

# CASTO OCANDO'S BOOK "CHAVISTAS EN EL IMPERIO."

## CHAPTER 3

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The Electoral Offensive.

"The Venezuelan Electoral System is one of the best in the world."

Said Hugo Chávez, September 20, 2012.

Paying Millions of Dollars to Lobbyists to Advance the President's Hugo Chávez Cause in the United States was just one of the many ways in which the Chavistas would be involved in negotiations, disputes and scandals in the North American territory.

A complete saga of controversies that lasted between 2004 and 2009 had as main protagonist the Smartmatic elections company, based in Boca Raton, Florida, and implicated high-ranking Venezuelan government officials, including a Venezuelan vice president and a Venezuelan ambassador in Washington, and a group of Venezuelan businessmen who provoked from federal investigations to radical changes in laws that were reinforced to curb foreigner penetration in the United States.

The expansion of the election company in the United States, after helping organize one of the most controversial electoral events in the history of Venezuela, In August 2004, it sparked a wave of paranoia from Miami to Washington, passing through Chicago and New York, which ended Smartmatic's ambitions of

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penetrating the world's largest election market, due to secret connections with Venezuela that never ended up being clarified.

The origins

Smartmatic was created for the first time and officially registered as a company not in Venezuela, where its founders originated, but in the registry of corporations of the state of Delaware, United States, on April 11, 2000 <sup>1</sup>.

Its owners were family related to the Venezuelan firm Panagroup, a computer technology company established in 1977 in Caracas<sup>2</sup>.

On September 11, 2000, four months after its founding was registered in Delaware, the company was also included in the Florida corporation registry, in Tallahassee. According to the documents, the manager Alfredo Anzola requested authorization so the firm could function as a foreign company in the state of Florida, with a base of operations at 19591 Dinner Key Drive, Boca Raton, an hour and a half north of Miami<sup>3</sup>.

Smartmatic had emerged as an initiative of a group of young specialists in computing, led by Antonio Mugica, Alfredo Anzola and Roger Piñate, who they had the particular ambition to become the new "Bill Gates" of Venezuela. "They were simple and brilliant boys who aspired to make a mark on the field of computing and technology worldwide," said to this author, one of the managers of Smartmatic in Boca Raton, when the firm began to generate strong controversies in the United States in 2005.

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The founder, Antonio Mugica, born in Caracas in 1974, graduated as an electronic engineer at the Universidad Simón Bolívar (USB) in Caracas, one of the elite centers of technological training of Venezuela. Adjacent to his father Antonio Mugica Sesma, he had been a member of the Panagroup board of directors.

Mugica briefly resided in Boca Raton, where he did research on robotics at Florida Atlantic University, where he studied<sup>4</sup>.

The young engineer was the creator of the “vision” of Smartmatic as a technological service company aimed at exploiting the promising field of digital networks, that allowed to connect diverse equipment instantaneously, and from where it generated the slogan “All Things Connected,” which the company adopted<sup>5</sup>.

Alfredo Anzola, an industrial engineer and childhood friend of Mugica, also born

In 1974, developed the business structure of the firm. Roger Piñate, another electronic Engineer and graduate of the USB, was responsible for supervising the strategy of production and industrial design process of Smartmatic<sup>6</sup> products.

Although established in Willmington and Boca Raton, Smartmatic was the spearhead of an ambitious plan to conduct promising new business in Venezuela, thanks to important connections with sectors of power.

Strategically, the firm began to exhibit itself as a “mixed capital company

German, Venezuelan and American”, with main offices in Florida<sup>7</sup>.

But for Mugica, one of the main objectives was to design solutions specifically directed at the Venezuelan<sup>8</sup> government.

By the end of 2001, Smartmatic already would share several [significant] client’s portfolio with Panagroup that included various Venezuelan state agencies, such as Petróleos de Venezuela (PDVSA) and the

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Ombudsman's Office, an entity created by Hugo Chávez as part of the nascent Moral Power, which included the country's comptroller bodies such as the Prosecutor's Office and the Attorney General of the Republic.

The company's great leap came in 2003, after its registration as a corporation in the island of Curaçao, exactly on February 14, under the name of Smartmatic International Group N.V.

From that moment, Alfredo Anzola initiated the arrangements to establish a strategic alliance that closely connected Smartmatic with the government of Chávez.

Almost immediately after registering Smartmatic as a North American corporation both in Delaware and Florida, Mugica and Anzola also registered a second firm destined to play a key role in the strategy of growth of Smartmatic in Venezuela.

Bizta Corporation was incorporated by Anzola in Delaware on April 12, 2000, one day after the Smartmatic registration. The incorporation in the registry of companies in Tallahassee, Florida, was done nine months later, on January 24, 2001, also by Anzola and using the same Smartmatic address.

The company was established with a capital of 5 million bolivars, equivalent to about \$ 10,000 at the official exchange rate of 1997.

However, to finance subsequent projects, Bizta received a loan that sparked the first of several scandals that literally put Smartmatic on the eye of the storm in Venezuela and the United States.

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Controversial businesses

The first big business that appeared on the horizon of Smartmatic arose after the arrival of the psychiatrist Jorge Rodríguez to the board of the National Electoral Council of Venezuela (CNE), in August 2003.

Previously, as president of the National Electoral Board, the body in charge of the technical details of elections and referenda, Rodríguez intensely promoted the idea that the Venezuelan electoral system should be "modernized", despite that the current system already had 7,000 electronic machines of voting in full operation, installed in 1998 by the Spanish company Indra at a cost of \$ 136 million<sup>9</sup>.

The bidding process for a new system was full of marches and contra marches. Among the companies that expressed their intention to participate three stood out: The North American Election System & Software (ES&S), the largest global election firm, which exhibited an experience in hundreds of elections in the world; the Spaniard Indra, which offered to update the system that already had installed in the country; and the small Boca Raton firm, whose technology never it had previously been used in an electronic vote count.

Against all odds, Smartmatic obtained CNE approval to automate the voting system at the national level. The agency did not consider essential inexperience of Smartmatic, despite the fact that another firm that also did not exhibit electoral experience was strictly rejected by the rector Rodríguez with that same argument<sup>10</sup>

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The CNE [Consejo Nacional Electoral]

[National Electoral Council] decided to fully automate the elections to organize the referendum recall, the first national consultation on whether Chávez should leave the government midterm, in August 2004, or should Chavez finish his term to the end. This consultation mechanism had been approved in the 1999 constitutional reform, that Chávez himself had promoted.

The fact that for the first time the elections were fully automated in Venezuela for this decisive referendum caused immediate suspicions.

“Goodbye to hand-filled ballots. Goodbye to optical readers.

Goodbye to the 7,350 counting machines that the Indra company used to count the votes from the last 7 elections. From now on, we Venezuelans will use a new technology (Touch Screen, touch sensitive screens) to exercise the vote”, editorialized the newspaper El Nacional de Caracas, expressing veiled skepticism about the dramatic change that the CNE had approved.

Conflicts of interest

Smartmatic won a \$ 91 million contract which would later be increased to \$ 111 million<sup>11</sup>, after presenting a technology platform in partnership with two other companies: the Bizta Corporation, created in Florida in 2000, and the Anonymous Company Nacional Teléfonos de Venezuela (Cantv), the main service provider telephone numbers in Venezuela<sup>12</sup>.

Part of Cantv's shares were then in the hands of the telephone company Verizon, while the Venezuelan State controlled a shareholding package of

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6.6%, the only property remnant that remained [alive] after the privatization of the telephone in 1992.

The result of this alliance was the SBS Consortium (by the initials of Smartmatic, Bizta and Cantv). According to the contract, Smartmatic would be in charge of designing and building touchscreen machines. For its part, Bizta had the responsibility of providing local technical support. And finally, Cantv would have the data transmission under his control through its telephone networks nationwide.

The multimillion-dollar contract with the CNE meant a dramatic leap for Smartmatic: from being a firm with sales of just \$ 1.47 million in mid-2003, it went on to manage a budget 25 times greater in less than a year, according to a report from the Dun & Bradstreet firm of New Jersey <sup>13</sup>.

