

Fraud Awareness Newsletter

Volume 97-03

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Courtesy of the
Department of Defense
Office of the Inspector General
Defense Criminal Investigative Service
Central Field Office



This newsletter is intended to enhance your awareness of fraud involving the Department of Defense (DoD) and what is being done about it. By being better informed you will be better able to help us combat these illegal activities. These articles are based on press releases and public information.

Prosecutions

Unpaid Subcontractors

An indictment was returned against John Davis Construction and Supply, Incorporated (Davis), Urbana, OH, charging the company with making a false statement to the Government. Davis, a small disadvantaged, minority-owned business was awarded a U.S. Army Corps of Engineers contract worth \$2.2 million to maintain and repair bituminous pavements and drainage systems at the Defense Supply Center Columbus, OH. The company submitted invoices to the Government for work completed and submitted prompt payment certifications indicating it was paying all its subcontractors. Davis allegedly failed to

pay some of its subcontractors for work on the contract and owes them approximately \$76,741. Special Agent Michael Hampp, Columbus Resident Agency (RA), is conducting the investigation with the U.S. Army Criminal Investigations Command (USACIDC).

Health Care Insurance

A 33-count indictment was returned against Dr. Laurence McKinney, a former obstetrician-gynecologist and Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) provider in Hilo, HI. McKinney is charged with 16 counts of mail fraud, 16 counts of submitting false claims and 1 count of witness tampering. McKinney allegedly submitted false claims to CHAMPUS, the Hawaii Medical Service Association and Medicaid. He obtained over \$55,000 by allegedly instructing his staff to submit claims for "no show" visits, falsely representing that the patient was treated for a specific illness; by using a registered nurse to render services to his patients, then submitting claims falsely certifying he had pro-

vided the services. McKinney also allegedly attempted to influence and prevent the testimony of a witness before a Federal grand jury. Special Agent Lynn Lowe, Hawaii Post of Duty (POD), is conducting the investigation with the Federal Bureau of Investigation (FBI) and the State of Hawaii Attorney General Medicaid Investigation Division.



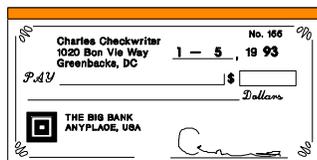
Obstruction of an Audit

A six-count indictment was unsealed that charges Grimco Pneumatic Corporation (Grimco), formerly the David Grimaldi Company, and its president, David Grimaldi, Jr., with obstruction of Federal auditors, obstruction of agency proceedings and false claims. Grimco makes machinery equipment and components for commercial and Government customers, including the DoD. The Naval Air Engineering Center, Lakehurst, NJ, awarded Grimco a contract to

manufacture 156 MK-7 retractable sheave assembly installation kits and 38 MK-7 interim spare kits. The retractable sheave assembly is a component of the system used to snare aircraft when landing on deck. The installation kits were used to upgrade the retractable sheave assemblies during overhauls, while the spare kits were used to conduct repair and replacement while at sea. Grimco and Grimaldi allegedly supplied parts that did not conform to military specifications and provided false information in response to an Office of Inspector General (OIG), Department of Defense (DoD), subpoena. Special Agent Stanley Newell, New Jersey RA, is conducting the investigation with the Naval Criminal Investigative Service (NCIS).

Forgery

An information was filed against Elizabeth Knight charging her with one count of mail fraud. The information alleges that Knight, as vice president of Rylco Rubber Products, Incorporated, Trenton, NJ, allegedly forged a DoD quality assurance representative's signature and stamp on claims for payment submitted to the DoD. The contracts, to supply the Military Services with rubber products, totaled approximately \$60,000. Special Agent Charles Dick, Northeast Field Office (FO), is conducting the investigation.



Kickbacks

Jeffrey S. Milliron pled guilty to paying kickbacks. Milliron, as the president of Preferred Diagnostics, Incorporated, Winter Park, FL, made payments for patient referrals from various health care providers throughout Florida, including patients covered by CHAMPUS. Special Agent Robert Calvert, Orlando RA, conducted the investigation with the U.S. Postal Inspection Service, the Department of Health and Human Services (HHS) and the IRS.

