

LANE & MITTENDORF

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340 ROYAL PALM WAY  
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(407) 832-6966

919 18<sup>TH</sup> STREET, N.W.  
WASHINGTON, D.C. 20006  
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LONDON W1X 0DY  
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September 25, 1989

Charles E. Rossi, Director  
Division of Operational Events Assessment  
Office of Nuclear Reactor Regulation  
U.S. Nuclear Regulatory Commission  
M/S 11-E-4  
Washington, D.C. 20555

RE: Information Notice No. 89-56  
Alloy & Carbon Steel, Co.  
Mr. Louis Mikosh, President

Dear Mr. Rossi:

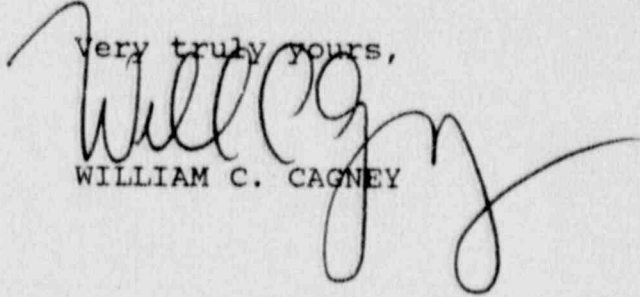
Thank you for taking the time to discuss this matter with me today.

As we discussed, I shall be presenting to you in the near future my proposed Supplemental Statement, correcting factual inaccuracies that are set forth in the Information Notice, particularly those portions of the Attachment which have already been withdrawn, modified, or otherwise corrected during the course of pretrial proceedings before the U.S. District Court for the District of New Jersey.

For your information, in the meantime, I enclose a copy of the United States Department of the Navy Suspension Memorandum dated June 26, 1989.

I look forward to working with you on this most important matter.

Very truly yours,

  
WILLIAM C. CAGNEY

WCC:bap  
Enclosure

cc: Mr. Louis R. Mikosh  
President, Alloy & Carbon Steel, Co.

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PDR I&E  
MISC PNU

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DEPARTMENT OF THE NAVY  
THE ASSISTANT SECRETARY OF THE NAVY  
(SHIPBUILDING AND LOGISTICS)  
WASHINGTON, D.C. 20360-5000

JUN 26 1989

CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

Mr. Thomas Syms  
94 Tennisson Street  
Cartaret, NJ 07008

Dear Mr. Syms:

Pursuant to the procedures in Subpart 9.4 of the Federal Acquisition Regulation (FAR) and Subpart 209.4 of the Department of Defense FAR Supplement, copies of which are enclosed, the Department of the Navy is suspending you from contracting with any agency in the executive branch of the Federal Government. The basis for this action is set forth in the enclosed Memorandum.

The suspension is for a temporary period pending completion of legal proceedings, unless sooner modified or terminated pursuant to the procedures in FAR 9.4, and will be effective throughout the executive branch of the Federal Government. During the period of suspension, offers will not be solicited from, contracts will not be awarded to, existing contracts will not be renewed or otherwise extended for, and approval or consent will not be given to subcontracts with you (where such approval or consent is required), unless the acquiring agency's head or an authorized representative determines in writing that there is a compelling reason to make an exception. During the period of suspension, no Government contractor may enter into a subcontract equal to or in excess of \$25,000 with you unless there is a compelling reason to do so and the contractor first notifies the contracting officer and further complies with the provisions of FAR 9.405-2(b). Further, during the period of suspension, your employment with any other organization doing business with the Government will be carefully examined to determine its impact on the responsibility of that organization as a Government contractor or subcontractor. Suspended contractors are excluded from conducting business with the Government as agents or representatives of other contractors.

Within thirty calendar days after receipt of this notice, you or a representative on your behalf, may submit, either in person or in writing, information and argument in opposition to the suspension, as set forth in FAR 9.407-3(c)(5).

Sincerely,

EVERETT PYATT

Enclosures



DEPARTMENT OF THE NAVY

OFFICE OF THE ASSISTANT SECRETARY

(SHIPBUILDING AND LOGISTICS)

WASHINGTON, DC 20360-8000

MEMORANDUM FOR THE ASSISTANT SECRETARY OF THE NAVY FOR  
SHIPBUILDING AND LOGISTICS

6.23

Subj: SUSPENSION OF LOUIS MIKOSH, WILLIAM LANZA, THOMAS SYMS,  
HAMILTON VAZQUEZ, DEAN LANZA, ALLOY CARBON AND STEEL  
COMPANY, INCORPORATED, MEREDITH CORPORATION PRESSURE  
VESSEL NUCLEAR STEEL

BACKGROUND:

On 4 May 1989, in the United States District Court, District of New Jersey, the subject companies and individuals were indicted for various crimes related to their participation in a conspiracy to defraud the United States.