The consultation on whether Chávez should continue in the presidency had been approved later of a long process of signatures collection by the opposition, which forced the CNE to approve the consultation, despite strong opposition from Chavismo.

At the end of May 2004, three months after the signing of the contract between the CNE and the SBC Consortium, the first scandal broke out that put SBC technologists' young creators in serious trouble as well as the Chávez government.

Unknown to anyone, the government had managed to control almost a third of the shares of one of the companies that made up the SBS Consortium, the Bizta Corporation, and in fact, it maintained an official representative on the board of directors of that company<sup>14</sup>.

Bizta had received an injection of about \$ 200,000 from the government through of the Sociedad de Capital a Riesgo (SCR), a company belonging to the Government Industrial Credit Fund.

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The capital invested by SCR gave it control over 3 million Bizta shares, that is say 28% of the total shares, and the right to appoint a director to the board directive. In January 2004, the Chavista government appointed Omar Montilla to this position. Montilla, a high rank senior official in the Ministry of Science and Technology of Venezuela. No one saw it as a mere coincidence that the approval of the millionaire contract between the CNE and the SBC consortium came a month after Montilla joined the board directive of Bizta<sup>15</sup>.

Although company and government spokespersons tried to minimize the impact of the revelations, they did not explain why no one at Smartmatic, neither at the CNE nor at the Venezuelan government, did not publicize this strategic association that supposed a open conflict of interest, and that planted doubts on the credibility of the Consortium SBC.

Both Mugica, the founder of Bizta, and Anzola, its president, said that viewed the \$ 200,000 injection not as an investment, but as a loan, although they did not explain why a loan gave the government a significant shareholding control over the company and a position on the board of directors. "Bizta received a loan from Foncrei, a State institution that promotes the development, and by virtue of this Omar Montilla became part of the board of directors", Mugica admitted. However, to defend himself, he said that the government was not the greatest shareholder of the company, and that the telephone company Cantv also had a stake official no one was criticizing<sup>16</sup>.

Mugica was right. Not only Bizta had representation from the Chavista government. Cantv "maintains two people from the government on the board of directors," ...



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Said Mugica grumpily at a press conference.

Suspicion that relations between Smartmatic and the government could put the independence of the Chavez revocation consultation at risk, raised concerns among North American congressmen.

In a hearing of the Committee on Foreign Relations of the United States Senate to in mid-2004 to address the Venezuelan political situation, the Democratic senator for Florida Bill Nelson expressed concern about the possibility that the

The results of the recall referendum were subject to "manipulation", due to the shareholding of the government in the consortium that was to carry out the elections.

"We are concerned that these machines are being used for the first time and due to the possibility of manipulation of the results," Senator Nelson then declared to this author<sup>17</sup>.

Nelson recommended to the representatives of the Carter Center who attended the audience in the Capitol, to "observe closely" the Smartmatic firm, because planned to use software "that has never been tested in a process election".

Senator Nelson was not the only one who doubted Smartmatic's reliability in United States. Aviel Rubin, professor of computer science at the University John Hopkins, in Baltimore, and one of the most recognized experts in systems automated electronic systems, warned that the new system contracted by the CNE Venezuela was not invulnerable.

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“The referendum in Venezuela has to be the simplest election I have ever heard of speak, YES versus NO. And a paper ballot with a manual vote count would be the more transparent way to have these elections,” said Rubin<sup>18</sup>.

The criticisms leveled against Smartmatic in Venezuela and by the United States were not going to be the only ones. Dangerous new ties and scandals were about to knock on the door from the small Boca Raton firm.

Revealing connections

The lack of reliability and criticism of Smartmatic were not solely due to the deliberate concealment of relationships that implied an open conflict of interest, as in the case of the Bizta-government relationship, but to the way its managers responded to criticism about Smartmatic's lack of electoral experience.

When this author asked Alfredo Anzola in Boca Raton in April 2004 about the lack of electoral track record of the firm, his response was angry: “It is false that we have not electoral experience.” He immediately explained that they had a team “that has participated in 63 electoral processes in 23 countries”<sup>19</sup>.

But such an answer was, in reality, a half-truth.

Since its inception in 2000, Smartmatic has never conducted elections or in Venezuela or anywhere else in the world. But to eliminate all kinds of suspicions if they won the contract with the CNE, the firm hired the specialist Jorge Tirado, director of the electoral consulting firm Caribbean Government Consultants, based in Puerto Rico, and former contractor for the International Foundation

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of Election Systems (IFES), a North American government agency based in Washington promoting democratic elections in the world.

It was Tirado, and not Smartmatic, who had participated in 63 electoral processes. But his participation had not been as an organizer, but as a simple observer submitted by IFES<sup>20</sup>.

The \$ 91 million contract with the Venezuelan electoral body stipulated the Smartmatic's commitment to design and produce 20,000 voting machines with touch sensitive screens.

But Smartmatic did not have a manufacturing infrastructure for the machines either, for which Smartmatic hired another company to fulfill his obligations. Smartmatic selected the Italian Olivetti Tecnost firm, which had no experience manufacturing electoral machines, but electronic terminals for lottery games.

What Smartmatic offered as the latest model of its SAES300 touchscreen machine was actually a reconditioned version of the MAEL 205 model, manufactured by Olivetti as an electronic lottery game machine.

"The machines by means of which we Venezuelans are going to decide our destination on August 15 are lottery machines in Peru, India and Tunisia. In Tunisia the it acquired Promosport in partnership with the Ministry of Sports of that country; and in India they were acquired by two companies specialized in gambling, chance and entertainment, "said analyst Orlando Ochoa Terán, who revealed for the first time the details of the technological platform that Smartmatic was offering based on lottery machines<sup>21</sup>

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Olivetti itself acknowledged the criticism. The voting machine that was to be used in Venezuela, stated Alvaro Fernández, manager of Olivetti Tecnost de Argentina, "It was created as an online lottery terminal, but being so versatile, it can be used for different functions, as in this case that will be used to perform a electronic voting <sup>22</sup>."

In addition to the ties between Smartmatic and the Bizta consortium, where the Venezuelan government was owner of a third of the shares, there were now more connections that implicated direct and indirect relationships with government officials.

For example, the operation that sealed the purchase of 28% of the shares of the Bizta corporation by the company Sociedad de Capital de Riesgo C.A., at a amount of about \$ 200,000, was legally notarized in the Fifth Commercial Registry of Caracas, led by Gisela Rangel de D'Armas, daughter of the vice president José Vicente Rangel<sup>23</sup>. [known as a Marxist and former Socialist candidate for the Red Rooster Party]

One of the founders of Smartmatic, Alfredo Anzola, had married two months before the signing of the Smartmatic-CNE contract, in April 2003<sup>24</sup>, with the daughter by Antonio José Herrera, advisor in the agricultural area of the Chávez government.

Herrera was one of the most important advisers to the Minister of Agriculture Alejandro Riera at the beginning of the Chavista administration, and was a first cousin of Ambassador of Venezuela in Washington, Bernardo Alvarez Herrera.

When this author asked Ambassador Alvarez the nature of his relationship familiar with the founder of Smartmatic, he replied that Antonio José Herrera was only one of an extensive group of "55 first cousins" that he had in Venezuela<sup>25</sup>

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“Indeed, the daughter of one of my 55 first cousins is married to Mr. Anzola, who I think I have seen no more than a couple of times a few years ago, in gatherings with relatives, when they were both young teenagers, and I have learned from press of the relationship of this young Venezuelan with the Smartmatic company”, said Alvarez Herrera.

The diplomat added that he had maintained relations "absolutely institutional" with the current CNE directive, and argued that it could not be deduced that a family relationship “without the existence of any evidence, as an illegal conduct and immoral influence peddling”.

However, for some observers and analysts, family connections and Policies around Smartmatic were part of a strategy to influence electoral processes in Venezuela.

“There is a circle of relationships that has its origin in Barquisimeto and Carora, two cities of the Lara state, in the western center of Venezuela, which joins high government officials, the CNE, politicians and executives of Smartmatic, a blatant and suspicious conflict of interest,” said researcher Ochoa Terán.