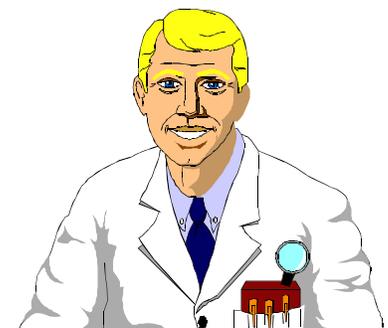
Kickbacks

An information was filed against Ward Torrans, former owner of Commercial Box and Lumber Company, Texarkana, TX, charging him with conspiracy to commit major fraud against the Government and mail fraud. Torrans immediately pled guilty to the charges. For some 20 years, Torrans' company supplied wooden pallets and ammunition packing boxes to Martin Marietta Ordnance Systems, Incorporated (MMOS), Milan, TN. The MMOS was the operating contractor of the Milan Army Ammunition Plant, Milan, TN, a Government owned/contractor operated ammunition plant. Commercial Box and Lumber Company ceased operation about 1994. The MMOS was purchased by General Dynamics Corporation in January 1997. An investigation of the MMOS Contracting Office determined that Torrans conspired with former MMOS purchasing agent, Bobby Joe Vasquez, and former MMOS purchasing manager,

Carl Bryant, to rig the award of over \$10 million in purchase orders from about 1984 to 1994. During this period, Torrans paid at least \$100,000 in kickbacks to Vasquez and Bryant. Special Agent Robert Winfield, Nashville POD, is conducting the investigation with other task force members from the FBI, the Internal Revenue Service (IRS) and the USACIDC.

Health Care Insurance

Ronald R. Rowe, former managing director of Two Rivers Psychiatric Hospital, Incorporated (Two Rivers), Raytown, MO, pled guilty to a two-count information filed on the same date. Rowe knowingly and willfully authorized the write-off of two CHAMPUS beneficiaries cost shares, which enabled Two Rivers to convert for its own use funds it obtained from CHAMPUS to which it was not entitled. Rowe was previously indicted for paying Swaran Jain, Ph.D., approximately \$41,500 in exchange for referring patients to Two Rivers during 1990 through 1991. Under a plea agreement, the charges in that indictment will be dismissed when Rowe is sentenced for the above plea. Special Agent Troy Bird, Kansas City RA, conducted the investigation with the FBI.



Kickbacks

Nicholas Montgomery pled guilty to one count each of mail fraud and filing a false tax return. Montgomery, a Thriftway Supermarket store manager, received kickbacks from a salesman of Butler Foods in return for ordering products from that company. The kickbacks from 1992 to 1995 totaled nearly \$34,000. Subsequently, Montgomery filed a false tax return for 1994 in which he underreported total income by about \$10,048. The investigation continues into Butler Foods representatives alleged bribery and kickback payments to commercial and DoD food managers. Special Agent Heather Zimmerman, Northeast FO, conducted the investigation jointly with the FBI and the IRS.

Product Substitution

O'Brien Gear Company, Incorporated (OBCO), Highland Park, IL, pled guilty under a plea agreement to one count of mail fraud. The company and its quality manager, Harold Clark, were originally indicted on wire and mail fraud charges. Since 1990, OBCO knowingly supplied nonconforming items to the DoD under several purchase orders awarded to OBCO by the Defense Supply Center Columbus, Columbus, OH. Clark falsely claimed on certificates of conformance that the nonconforming items met the required Government specifications. Special Agent Michael Hampp, Columbus RA, conducted the investigation jointly with the FBI.

Performance Bonds

Joel Wisse and David Novick, MGA Bonding and Assurance Services (MGA Bonding), Phoenix, AZ, pled guilty to one count of conspiracy and one count of furnishing a false statement to the Government, respectively. MGA Bonding, acting through its corporate agent and employee, Wisse, pled guilty to one count of furnishing a false statement to the Government. An investigation disclosed that Wisse, Novick and MGA Bonding furnished false statements in support of bid, payment and performance bonds for construction contracts on DoD military installations throughout the country. Special Agent Jeffery Arsenault, Phoenix RA, conducted the investigation with the FBI, the US-ACIDC and the Air Force Office of Special Investigations (AFOSI).



Bid Rigging

Sam Winer Motors, Incorporated (SWM), entered a guilty plea to violating the Sherman Antitrust Act. The plea was the result of an agreement between

the Department of Justice and Sidney Zetzer, president of SWM. An investigation disclosed that SWM conspired with other companies to rig bids and offers to purchase surplus military equipment from the Defense Reutilization and Marketing Service at its auctions. Special Agent Joseph Klemmer, Northeast FO, conducted the investigation with the NCIS.