The indictment alleges: The subject companies were subcontractors that provided steel to Navy shipbuilders and ship repair contractors. The subject companies falsely represented that they were providing steel that met military specifications, as ordered by the Navy prime contractors, when, in fact, they knew they were providing commercial grade steel that did not meet military specifications. Among other things, the subject companies falsified markings on the steel, altered certified test reports provided by the mills that manufactured the steel and prepared false test reports. The subject companies knew that the steel they were providing would ultimately be used by the Navy. The conspiracy ran, approximately, from April 1984 through August 1985. The companies accepted payments totalling approximately \$52,093 for steel which they knew did not meet the required military specifications.

Mr. Louis Mikosh was the President and Chief Executive Officer of Alloy Carbon and Steel Company, Incorporated (Alloy Carbon and Steel) and was also Vice President of Meredith Corporation, Pressure Vessel Nuclear Steel (PVNS). Mr. William Lanza was the Vice President of Alloy Carbon and Steel and the President of PVNS. Mr. Thomas Syms, Mr. Dean Lanza and Mr. Hamilton Vazquez were, respectively, the purchasing agent for Alloy Carbon and Steel, the Vice President of Operations for PVNS and the quality control manager for PVNS.

The subject firms and individuals were charged with violating the following sections of Title 18, United States Code:

Louis Mikosh:

one count in violation of Section 371 -  
conspiracy to defraud the United States.  
four counts in violation of Sections 1001 and  
2 - false statements.  
four counts in violation of Section 1341 - mail  
fraud.

William Lanza:

one count in violation of Section 371 -  
conspiracy to defraud the United States.  
one count in violation of Sections 1001 and 2 -  
false statements.

Thomas Syms:

one count in violation of Section 371 -  
conspiracy to defraud the United States.  
two counts in violation of Sections 1001 and  
2 - false statements.

Hamilton Vazquez:

one count in violation of Section 371 -  
conspiracy to defraud the United States.  
ten counts in violation of Sections 1001 and  
2 - false statements.  
one count in violation of Section 1341 - mail  
fraud.

Dean Lanza:

one count in violation of Section 371 -  
conspiracy to defraud the United States.  
nine counts in violation of Sections 1001 and  
2 - false statements.  
eight counts in violation of Section 1341 -  
mail fraud.

Alloy Carbon and  
Steel Company:

one count in violation of Section 371 -  
conspiracy to defraud the United States.  
four counts in violation of Sections 1001 and  
2 - false statements.  
four counts in violation of Section 1341 - mail  
fraud.

FVNS:

one count in violation of Section 371 -  
conspiracy to defraud the United States.  
ten counts in violation of Sections 1001 and  
2 - false statements.  
eight counts in violation of Section 1341 -  
mail fraud.

IMPACT ON THE NAVY:

The subject companies and individuals knowingly provided steel which did not meet Navy specifications and concealed the true nature of the product they provided from the Navy and others. The Navy was potentially at risk since the Navy relied upon the product being what the Navy had ordered, when, the product provided was not what was ordered.

DISCUSSION:

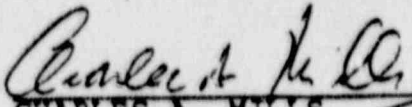
The criminal violations with which the subject companies and individuals have been charged indicate that these firms and individuals are lacking in the honesty and integrity necessary to do business responsibly with the Federal Government. FAR 9.407-2(b) states that indictment for violations such as those with which the parties have been charged constitutes adequate evidence for suspension. The Government needs to be protected from doing business with the subject companies and individuals, pending completion of legal proceedings. The causes for the suspensions of Alloy Carbon and Steel, PVNS, Messrs. Mikosh, William Lanza, Syms, Vazquez, and Dean Lanza are FAR 9.407-2(a)(1), (3) and (5).