The 2004 referendum

Smartmatic's first crucial test came during the referendum recall of August 2004, in which some 10 million voters had to decide whether or not they agreed with Chávez's departure from the Venezuelan presidency.

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After a series of technical tests with the intervention of independent organizations and engineers, including a supervision mission of the Carter Center and the OAS,

Mugica declared satisfied that it was "impossible to violate the secret of the vote" using lottery machines, and that their system was "the safest" of all that had been used in Venezuela at any time. <sup>26</sup>.

The Carter Center gave Mugica the backing. The machines "will work by providing security and protecting the privacy of the vote", said Francisco Diez, representative in Venezuela from the Atlanta-based organization<sup>27</sup>.

Due to the political crisis that shook Venezuela since the 2002 failed Venezuelan coup d'état attempt [on 11 April 2002 that saw President Hugo Chávez ousted from office for 47 hours before being restored to power] and the 2003 oil strike, international pressure was trying to create a reliable environment for the realization of the referendum.

To ensure success, various sectors promoted the participation of a group of notables, including the writer Gabriel García Márquez, the economist Joseph Stiglitz, the leaders Nelson Mandela and Mijail Gorbachev, and the activists Adolfo Pérez Esquivel and Rigoberta Menchú, all Nobel Prize winners<sup>28</sup>.

However, the realization of the consultation, and especially the crucial moments vote counting, which lasted unusually for more than 5 hours from the night of Sunday August 15 until well into the morning of Monday 16, they raised strong suspicions that the results had been manipulated.

When the voting numbers were read by the president of the CNE, Francisco Carrasquero, at 3:50 in the morning of Monday 16, there was a winner: with the 59.10% of the votes in favor, and 40.64% against, Chávez could continue until the end of his mandate.

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The result was later endorsed by the former president himself American Jimmy Carter, the experts at the Carter Center and the Secretary General of the OAS, César Gaviria, who went to the headquarters of the CNE in Caracas to verify the official figures.

“The August 15 elections clearly expressed the will of the electorate Venezuelan”, later sentenced the Carter Center, in its final report of observation of the elections in Venezuela. The report further indicated that the center did not receive “credible evidence of fraud that would have changed the outcome of the vote”<sup>29</sup>.

During the days that followed the referendum, however, important allegations that Smartmatic machines were not only vulnerable, but that the same results could have been modified at will.

The first serious doubts about the reliability of the results came from the election consulting firm Penn, Schoen & Bertland, with locations in Washington and New York.

At around 7 and 3 on the same Sunday of the elections, the consulting firm circulated the results of an exit poll it had conducted at the national level.

Using a technique that had produced successful results in scenarios similar in Mexico and the Dominican Republic, the company conducted measurements in 200 voting centers in Venezuela, with a total of 20,000 voter responses. The figures that resulted from the exit polls gave a comfortable victory to the “YES”, the opposite option against Chávez, in a percentage of 59%, versus 41 in favor of the “NO”, favorable to the government,

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almost exactly contrary to the result announced by the CNE, and certified by Carter and Gaviria<sup>30</sup>.

The day after the elections, the opposition denounced that the government had committed fraud, and that the vulnerability of the Smartmatic electoral platform helped modify results.

Mugica responded affirming that the system had worked "to perfection", and offered to carry out verifications and audits to the machines, "until eliminating any reasonable doubt about this event "<sup>31</sup>.

The audit that finally took place, under the control of the CNE, was carried out between just some 400 machines out of the 19,000 used in the election event, an amount considered by experts as insignificant to rule out a possible fraud.

Neither the complaints from the opposition nor the restricted audit allowed by the CNE avoided international recognition of Chávez's triumph in the referendum.

### Voting discrepancies

To remove any vestige of doubts, Mugica challenged the opposition to scientifically demonstrate, with "evidentiary support", the occurrence of a electoral fraud through the technological platform created by Smartmatic.

The answer to the challenge came in a short time, from a group of Venezuelan experts trained in the United States.

María Mercedes Febres Cordero, computer engineer with postgraduate studies at New York University (NYU), introduced the first reasonable doubt about



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The potential fraud, claiming that voting machines were capable of communicate bi-directionally, that is, they could send or receive data following remote instructions, a feature that from the beginning was denied both by Mugica and Rodríguez.

Febres Cordero said the Boca Raton voting company Smartmatic had changed the patterns of data transmission, indicating that the machines had transmitted the data to the totalization center of the CNE, before printing the voting records, with which created a "reasonable technical doubt."

"It is very different that each machine by itself has printed its report and then have connected, which the opposite happened. When you connect it, you open the possibility of getting a virus," She explained<sup>32</sup>.

In other words, Febres Cordero said that this modification of the procedure stipulated by Smartmatic could have allowed an external intervention that would have modified the total results before being printed in the final act of votes.

A short time later, in a statement, the Cantv telephone company admitted the bidirectionality of Smartmatic machines. "Terminal equipment involved establish sessions necessarily of a bidirectional nature, because identification and mutual recognition of machines is required to establish communication," the statement said<sup>33</sup>.

Opposition lawyer Tulio Alvarez denounced that Cantv's admission of the bidirectionality of the voting machines was a violation of the laws elections, which establish that the transmission of data should occur "once the act of scrutiny has concluded "<sup>34</sup>.

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Twenty days after the referendum, two other experts, Ricardo Hausmann, academic at Harvard University, and Roberto Rigobón, researcher at the Massachusetts Institute of Technology (MIT), made another explosive revelation: The mathematical probabilities that electoral fraud had been committed were 99%.

After a statistical analysis of the official data of the CNE, Hausmann and Rigobón found a pattern of "results alteration" in machines that could have been selected at random.

According to the hypothesis of the academics, the fraud would have been committed due to that the CNE's Totalization Center sent information to the machines to modifying the results "intelligently" so that it was difficult to detect.

The preliminary findings of Hausman and Ribogón were confirmed shortly later by a new study by another group of scholars headed by Freddy Malpica, former rector of the Simón Bolívar University.

The study concluded, among other things, that moments before the end of the consultation on August 15, 2004, there was "unusual traffic" and the "transmission bidirectional data in unexpected volumes"<sup>35</sup>.

Experts found that 70% of the voting machines did not behave "In accordance with the expected patterns according to electoral regulations." Revealed also, that either the system was administered "with discretion", or it existed "More than one version of the voting-counting system installed on the machines"<sup>36</sup>.

Both Smartmatic and the CNE responded to the accusations of fraud by ratifying the robustness and transparency of the electronic voting system

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Rodríguez insisted that, although the voting machines had the capacity to send and receive information, the software used “was specially designed to avoid for this to happen”<sup>37</sup>.

Mugica, from his part, once again defended the invulnerability of his technology.

“The source code was verified by independent engineers. It is virtually impossible, with the levels of electronic security and stored copy of each vote issued, that the results are falsified. We couldn't alter them if we tried to do it,” Mugica declared to Florida journalists<sup>38</sup>.

Allegations of alleged fraud multiplied requests to investigate the Smartmatic's performance in the referendum process both in Venezuela and in United States.

In mid-September, the Venezuelan Attorney General's Office informed that they had open an investigation against Smartmatic, due to two specific complaints: its relations with the company Bizta Corp, in which the Venezuelan government maintained a Share package; and the possible vulnerability of the software that was installed in the voting machines<sup>39</sup>.

The opposition's governor of Bolívar state, Antonio Rojas Suárez, said that if demonstrated the commission of electronic fraud, the opposition was going to formalize a petition for investigation against Smartmatic before the North American Congress, invoking a possible violation of one of the United States anti-corruption laws –The Foreign Corrupt Practice Act-, which prohibits companies established in the territory North American participating in acts of corruption abroad.

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“There are a number of irregularities that indicate that the machines were used to manipulate the referendum results, and this manipulation has been enough to change the end of the elections”, declared Cristal Montañéz, coordinator organization of the non-governmental organization Resistencia Civil de Venezolanos Abroad (Recivex), based in Houston, which also requested an investigation congressional jointly with sectors opposed to Chávez<sup>40</sup>.