Freight Fraud

Sharon Trace, Chambersburg, PA, pled guilty to making and using false documents in the performance of her official duties. Trace was a freight classification specialist at Defense Depot Letterkenny, PA. She admitted to creating, altering and using freight documents, including carrier release orders, that resulted in her favored freight carriers being substituted for those officially authorized to haul the freight. Trace's actions, from January 1992 through June 1995, resulted in the Government paying over \$500,000 more for the freight hauling jobs. Special Agent Richard Marr, Northeast FO, conducted the investigation with the FBI.

Gratuity

Francis "Butch" Oseby was convicted of conspiracy and payment of a gratuity. Oseby and others were authorized screeners of Federal excess property for use by various tribal Indian reservations. During an approxi-

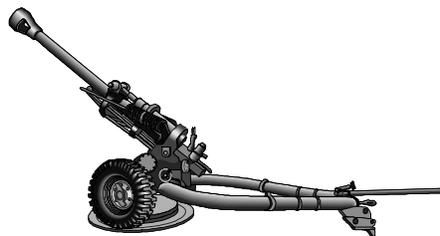
mate 3-year period, Oseby and others conspired to divert Federal excess property obtained from various Defense Reutilization and Marketing Offices for their use and sale. Most of the property, valued at over \$80 million, was never transferred to an Indian reservation. Special Agent Randal Stewart, El Segundo RA, conducted the investigation with the FBI, the NCIS, the General Services Administration and the Department of Interior.



Ambulance Charges
Quality Ambulance Services, Incorporated (Quality), War, WV, Roger D. Gibson, president of Quality, Woodrow W. Ward, Dianna L. Lambert and Brian D. Brandy pled guilty to mail fraud. Gibson and employees of Big Creek Volunteer Rescue Squad (Big Creek), War, WV, an ambulance service that operated under Quality, submitted false health care claims to CHAMPUS and Medicaid. Gibson used Quality and Big Creek to falsely bill for medically unnecessary ambulance runs, ambulance trips without the required qualified personnel and ambulance trips that did not occur. Special Agent James Walker, Pittsburgh POD, conducted the investigation jointly with the OIG Medicaid Fraud Control Unit, Charleston, WV, and the West Virginia State Police Bureau of Criminal Investigations.

Sentences Certificates of Conformance

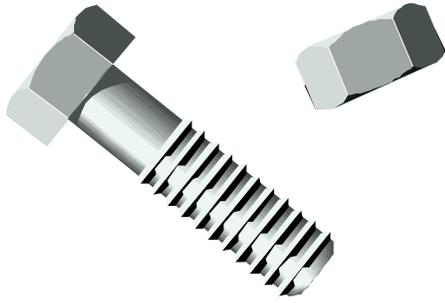
Jack Edward Cook, secretary/treasurer, Toolco Industrial Supply, Incorporated, Lilburn, GA, was sentenced to 2 years probation, a \$2,250 fine and a \$25 special assessment for submitting false demands against the United States. An investigation was initiated based on information from a DoD quality assurance representative who suspected Cook of submitting false certificates of compliance on Defense Supply Center Richmond, VA, contracts. It was determined that Cook fabricated at least eight different certificates of compliance indicating miscellaneous industrial tools had been purchased from manufacturers capable of meeting contract specifications. Actually, Cook was not sure where he had purchased the tools. Civil and administrative action is being considered. Special Agent Michael Northrup, Southeast FO, conducted the investigation.



Arms Export Control Act
Armaments Corporation of South Africa, Limited (Armscor), Kentron, Proprietary Limited (Kentron), and Fuchs Electronics, Proprietary Limited (Fuchs), pled guilty in U.S. District Court, Philadelphia, PA.

Armscor and Kentron pled nolo contendere and Fuchs pled guilty to aiding and abetting and unlawful export of defense articles in violation of the Arms Export Control Act and the International Traffic in Arms Regulations. The same date, Armscor was fined \$1 million and a \$200 special assessment fee. Kentron was sentenced to a \$500,000 fine and a \$200 special assessment fee. Fuchs was fined \$11 million and a \$2,200 special assessment fee. These fines bring the total recoveries in this case to over \$18.7 million. Armscor, a corporation owned by the Republic of South Africa (RSA), was established in 1968 to meet the armament needs of the RSA and, as such, controlled all procurement and production of armaments by RSA. Kentron, located in Pretoria, South Africa, is a subsidiary of Armscor. Fuchs, located in Transvaal, South Africa, designed and manufactured ordnance and explosive devices for Armscor. The three companies engaged in a massive smuggling operation of U.S. armaments, munitions and weapons technology with International Signal and Control Company, Lancaster, PA, to enhance Armscor's inventory and to market weapon systems to third world countries. Special Agent Susan Clowry, Northeast FO, conducted the investigation with the FBI, the IRS and the U.S. Customs Service.