RECOMMENDATION:

The Debarment Committee recommends that Mr. Louis Mikosh, Mr. William Lanza, Mr. Thomas Syms, Mr. Hamilton Vazquez, Mr. Dean Lanza, Alloy Carbon and Steel Company, Incorporated and Meredith Corporation, Pressure Vessel Nuclear Steel, be advised that the Navy is placing their names on the procurement section of the Lists of Parties Excluded from Federal Procurement or Nonprocurement Programs in a suspended status for a temporary period pending the completion of legal proceedings, unless sooner modified or terminated pursuant to FAR Subpart 9.4. During this time these companies and individuals will be precluded from contracting with any agency in the executive branch of the Federal Government.

Recommend that you approve this course of action and sign the accompanying letters.

NAVY DEBARMENT COMMITTEE

  
CHARLES A. MILLS  
Chairman

Stephen Parvin  
STEPHEN PARVIN  
Member

Deborah E. Tronic  
DEBORAH E. TRONIC  
Member

CONCUR E. Glanville  
ASN (S&L) CBM

6/22/89  
DATE

Approved Evelyn P. [unclear]  
ASN (S&L)

6/26/89  
DATE

UNITED STATES  
NUCLEAR REGULATORY COMMISSION  
OFFICE OF NUCLEAR REACTOR REGULATION  
WASHINGTON, D.C. 20555

*Copy to all  
VIB staff*

July 20, 1989

NRC INFORMATION NOTICE NO. 89-56: QUESTIONABLE CERTIFICATION OF MATERIAL  
SUPPLIED TO THE DEFENSE DEPARTMENT BY  
NUCLEAR SUPPLIERS

Addressees:

All holders of operating licenses or construction permits for nuclear power reactors.

Purpose:

This information notice is being provided to alert addressees to a possible problem with the certification of material furnished by Meredith Corporation, Pressure Vessel Nuclear (PVN) and Alloy & Carbon Steel Company, Incorporated (ALLOY) of Hillside, New Jersey. It is expected that recipients will review the information for applicability to their facilities and consider actions, as appropriate, to avoid similar problems. However, suggestions contained in this information notice do not constitute NRC requirements; therefore, no specific action or written response is required.

Description of Circumstances:

On May 4, 1989, the U.S. Department of Justice, District of New Jersey, issued information that corporate officers for PVN and ALLOY were indicted for their alleged roles in selling commercial-grade steel as military-grade steel which was used to build and repair U.S. Navy submarines and surface ships. The 27-count indictment rendered on May 4, 1989, by a Newark Federal Grand Jury, charges the defendants, some of whom are presently employees of PVN, with substituting commercial-grade steel for military-grade steel and fraudulently documenting the substitutions as meeting military specifications. From April 1984 through August 1985 the defendants allegedly caused nonconforming steel to be shipped to Department of Defense contractors. The defendants allegedly falsely marked and stenciled steel, created false documentation bearing the letterhead of various companies, falsely altered manufacturer issued certified material test reports (CMTRs), caused fraudulent chemical and physical test certificates to be prepared for tests that had not been performed, and prepared false certificates of conformance (C of Cs) for steel that did not conform to purchase requirements. Attachment I contains a copy of OVERT ACTS from the indictment that identifies faulty documents, heat numbers, and manufacturers' names.

8907140274

Discussion:

During NRC inspections of PVN conducted the weeks of November 2, 1988 and February 1, 1989, three examples of material supplied to ASME Section III requirements without adequate basis were discovered. In all three cases PVN purchased stock material and sold it as meeting the requirements of Section III without performing the upgrade testing required by NCA-3BE7.4(e). In addition, it was also noted that PVN had altered CMTRs received from American Tank and Fabricating Company (ATF). On material ATF had purchased from an ASME Quality Systems Certificate (QSC) holder as stock material and subsequently sold to PVN, PVN had removed ATF's name from the "Sold To" and "Shipped To" blocks of the CMTR and inserted PVN's name and address. Based on the indication that the material was purchased directly from an ASME QSC holder, the customer would not be looking for upgrade testing results nor suspect the material was not in conformance with code requirements.