Other organizations joined Recivex. On August 23, the non-government affiliated Venezuelan Organizations Free Venezuela, from Tampa, and Venezuela Awareness, from Miami, petitioned Florida Democratic Senator Bill Nelson to open a investigation into an alleged electronic fraud of the recall referendum made with Smartmatic machines.

Curtis Reed, director of Free Venezuela, specifically asked Senator Nelson to "use of his influences to initiate an investigation and to pressure Smartmatic to explain in detail all the discrepancies” reported by the opposition<sup>41</sup>.

Despite pressure, requests to investigate Smartmatic it produced no results. However, the controversial participation of the Boca Raton firm in the Venezuelan referendum was just the first chapter of new scandals that Smartmatic was to face.

The unusual ways of Jorge Rodríguez

To the suspicions generated by Smartmatic itself, was added to the behaviour of the rector Jorge Rodríguez before and after the bidding process for the \$ 91 million contract

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which introduced speculation and mistrust about the relationship between the Boca Ratón firm and Chavismo, which were never clarified.

Rodríguez was the son of a leader of the same name [Jorge Rodríguez Sr,] who belonged to the group of EXTREME LEFT SOCIALIST LEAGUE of Venezuela, and who died violently after being arrested by the Venezuelan political police in 1976<sup>42</sup>.

Since Jorge Rodriguez Jr. was appointed in August 2003 as rector of the CNE, Rodríguez has been seen more like a person close to the Chavismo than an independent figure.

Before becoming the inopportune rector, who ordered the automation of the Venezuelan electoral system, known for its lack of patience and irate reactions, Rodríguez privately practiced psychiatry and was a postgraduate professor at the Andrés Bello Catholic University in Caracas. In his youth he was a leader student at the Central University of Venezuela, the largest public university in the country. In that position he cultivated close relationships with other Marxist leaders of the leftist university that would later become important figures of Chavismo, such as the former mayor of Caracas Juan Barreto, and activist Anahí Arizmendi<sup>43</sup>.

It was difficult to imagine that, behind Rodríguez's façade of a cerebral politician, he hid being a lover of literature and was a solid storyteller of short stories. One of his most famous, "Tell me how many rivers are made of your tears"<sup>44</sup>, won in 1998 the prestigious short story contest of the newspaper El Nacional de Caracas, after overcoming other 900 stories that had been submitted for the competition<sup>45</sup>.

His arrival on the political scene occurred in mid-2003, when his name was included among the candidates to integrate the board of the electoral body Venezuelan, with the support of the "V" Republic Movement, founded by Chávez.

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Since Jorge Rodríguez's appointment in August 2003 as president of the Electoral Board Nacional, the body in charge of technically organizing the electoral processes in Venezuela, opposition groups began to notice the remarkable efforts of Rodríguez to obstruct the recall referendum of Chávez's mandate. For example, Rodríguez mandatorily imposed "fingerprint" machines during the process referendum in August 2004, arguing that they prevented the same person will vote several times. But the opposition criticized the decision because it increased the waiting time of voters, and encouraged abstention that favored the government<sup>46</sup>.

Suspicious about Rodríguez increased when one of the CNE female rectors, Solbella Mejías, denounced that the decision to choose Smartmatic had been taken in "secret" meetings<sup>47</sup>.

"Despite my insistence, I was not summoned to any of the meetings held with the other companies, nor attended my oral requests to know the technical and legal reports arising from the mentioned meetings. So, I communicated it to Rodríguez in two briefs sent on December 2, 2003 and January 21, 2004", assured Mejías.

The victory obtained by Chávez in the recall referendum in August 2004 it meant a promotion in the career of rector Jorge Rodríguez. In January 2005, he was appointed new president of the CNE<sup>48</sup>, a position he held for little more than a year.

The opposition's distrust of Rodríguez was of such a high nature that it was the Reason for which the opposition resigned from participating in the parliamentary elections

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Of 2005, in which Chavismo obtained almost absolute domination of the National Assembly.

Suspicious that Rodríguez had a very close relationship with the Chavista regime

were finally confirmed when, in January 2007, he was appointed by Chávez

as the new vice president of Venezuela.

"It is as if the magistrate of the Supreme Court of Justice of the United States, whose

vote placed George W. Bush in the White House, would have some time later

awarded with the position of vice president ", criticized the former minister of communications

Fernando Egaña<sup>49</sup>.

New links between Rodríguez and Smartmatic came to light

after the 2004 hiring.

According to an investigation conducted by this author in late 2005, Smartmatic had

paid luxury services to Rodríguez, then president of the CNE, in a resort

exclusive to Boca Raton.

According to confidential documents, the technology firm had paid Rodríguez and

a companion for the stay, meals and massage services at the Boca Raton Resort

& Club, an exclusive rest complex built in 1926 in the Moorish style, and

frequented by billionaires and stars like Robert Redford, John Travolta,

Oprah Winfrey and Elton John.

In its facilities there is a golf course, a tennis complex and a famous

beauty center -SPA Palazzo- where sevruga caviar massages are applied, and

Exotic herbal cellulite treatments.

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The total hotel bill paid with a Smartmatic credit card, for a amount of \$ 926.76, did not specify what type of massages Rodriguez or his partner received. The figure included payments for breakfasts and lunches and the consumption of the mini bar in room 1765, occupied by Mr. and Mrs. Rodríguez, according to documents held by the author.

The visit of the president of the CNE took place in April 2005, two months before the electoral body will approve a new service contract of \$ 26.2 million to Smartmatic<sup>50</sup>.

The explanations offered, both by the electoral firm and Rodríguez, were conflicting and added more confusion.

One of Smartmatic's spokespersons, Mitch Stoller, sent the author an email explaining that the firm "paid for the hotel expenses of President Rodríguez during your visit to review and evaluate our latest voting system electronics. That payment is customary and appropriate "<sup>51</sup>.

The president of the CNE, for his part, assured that he attended an appointment in Florida in April in order to participate in a work meeting "to evaluate the development of the machine ballot SAE-3300".

"I was lodged in a hotel near the company and I canceled the consumptions according to it appears on receipts in my possession," added Rodríguez<sup>52</sup>.

However, payments to the hotel were made with a credit card belonging to Antonio Mugica, according to documents in the author's possession.

The complaints of Smartmatic's luxury payments to Rodríguez led to a investigation request to the Venezuelan Attorney General's Office, introduced by the



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opposition deputy Oscar Pérez, on the grounds that such practice violated the Law Against the Corruption of Venezuela.

“From whatever angle is examined, the offending official's conduct is unacceptable. If it would have been a trip for service reasons, it would have been enough to obtain per diem of the entity it represents, but in no way behaving as a beggar as he is supposed to maintain an upright, decorum, and dignified conduct that does not leave cracks, since his conduct maintains interests opposed to the National Electoral Council”, indicated the petition introduced by Pérez on December 5 2005.

Jorge Rodríguez and the “Valijagate” [[https://en.wikipedia.org/wiki/Suitcase\\_scandal](https://en.wikipedia.org/wiki/Suitcase_scandal)]

That same year, in August, a journalistic complaint introduced denouncing other elements disturbing about the relationship between Smartmatic, Rodríguez and the Chavista government.

In August 2005, it was revealed that Mugica had participated in a secret meeting in Fort Tiuna, the largest military base in Venezuela, where

President Hugo Chávez, the then president of the CNE Jorge Rodríguez, Vice President José Vicente Rangel and Defense Minister Orlando Maniglia were present, supposedly to guarantee the officialism victory in the parliamentarian's elections of that year.

Unconvincingly, the Chavista deputy, William Lara, denied the meeting

Declaring that the published note did not include "any concrete data" about the alleged meeting<sup>53</sup>.

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A no less explosive and mind-blowing connection about Rodríguez was revealed two years later, in 2007, when he was no longer president of the CNE but vice president of Venezuela.

In Miami, on December of 2007, Moisés Maionica was arrested, a lawyer who had acted at the same time as both Smartmatic's legal counselor and advisor to Rodríguez at the CNE, and who played a role in closing the \$ 91 million contract.

