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**From:** Mills, Cheryl D <MillsCD@state.gov>  
**Sent:** Tuesday, October 25, 2011 8:57 PM  
**To:** H  
**Subject:** Fw: FBI Saw Dark Side of Rep. John Murtha

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**To:** Mills, Cheryl D  
**Subject:** FBI Saw Dark Side of Rep. John Murtha

FBI Saw Dark Side of Rep. John Murtha

## Agency Suspected Lawmaker in Scheme Funneling Funds to Benefit Friends, Ex-Staffers

- By [Paul Singer](#)
- Roll Call Staff
- Oct. 25, 2011, Midnight

Neither Rep. John Murtha nor anybody from KSA Consulting was ever charged with a crime, and it is unclear what happened to the FBI's investigation.

Last week's release of FBI documents finally put in writing what nobody had ever said on the record: The FBI suspected that former Rep. John Murtha (D-Pa.) and lobbyists close to him were running a scheme to funnel earmarks to sham companies and nonprofits to benefit the lawmaker's friends and former staffers.

Bits and pieces of this story were kicked around for years before Murtha died in February 2010. The Los Angeles Times, Roll Call, the Washington Post and others had documented the odd appearance of earmarks for tiny defense contractors that just happened to open an office in western Pennsylvania and just happened to hire one of the lobbying firms close to Murtha and just happened to begin making campaign donations to Murtha and other Members of Congress close to him.

Reporters could do little but assemble the coincidences and couldn't prove there was anything wrong with the bigger picture.

But it turns out the FBI was reading the stories and was very interested — interested enough that the Justice Department had opened a criminal investigation into Murtha and some of the lobbyists in his orbit, a fact that never leaked while Murtha was alive.

In part, the probe never leaked precisely because he was alive.

The watchdog group Citizens for Responsibility and Ethics in Washington filed a Freedom of Information Act request for Justice Department files on Murtha and other Members of Congress. Its requests have been denied for the living Members on the grounds that they have a right to privacy, CREW Executive Director Melanie

Sloan said last week. Murtha's death eliminated the privacy exemption, and the Justice Department handed over a heavily redacted bunch of files to CREW on Oct. 14.

The files spell out for the first time a theory of the case that explains what Murtha's cronies may have been up to.

In a memo dated June 19, 2009, FBI field agents requested the bureau "open a full public corruption investigation" regarding KSA Consulting, the lobbying firm that employed at various times the Congressman's longtime defense aide Carmen Scialabba and the Congressman's brother, Robert Murtha, widely known as Kit.

The FBI field agents concluded that "the relationships between Congressman John Murtha ... and employees and partners of KSA Consulting provide for a potential Honest Services Fraud ... if Congressman Murtha influenced the awarding of contracts to KSA-controlled entities or clients, in exchange for some personal benefit to the Congressman. KSA principals may also have committed Honest Services Fraud by lobbying Murtha to direct earmarks to KSA clients who 'passed-thru' the funds to subcontractor firms that did little actual work and were owned by KSA principles."

Neither Murtha nor anybody from KSA was ever charged with a crime, and it is unclear what happened to the investigation.

### **A Nonprofit Called PAID**

The best place to understand the FBI's theory of the case is a defunct nonprofit called the Pennsylvania Association for Individuals with Disabilities, which had as its mission helping people with disabilities find employment.

Murtha announced the creation of PAID on June 1, 2001, saying that Aeptec Microsystems Inc., a company that he helped bring to western Pennsylvania, would be opening a new headquarters and hiring two clients of the new organization. The company had just hired KSA Consulting as its lobbying firm. Murtha was the honorary chairman of PAID, and his longtime defense appropriations aide, Scialabba, was listed as the founder of the group.

PAID's board of directors was a who's who of lobbyists connected to Murtha, as well as executives from firms that had received Murtha earmarks, including KSA founder Ken Stalder. In May 2002, David Fyock, CEO of MountainTop Technologies, a Johnstown firm that received many Murtha earmarks, testified before Congress in his capacity as the vice president of PAID. In an odd quirk of timing, the Justice Department inspector general released a report Monday concluding that while MountainTop had a federal grant to distribute resources to local police departments, Murtha's office actually made the decisions about which departments got funding, and MountainTop served simply as a "pass through." The IG report was first reported by the website Main Justice.

Scialabba left Murtha's office at the end of 2002, according to Congressional pay records maintained by LegiStorm. By Dec. 1, 2002, he was registered as a lobbyist at KSA.

Roll Call investigated PAID in 2007 and could find little evidence that the group was doing anything. A spokeswoman for the U.S. Department of Labor told Roll Call that PAID had received \$650,000 in "earmark grants" sponsored by Murtha in 2003 and 2004, but the group's access to the funding was restricted because PAID had significant turnover and "did not have anyone qualified to make decisions or sign off on invoices."

