las Vegas, and meals that were not business-related. The owners would have their assistants mark these as business expenses on their paper statements, but would provide no back-up.

CNSI has an account called shareholder loans payable. Somewhere between June and September of 2008, [REDACTED] didn't want the bank to see healthy profits because they didn't jibe with his projections; there was extra money. So [REDACTED] told WEISENBORNE to debit bonus expenses and put it in shareholder loans payable, so that it would look like the company owed the owners money. So the owners were then getting repaid for loans that were never made in the first place. WEISENBORNE said they had been doing this since about 2003, and that the total paid to the owners for loans never made in the first place is about \$2 million. When these payments were made, it was usually by check; WEISENBORNE would hand them each a check. WEISENBORNE discussed this matter with all of the owners at one time or another.

WEISENBORNE would also physically cut checks to pay the AMERICAN EXPRESS bills. If any of the owners ever actually admitted to a personal expense on their credit card, it would be taken from employee receivables. KANWAL's assistant, ANNA O'NEILL,

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would hand code his paper bill at his direction, marking items as either business expenses or personal expenses. All of the owners have assistants. CHATTERJEE's is SANDRA CHABAL, AHMED's is Sondra, last name unknown (LNU), and SINGH's is BARBARA DEVERA. WEISENBORNE did speak to [REDACTED] about these personal expenses on the corporate cards being taxable compensation, but [REDACTED] kept claiming they were business expenses. And when WEISENBORNE would ask the owners for receipts, they would just laugh and never produce any, so WEISENBORNE stopped asking after awhile.

CNSI uses ADP as their payroll service. Most employees were paid via direct deposit out of the BOA zero balance payroll account, or the checks arrived stamped from ADP in sealed envelopes. Payroll is funded out of the operating account. Sometimes checks were also written out of the SUN TRUST account. If KANWAL needed to cut a check, he would simply make one out by hand since he doesn't know how to use the accounting system.

BOA did periodic audits at CNSI, at least once per year, but they generally only audited the billed receivables. CNSI also hired their own auditing firm, ARGY, WILTSE, AND ROBINSON (ARGY). PAUL ARGY is a friend of the owners of CNSI. Another auditor employed by ARGY's auditing firm is STEVE RITCHIE. WEISENBORNE stated that he told the ARGY auditors about the illegal activities going on at CNSI. RITCHIE knew about the employee receivables account as well as the houses purchased by the owners. If one of ARGY's people asked questions, they were told to talk to KANWAL and the problems went away. Another ARGY auditor, KATHY MORAN, walked off the job at CNSI and refused to work on their account because she didn't believe what she was being told by CNSI employees.

In or about February of 2009, ARGY called [REDACTED] and [REDACTED] to his office. RITCHIE was there as well. [REDACTED] allegedly told ARGY about the houses and taking cash at this meeting.

Another way the owners were defrauding CNSI was by giving themselves monthly car allowances of \$1500 each, as well as \$750 for entertainment and \$750 for travel. No receipts were ever submitted, just a one page expense report prepared by their assistants. None of the four owners ever claimed this additional income on their taxes.

CNSI has a contract with the State of Washington to create a claims management processing system for Medicare and Medicaid. The original contract price was \$178 million, but is now

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up to \$196 million or more. The Design, Development, and Implementation phase (DD&I) was funded for \$93 million, this means that the cost from the start of the project until they go live was supposed to be \$93 million. 2 1/2 years later, the go live date has been moved several times, and is now supposed to be in December of 2009, but WEISENBORNE advised that will not happen. CNSI has only been paid \$60 or \$70 million on this project so far, yet they have recognized \$150 million in revenue on the books when the project is only funded for \$93 million. Anything over that initial contract price is eating into the budget for operations and maintenance, which can't be billed until the project goes live and these things actually happen. CNSI is hiding from the bank the fact that they are going to lose money on this project.