On June 13 and 14, 1989, Virginia Power conducted an audit of PVN. The audit examined a sample of purchase orders which consisted of 16 safety-related purchase orders, encompassing 30 individual line items of various types of safety-related materials. The 16 safety-related purchase orders were issued between September 1, 1988 and May 4, 1989. From the sample of 30 line items, Virginia Power auditors determined that in 3 cases PVN purchased material from unapproved suppliers and in 17 cases PVN supplied commercial grade material. In all 20 cases, PVN certified that the material met all the requirements of Virginia Power's purchase orders, including Appendix B to 10 CFR 50. However, there is no indication that PVN took any action to determine that the materials supplied were suitable for safety-related applications prior to certifying the material met the requirements of Appendix B.

Addressees may wish to review nuclear procurements from these vendors to ensure that appropriate bases exist for the use of PVN or ALLOY supplied material. Further, addressees may wish to contact the steel mills identified as the manufacturer of the procured materials to confirm traceability of the material and to inform one of the NRC technical contacts listed below of any materials identified as not originating from the manufacturer indicated in the documentation or having material properties different from those indicated in the documentation. The NRC is interested in obtaining information on material supplied by PVN or ALLOY in which discrepancies have been found that are similar to those described above or in the indictment described in Attachment 1. The NRC is particularly interested in discrepancies discovered as a result of independent verification testing of chemical and mechanical properties and information on recent procurements.

Addressee audits of material manufacturers and suppliers which include a review of the basis for certifications provided by vendors and the supporting tests and records of traceability can prevent problems such as those discussed above. Addressees may wish to review the adequacy of previous vendor audits and their general vendor approval process in light of Information Notice No. 88-35, "Inadequate Licensee Performed Vendor Audits" and the above information.



No specific action or written response is required by this information notice. If you have any questions about this matter, please contact one of the technical contacts listed below or the Regional Administrator of the appropriate regional office.

*Charles E. Rossi*  
Charles E. Rossi, Director  
Division of Operational Events Assessment  
Office of Nuclear Reactor Regulation

Technical Contacts: Ramon Cifimberg, NRR  
(301) 492-3220

*Ed Baker, NRR*  
(301) 492-0959

*m/s 11-E-4*

*U.S. NRC*

*Wash*

*20555*

Attachments:

- 1. Overt Acts
- 2. List of Recently Issued NRC Information Notices

*Arthur King,  
Vendor Suspect, Branch*

*Did you investigate.  
Before, "Supplier" said heard that was inhibited,  
sent Ed copy of article.*

*Wed not reveal name*

OVERT ACTS

In furtherance of the conspiracy and to effect the illegal objects thereof, the following overt acts were committed:

TODD SHIPYARD PURCHASE ORDER NUMBER SF-16373

1. On or about June 18, 1985, defendant Alloy received an order from Todd Shipyard ("Todd"), specifically Todd Purchase Order SF-16373, which called for, among other items, two pieces of steel plate with dimensions 3/8" x 96" x 240" and 3/8" x 96" x 120", Specification MIL-S 22698 Grade HT.

2. On or about June 20, 1985, defendant Thomas Syms issued Alloy Purchase Order Number 5318 to Levinson Steel Company for, among other items, two pieces of American Society of Testing Materials ("ASTM") A588 plate with dimensions 3/8" x 96" x 240" and 3/8" x 96" x 240".

3. On or about June 25, 1985, defendant Alloy received the steel from Levinson for Purchase Order Number 5318.

4. In or about June 1985, defendant Alloy received Certified Mill Test Reports indicating that the 3/8" plate mentioned in the preceding paragraphs was manufactured to ASTM A588 specifications, heat number F00402, by United States Steel Corporation.

5. On or about June 27, 1985, defendant Louis Mikosh signed a Certificate of Test, which he caused to be supplied to Todd, that indicated the three-eighths inch steel plate was produced by Phoenix Steel Corporation to MIL-S-22698,

grade HT specification, heat number 95372, knowing full well that this was a false and fraudulent statement.

CRAFT MACHINE WORKS ORDER NUMBER 2P18708-7

6. In or about December 1984, defendant PVN received an order from Craft Machine Works ("Craft"), order number 2P18708-7, which called for, among other items, the following pieces of steel:

<u>SPECIFICATION</u>	<u>DIMENSIONS</u>	<u>HEAT NUMBER</u>
MIL-S-16113	1"x96"x120"	401N7311
MIL-S-16113	1 1/2"x96"x120"	411S3321

7. On or about December 13, 1984, defendant Hamilton Vasquez signed PVN's sales order number 01527 indicating that PVN was shipping steel of military specification in fulfillment of the Craft order.