Maionica was arrested and implicated in the Valijagate scandal, the trial initiated in a Miami federal court against a group of Venezuelans who acted as unregistered agents for the government of Hugo Chávez, in a series of operations to

"Hide" the origin of the suitcase with \$ 800,000 seized in August 2007 at Venezuelan American businessman Guido Antonini Wilson, allegedly to finance the campaign of the president of Argentina, Cristina Kirchner.

Maionica was arrested in Miami after organizing several meetings between Antonini and Antonio Cánchica Gómez, an emissary from the Directorate of Intelligence Services and Prevention (Disip), the Venezuelan political police.

The purpose of the meetings was to ensure that Antonini never revealed the true origin of the briefcase with the money, because it could compromise Venezuelan government.

According to documents from the federal trial in Miami, Maionica had confessed to Antonini that his participation in this whole operation began after a conversation that Maionica had

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maintained simultaneously on three way [phone] lines with Vice President Rodríguez and the then director of Disip (National Directorate of Intelligence and Prevention Services), Henry Rangel Silva<sup>54</sup>, in Caracas.

In 2004, Maionica was both a legal consultant for Smartmatic and an advisor to Rodríguez when Rodríguez presided over the Venezuelan National Electoral Board, for the acquisition of the fingerprint reading machines (fingerprint captures) from Cogent Systems<sup>55</sup>.

The relationship between Maionica and Rodríguez was so close that Rodríguez former president of the CNE "used a Nissan armored truck, two BMW cars and an Audi belonging to Maionica, and the Rodríguez returned to Maionica's family once the scandal broke out in Miami"<sup>56</sup>.

Rodríguez's relationships with the briefcase case influenced his dismissal as Vice President of Venezuela by Chávez, and his move to the "ideological reserves" of the United Socialist Party of Venezuela (PSUV).

### **Expansion in the United States**

Just ten days after the electoral process in Venezuela ended, on August 25, 2004, Smartmatic announced that it was negotiating three contracts to sell its election technology in the United States.

As president of the tech firm that was in the eye of criticism, Mugica launched an advertising machine to spread the word that the Smartmatic's automatic voting was not only "the safest in the world", but it was having an international demand that proved its reliability.

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In a full-page advertisement in The New York Times on August 24, 2004, the elections company boasted of having operated an electoral system with "Zero percent margin of error", and "no invalid vote."

The advertisement, published on page 9 of the New York newspaper, defined the Smartmatic electoral system as "the most transparent, secure and auditable electronic voting system of the world"<sup>57</sup>.

To make it clear that the investigations into the actions of the firm had it carelessly, Mugica declared to everyone who wanted to hear it that they were willing to any inquiries about their performance.

"The more research that is done, the better for us. We are open to any type of audits and on any part of the system because we are sure, of what we have", indicated Mugica<sup>58</sup>.

Mugica's interest in laundering its firm signature image was based on a reason of weight: Smartmatic was looking for a slice of the \$ 3.9 billion cake that the North American Congress had approved for fiscal year 2005, in order to help the states of the Union in the transition to electronic voting systems.

The company hired the services of Jack Blaine and Robert Cook, former senior executives of the technology conglomerate Unisys, to lobby Washington for Smartmatic as a trusted election firm<sup>59</sup>.

The result was the acquisition, on March 8, 2005, of the firm Sequoia Voting Systems, based in Oakland, California. Smartmatic paid a total of \$ 16 million by Sequoia, America's oldest manufacturer of voting equipment with More than 100 years of experience.

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The negotiation was led by Jack Blaine, whom Mugica had designated as President of Smartmatic in the United States.

“With the combination of Sequoia and Smartmatic,” predicted Blaine, “we are creating the First truly global leader to offer electronic voting solutions verified by voters”<sup>60</sup>.

The merger between Sequoia and Smartmatic had the objective of “better serving both established democracies like the many new ones that are being born today”, indicated Tracey Graham, president of Sequoia, without a flash of irony.

Nowhere in the official statement was Smartmatic's performance mentioned in Venezuela. Instead, it was noted that the firm had experience in offering voting solutions “in Latin America”.

It was not difficult to glimpse the ambitions of Mugica and Anzola. Sequoia was the oldest election contractor in California, and had clients in 19 other states. On the other hand, since the US government began to promote the transition to electronic voting technologies, more than 1,000 counties in the nation were renewing their electoral systems.

The first big challenge for the new Smartmatic-Sequoia conglomerate came to mid-2005, when it sealed two contracts worth \$ 51.8 million to conduct elections in Illinois.

The first was a \$ 23.8 million agreement with the elections department of the Cook County, signed May 25, 2005. The second was a \$ 28 contract million subscribed with the city of Chicago, on June 1 of that year.

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Both contracts established a hybrid system, combining machines touchscreen and optical readers, under the control of **experts** specially brought by Smartmatic to Chicago.

When the last precinct in Chicago and Cook County closed on primary elections, on March 21, 2006, no one anticipated the final outcome of the working day.

[<https://www.cookcountyclerk.com/sites/default/files/pdfs/Nov2008%20PostElection%20rpt.pdf>]

The electoral technology that had been sold as one of the most advanced in the world ended up causing chaos of such a nature that several days after elections on March 21, more than 400 precincts had not yet vote counting completed.

According to a report from the Joint Committee on the March 21 elections, many of the machines arrived at the premises unprepared. Additionally, 252 used machines had lost their memory cartridges, while the Election officials could not find the voting results in 162 polling places.

The specific technological contribution of Smartmatic, which was the transmission of the data via cell phone, failed in numerous voting centers.

"Instead of sending the final total of the votes via cellular technology, the cartridges with the data were sent by taxi to the central office", the report ironic<sup>61</sup>.

Other flaws were particularly suspicious.

In a precinct historically dominated by Democrats, for example, the machines only counted votes in favor of the Republican party, even though the technicians tried to repair them four times<sup>62</sup>.

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Journalists and observers criticized that the experts in charge of controlling the final counting process were all foreigners, mostly Venezuelans <sup>63</sup>, including Roger Piñate, vice president of special operations at Smartmatic. The electoral failure in Chicago quickly began to produce criticism of the ability Sequoia-Smartmatic in providing reliable service. It also raised questions uncomfortable around the true owners of the conglomerate, not just between journalists and activists who promoted electoral transparency, but between influential Illinois councilors and congressmen.

### **Who controls Smartmatic?**

After the electoral chaos in Illinois, the first to speak out was Councilor Edward Burke, one of the most powerful councilors in Chicago. He was the first to launch the thesis that would later culminate in a controversial federal investigation: the chaos of Sequoia-Smartmatic conglomerate was part of an “international conspiracy to subverting the electoral process in the United States”<sup>64</sup>.

Burke, whose wife was a member of the Illinois Supreme Court of Justice, directly accused Chávez of plotting the conspiracy, as part of his confrontation with then-President George W. Bush.

The councilor also said that 15 participants that had participated in the vote counting process, Were Venezuelan technicians, and suggested the possibility that they had worked in a illegal during the electoral process.

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"I don't know of anyone who could hire a company whose owners are hidden, and whose roots go back to Venezuela, where they have been involved with the dictator of Venezuela, of whom Defense Secretary (Donald) Rumsfeld says that he is an enemy of the United States," said Burke<sup>65</sup>.

In response, Jack Blaine, who had then been appointed as the president from both Smartmatic and Sequoia, assured that there was no connection from the company with the Venezuelan government.

"Chávez's ability to be manipulating the vote in Chicago is impossible," said Blaine. The alleged electoral chaos, he argued, was due to human error rather than to technical problems.

Blaine also said that the attacks against Smartmatic owners were pure discrimination based on stereotypes, just because they are Venezuelans<sup>66</sup>.

From Burke's statements, the question of who were the real owners of Smartmatic and Sequoia began to dominate controversies in United States on the subject.

"If September 11 taught us anything, it is to suspect asymmetric threats by part of hostile entities, regardless of size. We would be ambushed again if the Venezuelan government ends up controlling our elections," warned an editorial of the influential Investor's Business Daily<sup>67</sup>.