The FBI thought PAID may have been set up simply to provide a financial cushion for Scialabba, who was apparently having financial troubles. While the names in the documents obtained by CREW are redacted, the description matches Scialabba, and tax liens noted in the document match liens against Scialabba. "If PAID was

set-up for the purpose of unjustly enriching [Scialabba], it appears that [Scialabba] and Murtha may have engaged in a conspiracy that could potentially violate federal statutes,” the FBI file reads.

Federal tax forms filed by PAID do not indicate any salary for Scialabba, so it is not clear how the group might have benefited him.

PAID is no longer in business. Its phone has been disconnected, and a receptionist in the building where the group had its office said that PAID moved out in February 2010 — the same month Murtha died.

Scialabba has never been charged in the case, and phone messages left on what appears to be his home phone were not returned.

### **Criminal Convictions**

Aeptec and KSA were also at the center of the one Murtha earmark that resulted in criminal convictions.

By 2004, Murtha had helped Aeptec secure millions in earmarks, and in April of that year, the Congressman announced the opening of a new building in Indiana, Pa., that Aeptec would occupy. At the time, Aeptec’s lobbyists at KSA included Stalder, Scialabba and Kit Murtha.

But later that year, someone discovered a problem with Aeptec. “They were outsourcing to Taiwan,” Stalder told Roll Call in a June 2007 interview. A Murtha spokesman told Roll Call in 2009, “there was an import/export issue that had involved Aeptec, and when this was brought to light, they disappeared as a company.”

By the end of 2004, KSA had terminated its relationship with Aeptec, and in early 2005 — with Murtha as ranking member of the Appropriations Subcommittee on Defense — the House approved a supplemental defense spending bill with a technical amendment that stripped the firm’s funding. The technical amendment directed the Pentagon to transfer \$8.2 million from Aeptec projects to a program known as the “Mobile Common Data Link Gateway.” That project was an earmark for Coherent Systems Inc., another KSA client.

The Mobile Gateway earmark money ended up scattered among companies that had close ties to KSA.

In 2009, the Justice Department filed charges against Coherent CEO Richard Ianieri, alleging that he had used money from the Mobile Gateway project to buy products unrelated to the contract from several companies, including KSA clients VidiaFusion and Gensym.

VidiaFusion had no website, no telephone number and no email address. The address listed for VidiaFusion on the lobbying registration form submitted by KSA is a condominium building in West Palm Beach, Fla. The Florida secretary of state has no record of a company called VidiaFusion. The government charged that Ianieri paid VidiaFusion \$274,660 for “software” that was unrelated to the Gateway project and was never used.

Ianieri also transferred \$300,000 to Gensym, another KSA client, which was passing funding through to a subcontractor called Applied Technology. The FBI described Applied Technology as “an example of a KSA-created business that acquired federal earmarks and has no legitimate purpose.”

The FBI records indicate two KSA lobbyists were on the Applied Technology payroll, though their names have been redacted.

Ianieri pleaded guilty to filing false purchase orders and accepting a kickback from another company close to Murtha, Kuchera Defense Systems, and was sentenced to a fine and probation.

Coherent did deliver to the Air Force a vehicle-based communications system envisioned in the original "Mobile Gateway" earmark.

Mark O'Hair, an Air Force contracting official who oversaw the Gateway contracts, and contractor Richard Schaller, who was paid by Ianieri, both went to jail for their roles in the scheme, but nobody else was ever charged. There is no evidence that the FBI conducted a serious probe of who in Murtha's office might have known about the bogus earmarks.

Roll Call reported in March 2010 that KSA had folded. Stalder and other KSA lobbyists appear to have created a new firm called Edge Solutions, but the phone number at that office is now disconnected and emails sent to Edge Solutions went unanswered.

### **Potential Cases Not Pursued**

The FBI files uncovered by CREW offer a tantalizing array of hints of other possible malfeasance.

Federal agents had begun investigating Murtha in 2007 upon hearing allegations that the PMA Group, a lobbying firm run by former defense appropriations staffer Paul Magliocchetti, had paid for Murtha to have a driver. The PMA Group was raided by the FBI in February 2008, and the firm shut down the following year. Magliocchetti is serving a 27-month prison sentence for running a scheme to reimburse friends, family members and colleagues for hundreds of thousands of dollars worth of campaign contributions to Murtha and other Members of Congress.

The FBI investigation also suggested that a staff member in Murtha's office may have failed to disclose thousands of dollars in income and assets on her annual financial disclosure forms; that money from Murtha's campaign fund may have been used to buy guns for the personal use of another Murtha staffer; that Murtha may have steered contracts and earmarks to other family members; that staff members may have violated the one-year ban on lobbying Murtha's office after leaving his employ; and that KSA may have run a fraudulent political action committee.

There is no evidence in the released documents that the FBI pursued any of these cases.

Sloan of CREW said the FBI files prove a long-sought point: "It was as bad as we said it was. It wasn't nothing; it wasn't OK."