Every month and quarterly, CNSI has to submit certifications to BOA that their projects are on time and profitable. CNSI was altering their estimates to complete to make it look as though the projects are all still profitable. [REDACTED] is the one who is responsible for this report, and the one who signs it. The report was usually produced by MICHELLE HALL, but was prepared a couple of times by WEISENBORNE. HALL usually fedexed the report, but occasionally that was done by ANNA O'NEILL. This report was usually sent to BOA in Tyson's Corner, Virginia. [REDACTED] and [REDACTED] from the projects division are aware of these estimates being adjusted, and WEISENBORNE said [REDACTED] would have the real numbers, and that when her numbers didn't show profit, [REDACTED] would tell [REDACTED] to fix it. According to WEISENBORNE, [REDACTED] was uncomfortable lying to FTI about the State of Washington project being profitable. FTI was provided with doctored spreadsheets to show that the project was profitable. WEISENBORNE also advised that ARVINDER SINGH told him that they were going to lose up to \$40 million on the State of Washington project. BOA would yank CNSI's line of credit if they knew the project was going to lose money.

CNSI also has projects with the States of South Dakota and Michigan to design and implement Medicare/Medicaid claims systems. CNSI had also had a contract with the State of Maine for \$16 million. They ended up spending \$35 million and hid the losses in other projects.

For the quarterly reports sent to BOA, the report would include a balance sheet, income statements, and quarterly projections for the rest of the year. KANWAL would instruct WEISENBORNE to change the numbers, including the actuals, to suit

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his needs. Then after the report was sent to the bank, [REDACTED] would have WEISENBORNE reverse the numbers back to what they truly were. The numbers were either altered through the internal accounting system or on an excel spreadsheet. WEISENBORNE advised that this happened every quarter while he was at CNSI. [REDACTED] would also tell the project people to change their estimates to complete to match his year end revenue number.

CNSI's general counsel, MATTEW HOFFMAN, helped the four owners set up what amounted to a shell company. This company was called KASC, with the name being comprised of the first letters of each owners last name. Using this new company, the CNSI owners purchased about ten townhouses and condominiums with CNSI funds. These properties were not on the books, and in turn, KASC was then renting the properties back to CNSI for approximately \$30,000 per month, as well as a \$5400 monthly management fee, and approximately \$2,000 per month in property taxes. The funds used to purchase these properties were billed to projects. Seven of the ten properties were purchased outright with CNSI funds, the other three were townhouses in the King Farm development in Rockville, Maryland. The mortgages on these three townhouses are being paid for by CNSI funds and the money is being billed on the CNSI books to interest expenses. In addition, these homes are being rented out, but the rent payments are going to KASC, not CNSI. None of the houses purchased are in CNSI's name. These houses are located in Maryland, South Dakota, Michigan, and Washington.

Each of the four owners also has a parent on the payroll. To WEISENBORNE's knowledge, none of them have ever shown up for a day of work. The salaries paid to the parents are approximately \$25,000 per year. They were added to the payroll in 2006 or 2007. They are also on the corporate health insurance plan. When KANWAL's mother died, the insurance company questioned it, so that is when the parents were added to the payroll.

In October or November of 2008, BOA and M&T BANK received anonymous letters from someone at CNSI stating that employees were being threatened for trying to report the company's true income and that the owners were overstating revenue to the banks. WEISENBORNE advised that he did not write these letters, nor did MATTHEW HOFFMAN. It was believed at the time that one of the Indian employees at the Gaithersburg Road office wrote the letters, as they seemed to be written by a non-native English speaker.



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In December 2008, the audits focused on the fixed price contracts that CNSI had. During the audit, ARGY received an anonymous letter from within his own company detailing that cash was being taken out by owners and about inappropriate transactions. The results of the ARGY 2008 audit were that CNSI was in violation of its covenants and that it did not have enough revenue to continue running. CNSI subsequently hired FTI, a forensic accounting firm, at a cost of \$150,000 per month, to come in and look at the books. FTI employees were in and out of CNSI for months. FTI advised the owners at CNSI to replace everyone in accounting and operations.

On July 31, 2009, WEISENBORNE was called into a meeting with the owners and an outside attorney named KAREN SHAPIRO from STEIN, SPERLING, and BENNETT, in Rockville, Maryland. SHAPIRO informed him at this meeting that he was being terminated for secretly operating a competing business contrary to CNSI policies. WEISENBORNE believes the company they are referring to is PRO FORCE SOLUTIONS, owned by his friend, PAUL MONTEMAYOR. WEISENBORNE helped him with his books, but is not an owner, nor did he ever get paid. PRO FORCE SOLUTIONS is a company that places employees with other companies and gets referral fees. After he was fired, DAVID FARRELL from FTI called and told him he was really fired for talking to the auditors and telling the truth.