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## United States Senate

CHARLES E. GRASSLEY  
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July 30, 2024

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### Via Electronic Transmission

Director Audrey Y. Davis  
Defense Finance and Accounting Service  
8899 East 56<sup>th</sup> Street  
Indianapolis, IN 46249

Dear Director Davis:

I write to raise more questions about why internal controls failed to detect and deter the theft of \$109 million dollars by Ms. Janet Mello.

Since the Army refuses to answer my questions on this matter and since your agency paid the fraudulent bills, the bulk of the responsibility is yours. They are prompted, in part, by your letter of July 17, 2024, combined with a more careful review of court documents.

Clearly, the court documents shed new light on Mello's pattern of criminal activity, but in reading them, I was struck by the number of red flags that popped up – her lavish lifestyle, no vetting of a company that was supposed provide child and youth services, unusual forms, complicated instructions for delivering checks, and payments without invoices. Take, for example, the sheer magnitude of payments to Ms. Mello. They should have set off alarm bells. In one 13-month period, she received 15 checks for \$61.8 million. According to an Army information paper provided on March 4, 2024, the entire Fort Sam Houston FY24 4-H budget was a meager \$1.6 million. Something was badly out of whack and needed top-level attention.

In your recent letter, you repeatedly dismiss my questions about warning signals with this assertion: "All payments were supported by signed documentation provided by the Army that adhered to DoD Financial Management Review (FMR) and Army NAF policy." Given all that documentation was fraudulent, what are you telling me?

As the DFAS Director, you have a sacred responsibility to ensure that every request for payment is legitimate. Now, I know it's impossible to examine each one, but when there are so many apparent irregularities, internal controls need to be activated. A quick and easy on-the-ground spot check of her "business" was needed and would have ended the fraud.

Committee Assignments:

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Your apparent acceptance of “signed and approved” Army documents at face value -- no questions asked -- is unacceptable and reinforces the well-known fact that Defense Department internal controls are weak or non-existent. With no questions asked, Mello was able to drive a Mack Truck right through a control system riddled with gaping holes.

As a backdrop to my inquiry about several potential red flags, I provide a brief summary of the Mello Case as I understand the facts.

Ms. Janet Mello managed the disbursement of Army 4-H Child and Youth Services grant funds at Fort Sam Houston, Texas. That office has been described in the press as a “dysfunctional and toxic workplace.”<sup>1</sup> She apparently had wide discretionary authority and flagrantly abused it. She created a fake company, Child Health and Youth Lifelong Development (CHYLD). She was paid \$108.9 million over seven years. The first of 47 fraudulent payments was made on December 13, 2016 and the last one on April 31, 2023. DFAS was notified of the Army Criminal Investigation Division (CID) investigation in July 2023 and was able to stop two payments – one in July 2023 for \$3.8 million and another in August 2023 for \$4.4 million. According to a press report, the Internal Revenue Service (IRS) opened a criminal investigation in 2023 in cooperation with the Army CID.<sup>2</sup> IRS first contacted DFAS about this matter in October 2023. Mello plead guilty on March 1, 2024. The value of seized property – bank accounts, real estate, motor vehicles, and boats – is substantial. On July 23<sup>rd</sup>, she was sentenced to 15 years in prison.

One apparent irregularity surrounds Ms. Mello’s use of two noteworthy forms -- the Standard Form 1080 and FS Form 7600 A or B – that shaped the payment process. These “presented CHYLD as a government entity,” as you put it. This allowed her, in turn, to dispense with the need for invoices and a Taxpayer Identification Number (TIN). Such unconventional procedures suggest the need for scrutiny.

In order to help me better understand how she evaded detection by control mechanisms, please answer the following **questions**:

**CHYLD – “Government Entity” & Vetting**

- 1) Your letter indicates that the Army determined that CHYLD was a “government entity.” Did Mello make that determination?
- 2) Please describe the process used to certify CHYLD as a legitimate “government entity”?
- 3) What are the criteria for being a government entity? Did CHYLD meet them? If not, why? Why was this criteria not reviewed?
- 4) Once approved, was CHYLD given an identifying vendor code or number? What is it?
- 5) Is DFAS required to check the legitimacy and accuracy of government vendor identifying numbers before processing payments?