The subject was not new. As early as July 2005, during the deliberations to sign the \$ 23.8 million contract with Sequoia, Chicago's Cook County Councilor, Peter Silvestri, raised the question: "Who owns Sequoia?"



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The answer came from David Orr, County Administrative Clerk: "Smartmatic International, which is owned by a Dutch company, owns Sequoia Voting Systems. Some key investors of said Dutch company they are Venezuelans"<sup>68</sup>.

Orr's unexpected revelation, which had played a key role in the decision to hiring the company, led Venezuelan reporters and bloggers to investigate the convoluted connections of Smartmatic in the Netherlands<sup>69</sup>.

The firm had been incorporated in the Netherlands under the name Smartmatic International Holding B.V., on March 18, 1985, and with the aim of "buying, develop and manage properties and assets".

Records indicated that shareholders had made a modification **two decades after** the company's founding, on April 13, 2005. By that date approved the modification of the statutes, and injected a capital stock of 90,000 euros<sup>70</sup>.

The documents of the Amsterdam Chamber of Commerce also recorded as sole shareholder to the firm Amola Investments N.V., a firm incorporated in the registration of the Curaçao Chamber of Commerce, under number 91615. But in the Curaçao commercial registers registration number 91615 did not correspond to Amola Investments, but to a firm with a different name: Smartmatic International Group N.V.

This firm registered in Curaçao had as main directors one of the founders of Smartmatic, Roger Piñate, and two other firms also registered on that island: Curaçao Corporation Company N.V., and the Netherlands Antilles Corporation.

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Company N.V. Both firms registered a total of 28 representatives of other shareholders. These people who were acting on behalf of the true owners were all employees of the Curaçao International Trust Co.

On the other hand, Smartmatic's management in both the Netherlands and Curaçao coincided with the same address of the firm Citco Group, a Dutch conglomerate of financial services that specializes in wealthy clients seeking confidentiality<sup>71</sup>.

Other suspicious connections came to the fore. In addition to using companies European and Caribbean countries to organize a complex corporate structure, Smartmatic also developed links with firms that in the past represented the interests of the Indonesian dictator Suharto, who used a similar maze to hide the origin and destination of the money resulting from administrative corruption<sup>72</sup>.

What appeared as an answer to the question of who were the real owners? was not clear enough with this structure that linked directions and subsidiaries from Boca Raton, Smartmatic headquarters, and Delaware, where it was registered initially, to Caracas, passing through Willemstad, Amsterdam and Oakland, the headquarters by Sequoia.

The structure was more complex. According to corporate documents of Smartmatic to the access to this author, [Smartmatic/Sequoia] expanded its presence to Barbados, where the headquarters was moved for tax reasons, and to the Portuguese island of Madeira, a well-known tax haven in Europe where five executives of the firm are registered as main shareholders<sup>73</sup>.

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Although **Smartmatic's complex proprietary** architecture showed no links visible with the Venezuelan Government, According to Financial Services Experts offshore, structures based in places like Curaçao are frequently designed to “hide and protect the true owners and assets of the company”<sup>74</sup>.

The issue of who was the real owner of Smartmatic, **the buyer of the centenary Sequoia**, soon caught the attention of big media and influential figures of congressmen, who began to take a closer look at the Boca Raton firm.

### **Federal inquiries**

Lou Dobbs, the controversial host of the news channel CNN, broadcasted a program under the title of "Democracy for Sale", warning about the potential penetration into the North American electoral system by a firm with very apparent ties with the [Communist] Venezuelan government.

“We know who we are dealing with, and [Venezuela] is a dysfunctional government that is trying to do precisely the same with the [US] elections, "said Dobbs referring to Venezuela<sup>75</sup>.

Smartmatic's complicated corporate structure caught the particular attention of Congresswoman Carolyn Maloney, Republican Representative for New York, and member of the congressional committee that supervised foreign investment in United States.

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In early May 2006, Maloney asked Treasury Secretary John Snow specifically, to investigate whether the acquisition of Sequoia by Smartmatic, a company suspected of having ties to the Venezuelan government, had been reviewed by the Department of the Treasury and if it had received approval from the Foreign Investments (Committee on Foreign Investments, CFIUS).

In a letter to Snow, Representative Maloney did not beat around the bush and initially expressed concern about "possible Venezuelan government investments in Smartmatic".

"As you can imagine," Maloney told Snow in a grave voice tone, "having a foreign government investing or owning a company supplying voting machinery [equipment] for the United States elections, it could [would] cause concern about the integrity of the elections made with those machines".

The congresswoman wanted to know if the process of buying and selling Sequoia to Smartmatic had been reviewed by CFIUS and if the regulations to protect the interests of the United States.

**The beginning of this investigation coincided with the signing of military cooperation agreements between Chávez and Alexander Lukashenko** [from the Belaya Rus party - a Belarusian public association founded on 17 November 2007 to support ... Communist Party [https://en.wikipedia.org/wiki/Belaya\\_Rus](https://en.wikipedia.org/wiki/Belaya_Rus)], President of Belarus, and the closure [of a bellic business agreement] with Russia of a \$ 1 billion deal for the purchase of **Russian fighter jets**, an agreement criticized by the North American media<sup>76</sup>.

Maloney's pressure was a direct consequence of the controversy that arose over the approval in 2005 of the transfer of management of the ports of New York, New Jersey, Philadelphia, Baltimore, New Orleans and Miami, hitherto controlled by the British Peninsular and Oriental Steam Navigation Company (P&O), to a

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foreign conglomerate **Dubai Ports World**, owned by the Emirates government United Arabs, in exchange for \$ 6.8 billion.

The transfer of control of seven of the largest North American ports to a foreign entity raised the alarm bells in congress, largely due to the congressmen fear that the agreement would make the United States more vulnerable to terrorist attacks.

Eventually, Congress passed legislation aimed at derailing the deal.

signed between Dubai Ports World and P&O, but before it was applied, the government of Dubai decided to cede control of the ports to the **North American firm AIG Global Investment Group**<sup>77</sup>, ending the controversy.

Some analysts established the parallelism between the Dubai Ports World case and Smartmatic, and the seriousness of the acquisition of Sequoia for security of the North American electoral system.

"Congress has spent two weeks overreacting to the news of that Dubai Ports World would operate seven US ports, including Miami, but a better target for congress hysteria would be the acquisition by Smartmatic International of the firm Sequoia Voting Systems, California, whose machines serve millions of American voters, " wrote the journalist Richard Brand<sup>78</sup>.

The negotiation between Sequoia and Smartmatic, held in March 2005, never "Received any scrutiny" by CFIUS to determine if it involved risks for national security, Brand strongly said.

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In fact, Congresswoman Maloney feared that the Treasury Department had skipped a comprehensive review of U.S. security risks in the Smartmatic-Sequoia negotiation, including possible ties with a government hostile to Washington.

“The opaque nature of Smartmatic's ownership is particularly disturbing since Smartmatic has been associated by the press with the Venezuelan government headed by Hugo Chávez, who is openly hostile to the United States,” wrote Maloney in a letter sent to Secretary of the Treasury Henry Paulson in October 2006, to request information on the status of the investigations into the Boca Raton company.

Maloney told Paulson that Smartmatic could pose a US national security risk since electronic machines could be intervened to modify the results.

**Maloney also regretted that until then Smartmatic had "failed to respond totally" to questions about who actually controlled the company<sup>79</sup>.**

**What was at stake was not a small thing. As an election company, Sequoia operated voting machines in 17 states, including four counties in Florida, where Smartmatic headquarters is located. Additionally, it was going to play a role in legislative elections of November 2006, considered key for the elections 2008 presidential elections.**

Some critics feared that if the Venezuelan government was shown to be involved, Smartmatic could be a **Trojan Horse** designed to advance the

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Chávez's anti-American agenda, at the heart of the electoral system of the United States<sup>80</sup>.

The Treasury department made the rare decision to formally initiate the investigation surrounding the sale of Sequoia to Smartmatic. "It is very unusual for the Department of the Treasury back track and investigate a company that has already been sold, but they are doing it in this case, " said Congresswoman Maloney<sup>81</sup>.