8. In or about December 1984, defendant PVN issued Certified Mill Test Reports to Craft for the military specification steel described in Overt Act 6 when in fact the defendant PVN had shipped commercial grade steel to Craft.

9. In or about March 1985, Craft notified defendant PVN that independent testing performed on the steel shipped to Craft indicated that the PVN supplied steel was deficient as military specification steel.

10. On or about March 18, 1985, defendant William Lanza answered Craft's letter and offered to have the steel retested.

11. In or about June 1983, defendant Hamilton Vasquez traveled to Newport News, Virginia to arrange for new testing of the disputed steel but no test was performed.

TIM SHULER & ASSOCIATES PURCHASE ORDER NUMBER 401

12. On or about October 15, 1984, Tim Shuler & Associates ("Tim Schuler") ordered from defendant Alloy on purchase order number 401, among other items, 130 pieces of 3" x 3" x 1/4" x 20' steel angles, with military specification MIL-S-22698B, Grade A436T.

13. On or about November 12, 1984, defendant Alloy shipped Tim Shuler 130 pieces of structural steel, each piece measuring 3" x 3" x 1/4" x 20', bearing heat number 81672 and purporting to be MIL-S-22698B, Grade A436T Class U.

14. On or about November 12, 1984, defendant Louis Cash signed an Alloy Certificate of Test certifying that the 130 pieces of steel bearing heat number 81672 was military specification steel and that the certificate of test was a true copy of a test report on file at Alloy when, in fact, he knew that certification was false and fraudulent and a forgery.

15. On or about November 12, 1984, defendant Alloy provided Tim Shuler Associates with a forged and fraudulent Atlantic Steel Company Certified Mill Test Report for heat number 81672 falsely certifying that the steel Alloy was providing to Tim Shuler was military specification steel when, in truth and in fact, it was commercial grade steel.

DIVERSIFIED METALS INC. ORDER NUMBER 1548

16. On or about May 3, 1984, Diversified Metals placed an order with defendant PVN on purchase order number 1548 for 25 pieces of 3/8" x 4" x 20' steel bars, with military specification MIL-S-20166B, Grade HT.

17. On or about May 2, 1984, PVN issued a purchase order number 8573 to Asco Steel Company, for 25 pieces of 3/8" x 4" x 21' flat bar, commercial specification ASTM A588.

18. On or about May 4, 1984, defendant Daan Lanza signed a PVN Certificate of Test certifying that 25 pieces of steel bearing heat number A1053 was military specification steel and that the certificate of test was a true copy of a test report on file at PVN when, in fact, he knew that certification was false and fraudulent.

19. On or about May 4, 1984, defendant PVN provided Diversified Metals with a forged and fraudulent Atlantic Steel Company Certified Mill Test Report for heat number A1053 falsely certifying that the steel PVN was providing to Diversified Metals was military specification steel when, in truth and in fact, it was commercial grade steel.

BLANK DOCUMENTS

20. During the period of this indictment, defendant Louis Mikosh, improperly and wrongly kept blank Atlantic Steel Company Certified Mill Test Reports in his office which he periodically caused to be forged so to falsely certify commercial grade steel was military specification steel.

21. During the period of this indictment, defendant Louis Mikosh improperly and wrongly kept blank American Bureau of Shipping documents in his office which he periodically caused to be forged so to certify that steel he was shipping complied with ABS standards.

All in violation of Title 18, United States Code, Section 371.

COUNT 4

1. Paragraphs 1, and 2 through 13 of Count 1 of this Indictment are realleged and incorporated as though set forth in full herein.

2. On or about May 30, 1988, in Hillside in the District of New Jersey and elsewhere, the defendants

LOUIS MIKOSH and  
ALLOY & CARBON STEEL, INC.

in a matter within the jurisdiction of a department and agency of the United States, that is, the United States Department of Defense and the United States Navy, did knowingly and willfully make and use and cause to be made and used a false, fictitious and fraudulent statement and representation and did make and use and cause to be made and used a false writing and document knowing the document and writing contained a false, fictitious and fraudulent statement and entry in that the defendants provided a forged Bethlehem Steel Certified Mill Test Report to Colonnas Shipyard knowing full well that the heat number and specification listed thereon were not the true heat number and specification for the steel shipped to Colonnas Shipyard.

In violation of Title 18, United States Code,  
Sections 1001 and 2.