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<sup>1</sup> San Antonio Express-News, 7/23/24

<sup>2</sup> San Antonio Express-News, 7/23/24

- 6) Since CHYLD was supposed to provide child and youth services, vetting would seem to have been mandatory for the safety of children it was supposed to serve? Was the “company” properly vetted? If not, why?
- 7) Was CHYLD visited or contacted? If not, why?
- 8) Was CHYLD **improperly** approved as a government entity?
- 9) How many government entities provide 4-H child and youth services in the San Antonio area?
- 10) Your response to question 10 states “Army provided signed documentation to DFAS establishing this program as a NAF Instrumentality (NAFI) purchase from a government entity... The SF 1080 was not the source document for payment authorization. The signed memorandum provided was sufficient for payment in accordance with NAF policy.” Describe this memorandum’s role in establishing CHYLD as a “government entity.” Provide a copy of this memorandum.
- 11) If the memorandum had identified the recipient of funds as Donald Duck, would this be accepted by DFAS without further scrutiny? If not, why not? What aspect would trigger further scrutiny of this information and what are the standards to triggering further scrutiny?

#### **Use of Forms 1080 and 7600 A&B**

- 12) Did DFAS acceptance of 1080 and 7600 A or B forms in the payment package constitute de facto approval of CHYLD as a government entity?
- 13) The SF 1080 was an important component of the Army package that allowed DFAS to proceed with payment, correct?
- 14) Could DFAS have made that payment without the SF1080?
- 15) Once DFAS accepted CHYLD as a “government entity,” what information is required on Form 1080 for DFAS to confirm that the payee is a legitimate “government entity” and pay the bill? Is it a name, identity number, or what?
- 16) The mere use of the 1080 form leaves essentially no internal control checks in place. For example, the field on the form for “department, bureau, or office receiving funds” appears to allow Mello to write in the name and address of CHYLD and get paid. Any comment?
- 17) Please provide examples of **completed** 1080 and 7600 A&B forms for CHYLD? Which 7600 form was used, A or B?
- 18) Was the Army’s use of these two forms legal and appropriate in every way?
- 19) If the SF 1080 directed payment of \$500 million dollars, would this amount be accepted by DFAS without further scrutiny? If not, why not? What aspect would trigger further scrutiny of this information and what are the standards to triggering further scrutiny?

### **No Delivery Verification**

- 20) Court records indicate an effective oversight tool was overlooked: **“There was no independent verification that CHYLD actually provided services consistent with the purpose of the program.”** Though there is no evidence that the fictitious company had a physical address out of which it operated, its mailing addresses were close to the base. An easy on-site inspection of CHYLD – if made -- would have ended the fraudulent activity. Why didn’t DFAS exercise leadership and direct the Army to do it, and if refused, have some other entity conduct the inspection?

### **IRS Connects Mello to CHYLD**

- 21) Court records indicate that IRS knew in December, 2016 that Mello owned CHYLD. Just as the fraudulent activity was getting underway, she requested an Employer Identification Number (EIN) for CHYLD and was given one. She then filed a 2017 federal income tax return, including a C-EZ Net Profit for Business. It showed gross receipts of \$2,152.00 for CHYLD, expenses of 1,669.00 and a net profit of \$483.00. She filed no subsequent returns for CHYLD. Why would she file a fake tax return? Was she testing controls in some way?
- 22) Since IRS knew CHYLD was owned by Mello and CHYLD had an EIN number, why couldn’t IRS link her to \$109 million paid to CHYLD? Was the inability to make the necessary connection in any way related to the TIN exemption provided by the form 7600 A&B?
- 23) Isn’t a TIN required on all payment vouchers? What is the reasoning behind TIN exemptions with Form 7600 and Form 1080?

### **Other Issues**

- 24) Why weren’t you informed immediately when the DFAS Texarkana office became involved in the Army CID investigation? When exactly were you notified?
- 25) What is “commercial bank check stock” referenced in response to question 3?
- 26) Please explain the issue with Public Key Infrastructure electronic digital signatures mentioned in your letter? What role did that play in the Mello case?

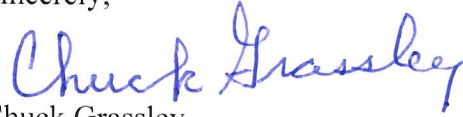
### **Need for Accountability and Reform**

- 27) In my last letter, I asked: “who in the department is chiefly responsible for this colossal failure of internal controls ... Has anyone been held accountable?” In your response, you tap dance around this question. You talk about reviews to identify “potential lessons learned, root causes, and action to prevent fraud in the future” but avoid the main question. Director Davis, answer the question: Who is chiefly responsible? Who is accountable?
- 28) What steps have you taken to tighten controls?

In closing, I leave you with a thought. Your tool box is full of control mechanisms. DFAS just has to commit to using them. Is it possible that controls failed because there is no encouragement and direction from leadership behind them?

Now that Mello has been sentenced and the criminal investigation is over, I expect DFAS to be forthcoming and answer all my questions by August 23, 2024.

Sincerely,



Chuck Grassley,  
U.S. Senator

Copy to: Secretary of the Army Wormuth

*I offer a piece of advice:  
Effective internal controls  
need strong leadership at the top.*