**In its defense, Smartmatic argued that the products and services offered by Sequoia were not to be included** "within the parameters of governed affairs by CFIUS", related to national security, Antonio Mugica said in a conference of press in October of that year.

Mugica also insisted again that "no foreign government of any country has ever had shares in Smartmatic".

Jeff Bialos, a Washington attorney for Smartmatic/Sequoia's Boca Raton firm, stated that both Smartmatic such as Sequoia had voluntarily asked the federal government for investigation to clarify the "unfounded accusations" that have affected "Persistently" to both firms.

"The company has a policy of total openness regarding these issues," he said. Bialos<sup>82</sup>.

### **New accusations**

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The panorama of the investigations, however, was complicated when it became known that two other federal agencies had separately initiated new investigations related to Smartmatic and its directors.

Agents from the Department of Internal Revenue Service (IRS) and the Federal Bureau of Investigation (FBI) began to investigate Smartmatic/Sequoia's financial operations seemingly irregular.

A group of people familiar with the internal financial operations of Smartmatic had denounced that the Boca Raton firm had paid a multi-million-dollar commission to a well-known former Venezuelan military in order to obtain a \$ 90 million contract with the Venezuelan National Electoral Council (CNE) to automate voting during the Venezuelan referendum of 2004.

For its part, the IRS sought to establish whether the Smartmatic/Sequoia had stopped paying the treasury more than \$ 12 million in taxes in the last two years, including about \$ 4 million that it had allegedly transferred to the parent holding company in Barbados, from the funds obtained from the second contract it won with the CNE for the 2004 regional elections in Venezuela.

Smartmatic described the accusations as "unsubstantiated allegations", and attributed them to two former employees fired by the firm<sup>83</sup>.

The two federal investigations, initiated in Washington, South Florida and Caracas, tried to determine whether the complex scheme of companies created by Smartmatic in Curaçao, Holland, Barbados and in the state of Delaware, supposedly contributed to the firm evading taxes or if, on the contrary, the operations financial statements were transparent and legal?



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According to the documents to which the author of this book (Casto Ocando) had access, **Smartmatic made seven payments to Morris Loyo, a retired captain in the Venezuelan Air Force with extensive connections in the [Marxist] Chavista government before the recall referendum was held.** The payments allegedly had not been reported to the IRS.

According to the documents, Smartmatic ordered two more payments to Loyo, once the revocation event concluded, that they were declared to the IRS, and that they were part of a contract between Smartmatic and the former military man. This agreement stipulated a sales commission of \$ 1.5 million for helping to secure the short-term contract more than \$ 90 million for the referendum.

In total, the Boca Raton firm paid Loyo \$ 4,128,850 through nine transfers to an account of the ex-military in the Bank Hapoalim B. M. in New York, the papers indicated.

Smartmatic argued that Loyo had worked for the firm as a lobbyist and independent contractor, in order to “help secure election contracts in Venezuela, in the same way that many North American vendors employ state lobbyists and vendors to help win contracts”<sup>84</sup>.

Loyo never responded publicly to this author about the allegations against him.

Another of the FBI investigations concerned a complaint made to that agency in mid-2005 by a former Smartmatic employee, Leonardo Riera, about alleged death threats made against him by Mugica.

Riera had held administrative positions at the company for several years, and it had questioned some administrative practices that it considered irregular.

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The complaints Leonardo Riera alleged that the president of Smartmatic had warned Riera on the “danger” of internal documents being leaked into the public domain. According Riera's testimony, Mugica had also warned him about Smartmatic/Sequoia’s close relationships with Venezuelan National Directorate of Intelligence and Prevention Services (Disip) the political police of the [Marxist] Chavista government.

“I have been threatened with death, and I have reported it to the federal authorities, with which I have actively collaborated in the investigations,” Riera said in an interview with this author (Casto Ocando).

Another employee who refused to identify himself confirmed Riera's allegations and said that had also received a veiled threat from Mugica, and that he feared being subject to retaliation for his criticism of the administrative style of the managers of Smartmatic.

Mugica categorically denied having threatened Riera or any other employee of Smartmatic/Sequoia. “I have not made [death] threats now or ever to any of my employees. Everyone who knows me, most of the employees who know me, know that this is absolutely not in my nature”, assured Mugica.

The top executive of Smartmatic based in part his defense against Riera’s accusations of at the fact that he was a person who professed vegetarianism, due to his opposition to killing animals for food. (bizarre)

“I don't think it is even justified to kill a fish for food. Go against one person is something unthinkable for me”, argued Mugica<sup>85</sup>.

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The investigations headed by the IRS sought to determine whether there had been an alleged tax fraud in two audits of the corporation conducted in 2004 by a Miami accounting firm.

According to a dossier of documents to which this author had access, the Morrison Brown, Argiz & Farra, LLP firm, certified two apparently contradictory audits of Smartmatic's finances during 2004.

According to the first audit, titled "Smartmatic LLC (A Wholly-Owned Subsidiary of Smartmatic International Corp.) Financial Statements", dated December 31, 2004,

the firm had to pay a total of \$ 4,073,809 in income taxes to the IRS obtained from a second \$ 26 million contract with the Venezuelan CNE.

**However**, in a second audit, entitled "Smartmatic International Corporation and Subsidiary (A Wholly-Owned Subsidiary of Smartmatic International Holdings, B.V.), Consolidated Financial Statements", with the same date than in the previous paragraph, the amount to be paid in taxes was reduced to just \$ 479,653, a difference of \$ 3.6 million from the first audit.

***According to the federal inquiry, the change in the amounts to be paid in taxes occurred after a Service Agreement was signed between Smartmatic***

***International Corporation, registered in Barbados as the Headquarters, and Smartmatic LLC, registered in the state of Delaware. The Agreement was signed on March 25, 2005,***

[MUCH] after the "Smartmatic LLC (A Wholly-Owned Subsidiary of Smartmatic International Corp.) Financial Statements", and entitled "Smartmatic International Corporation and Subsidiary (A Wholly-Owned Subsidiary of Smartmatic International Holdings, B.V.), Consolidated Financial Statements", both with the same date of December 31, 2004, operations for which they were paying taxes.

The firm's response on the matter was direct: "Either in 2004 or in any another year, Smartmatic has always paid all your taxes owed and borrowed..."

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in the jurisdictions where it operates. When filing 2004 tax returns and from other years, Smartmatic has always received the advice of the best professionals, including legal and accounting firms," the statement said.

"We have provided and disclosed absolutely all of our transactions," added Mugica.

Smartmatic also reported then that it had declared to the IRS a total near the \$ 97 million in contracts received in 2004, "for electoral work/contracts carried out outside the United States, and by non-US Smartmatic entities".

The findings of the CFIU (Committee on Foreign Investment in the United States), FBI, and IRS investigations were never released.

Before the results of the federal inquiries were made public, Smartmatic made an unexpected announcement.

### **Out of the game**

"Smartmatic Corporation and Sequoia Voting Systems will be charting new corporate directions in 2007 that will position both companies for a broad growth in the world market", declared a Smartmatic statement issued on December 22, 2006, from Boca Raton.

It was the euphemism that the directors of the election firm used to inform on the decision to find a buyer for the Sequoia company, and exit the North American election market.

The announcement actually had another goal: to stop federal investigations into around Smartmatic that had started in mid-2006.

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Smartmatic's announcement came after CFIUS agreed to allow the firm withdraw from the review process in exchange for seeking a North American buyer for Sequoia, said Brookly McLaughlin, a spokeswoman for the Treasury Department. McLaughlin clarified, however, that CFIUS would closely monitor this sales process<sup>86</sup>.

Mugica justified the decision based on the "current concern and the debate public aroused by the fact that foreign companies own American companies in critical areas, such as election technology.

The sale of Sequoia was finally announced almost a year later, in November 2007, **"to a group of American private investors."**

"Smartmatic 'sold' Sequoia Voting Systems to a group of private investors Americans comprised of the current executive management team, led by the President of Sequoia Jack Blaine, and Chief Financial Officer Peter McManemy, " said the official statement of the sale<sup>87</sup>.