Fasteners

Ivan Dayle North, former owner of Air Space Supply, Incorporated (Air Space), was sentenced in U.S. District Court, Fort Worth, TX, to 51 months in prison, 3 years supervised release and a \$400 special assessment for mail fraud. An investigation found that North defrauded various businesses by providing them with inferior nonconforming fasteners and parts, accompanied with invoices and certifications that falsely represented the parts met military specifications. The parts were purchased from Air Space to fulfill various production and aircraft requirements, including DoD contracts and subcontracts. Special Agent Joan Piro, Southwest FO, conducted the investigation with the NCIS.

Identification Cards

Douglas Lambert was sentenced to 3 years probation, a \$100 fine and a \$100 special assessment fee for possession and use of a fraudulent military identification card and use of an unauthorized access device. Lambert was involved with a ring of individuals that defrauded several financial institutions throughout Pennsylvania, New Jersey and Delaware. The ring used counterfeit military

identification cards and state driver's licenses to obtain instant credit. The loss attributed to this fraud exceeds \$20,000. Special Agent Kathleen McHale, Northeast FO, conducted the investigation jointly with the U.S. Secret Service.



Civil Informations Tank Ammunition

A seven-count civil complaint was filed against Alliant Technologies, Incorporated (Alliant), Hopkins, MN, that seeks treble damages of approximately \$575,000 for violations of the False Claims Act and the Truth in Negotiations Act. Alliant allegedly failed to provide U.S. Army negotiators with the most current, complete and accurate cost and pricing data for a purchase of M829-A1 120mm tank ammunition. As a result, the Government paid inflated prices for the ammunition. Alliant allegedly deceived Government negotiators into believing the higher prices were accurate by stating the parts were being purchased for higher prices, as negotiations with vendors for lower prices were unsuccessful. In fact, agreement on a lower price had already been reached with its vendor. Alliant also allegedly whited out language about their vendor agreement for specific lower prices from one

document before submitting it to the Government. Special Agent Kevin Gjertsen, Minneapolis POD, conducted the investigation jointly with the USACIDC, with audit assistance from the Defense Contract Audit Agency.

Civil Settlement Unnecessary Tests

A civil settlement of \$325 million was reached with Smithkline Beecham Corporation (Smithkline), a British based multinational corporation. The settlement resolves all civil claims under the False Claims Act regarding practices engaged in by the Smithkline Beecham Clinical Laboratories (SBCL), a division of Smithkline. The SBCL, headquartered in Philadelphia, PA, uses approximately 26 clinical laboratories across the country. The settlement is the result of an investigation into allegations that SBCL engaged in practices that deceived physicians into ordering unnecessary tests in order to obtain greater reimbursement from CHAMPUS, Medicare, Medicaid, the Railroad Retirement Board and the Federal Employees Health Benefits Program. The focus of the investigation and the basis for the settlement included unbundling/fragmenting of components comprising clinical test profiles, fabricating test codes and double billing for tests not performed. Special Agent Wallace Young, Northeast FO, conducted the investigation with the FBI and the HHS.



To report suspected fraud involving to Department of Defense or to comment on this newsletter please contact the nearest Defense Criminal Investigative Service office. The addresses and telephone numbers of the offices that are part of the Central Field Office are listed below.

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8000 Maryland Avenue
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CHICAGO Resident Agency
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Telefax: (847) 827-3724

CLEVELAND Resident Agency
7550 Lucerne, Suite 200
Islander Park One Building
Middleburg Heights, OH 44130
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Telefax: (216) 522-7196
FTS: 942-2296/7

COLUMBUS Resident Agency
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Columbus, OH 43213-0163
Physical Location:
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Columbus, OH 43213-5000
Voice: (614) 692-3629/3855
Telefax: (614) 231-8905

DAYTON Resident Agency
3055 Kettering Blvd.
Suite 205
Dayton, OH 45439
Voice: (937) 534-0100
Telefax: (937) 534-0117

KANSAS CITY Resident Agency
Federal Building, Room 565
500 State Street
Kansas City, KS 66101-2433
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