In a conceit voice of one who believes himself superior tone, Mugica put an end to the controversial and brief internship of Smartmatic for the US electoral market with a statement:

"After this sales process, Smartmatic, healthier than ever, will concentrate all its efforts in the international market, capitalizing on the enormous, missed opportunities it offers. Our clients in the rest of the world will benefit before our latest developments, as we are able to bring our products to market sooner. When the United states market is ready to embrace some of the innovations we have planned to the future, we will love to help again. "

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Significantly, the controversy generated by Smartmatic in the American electoral field helped overwhelmingly pass the Investment Law

Foreigners and National Security 2007 (FINSA), not by chance corrected

by Congresswoman Maloney<sup>88</sup>. <https://www.congress.gov/110/plaws/publ49/PLAW-110publ49.pdf>

Thanks to Maloney and the controversy generated by cases like Dubai Ports World and Smartmatic, FINSA radically changed the investment review process controlled by foreign persons or governments in the United States<sup>89</sup>.

### **Tragedies and legal problems**

On April 28, 2008, tragedy knocked on the door of Smartmatic, the firm of elections, in an episode that did not stop producing scandal in Venezuela and United States.

The small plane where the vice president of Smartmatic, Alfredo Anzola, was flying, which had just departed on the morning of Monday the 28th from the international airport of Maiquetía, in the Venezuelan capital, on the way to the island of Curaçao, precipitated to land, falling on a group of humble houses in Catia La Mar.

Anzola, 34, was taken to a nearby hospital in a helicopter sent by orders of the Governor of the Miranda state, Diosdado Cabello, considered one of the most powerful men in Chavismo.

[Cartel de Los Soles [https://en.wikipedia.org/wiki/Cartel\\_of\\_the\\_Suns](https://en.wikipedia.org/wiki/Cartel_of_the_Suns) ]

Anzola died the next day due to serious injuries. Before passing away, he received the visit of Jorge Rodríguez, former president of the CNE, whose relations with Smartmatic did not stop provoking criticism<sup>90</sup>.

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Among the other five deceased was Mario Donati, 43, who was the pilot of the aircraft.

As later revealed, Donati had a remarkable criminal record. Had been sentenced in February 1999 by a Florida federal court to three years prison on drug trafficking charges.

After serving the sentence, he was convicted in another case for illegal transportation of drugs in Venezuela, where he was granted probation in April 2007, but with a ban on leaving the country <sup>91</sup>. It was never known why Donati was piloting the aircraft that took Anzola to Curaçao.

Even the sale of Sequoia by Smartmatic did not end the controversy in around the election company. The legal sales process did not separate a company from the other, but changed the terms of the relationship through, once again, complicated legal procedures to conceal the nature of the ties.

Such connections, however, came to light during a commercial trial in the Court of the Chancery of the State of Delaware, where Smartmatic is registered.

According to the judgment of the Delaware Court, after the alleged sale of Sequoia to a group of investors led by Jack Blaine, Smartmatic retained a promissory note worth \$ 2 million in shares

of Sequoia, which could be sold to a third party if a number of conditions were met.

The sale of these notes finally took place in April 2008, when Smartmatic

negotiated with Hart InterCivic Inc., the fourth largest election firm in

United States, based in Austin, Texas. The sales agreement, approved by Sequoia,

forced the Texas firm to pay \$ 7 million to Smartmatic in a first disbursement,

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as well as 40% of Hart and Sequoia's combined net income for the following five years (through 2013), promising to pay at minimum \$ 9 million in those five years, to complete the value that Smartmatic had paid for Sequoia in 2005, of \$ 16 million<sup>92</sup>.

The agreement, reached after a hostile attempt to control Sequoia by the Texas company, included Hart InterCivic's commitment not to compete with Smartmatic in the elections market throughout Latin America, the Philippines and Belgium. Smartmatic's negotiations with Sequoia and Hart were monitored by the Congressman Maloney to determine whether it constituted a violation of the Boca Raton firm to completely disengage from Sequoia, and exit the market American Election <sup>93</sup>.

A second legal trial, this time in New Jersey, revealed new details that Smartmatic wanted to keep hidden.

The trial began as a result of the spectacular failures of the machines touch-sensitive devices provided by Sequoia, during the February 5, 2008, when the primaries for the presidential elections of that year, an event known as Super Tuesday.

That day, the Sequoia machines did not turn on in many places, while in others they totaled votes wrongly.

Even the governor of New Jersey himself, John Corzine, was forced to wait 45 minutes until the machine in its electoral precinct, with Smartmatic, allowed him to exercise his right to vote<sup>94</sup>.



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In another circuit, the machines changed the votes cast for the candidate Democrat Hillary Clinton, in favor of her opponent Barack Obama, then candidate favorite for presidential elections<sup>95</sup>.

On April 8, 2008, Senior Judge Linda Feinberg ordered officials from elections in six New Jersey counties deliver the 60 machines that made counts that did not match the votes cast.

The judge, Linda Feinberg, intended to order a group of experts to evaluate the machines and determine if they could be intervened to modify the votes.

Sequoia reacted by stating that it was going to fight legally to prevent the secrets of the machines were revealed after the investigation, arguing that this would constitute a violation of intellectual property.

Actually, the intellectual property rights of the touchscreen machines of ballots sold by Sequoia were under the control of Smartmatic, as admitted the president of Sequoia himself, Jack Blaine<sup>96</sup>.

In other words, although both companies had parted ways in 2007, the thousands of machines sold by Sequoia in 17 states of the Union were operated with the software and hardware conceived and produced by Smartmatic, similar to those used in the questioned electoral processes in Venezuela.

### **International scene**

Although Smartmatic 'ceased' operations in the United States in 2007, its activities International organizations continued to have resonances in North American territory.

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In 2009, Smartmatic was able to secure contracts for more than \$ 200 million to participate in public bidding related to electoral technology in countries such as Bolivia, the Philippines, Mexico, Zambia and Belgium.

In Mexico, the owners presented the firm as of Dutch origin, and obtained a contract to provide biometric technology to the Secretary of Government (Segob) for the manufacture of identity cards, despite not having with experience in the field<sup>97</sup>.

In May 2010, a group of Philippine citizens who were also American citizens, led by businesswoman Loida Nicolas-Lewis, presented a request in a letter sent to US congressmen and the president himself Barack Obama<sup>98</sup>.

The group of Filipino Americans wanted help from the US government to investigate the convoluted structure of the conglomerate, and the use of signatures in the Netherlands, Curaçao and Barbados to hide the true ownership of the conglomerate.

In 2009 Smartmatic established an alliance in the Philippines with the firm TIM Corporation in order to enter into a contract for about \$ 150 million to modernize the system Filipino electoral. The Smartmatic-TIM company won the bid and conducted several electoral processes. Accusations of improper operations of several of the machines provided by Smartmatic reached the Philippine Congress<sup>99</sup>.

In Belgium, the Smartmatic won a ten-year contract to organize municipal elections, but soon began to face problems, as Belgium authorities announced they would not make the first payment on that contract. The reason: Smartmatic elections systems failed repeatedly without any explanations <sup>100</sup>.

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The problems in the Philippines and Belgium, which in 2013 continued to generate debate and legal battles, did not inhibit Antonio Mugica, to revisit the idea of returning to lucrative North American election market.

Mugica ardently defended the "successful" trajectory in Venezuela and the commitment of the controversial Venezuelan firm to provide advanced technology elections, "no matter how poor the nation is or how tainted its culture is past politics", in an article published on The Hill's website in October 2012<sup>101</sup>.

The article generated a wave of criticism and a broad reminder about the suspicions around the true owners of Smartmatic that had caused their departure from United States <sup>102</sup>.

The versions that a part of the stocks of Smartmatic were under direct control Of President Hugo Chávez were never confirmed. But at the time of the exit of Smartmatic from the North American market, another kind of business that were controlled directly by the revolutionary commander were already penetrating important sectors of the United States, not with the help of technology advanced, but with the power of one of the most sought-after raw materials or commodities: oil.

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