

Fraud Awareness Newsletter

Volume 97-05

March 15-31, 1997

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

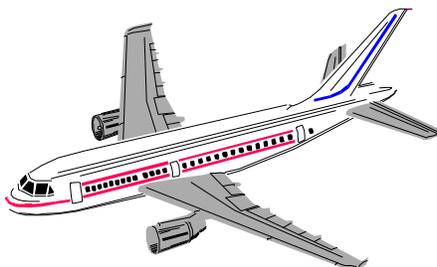


This newsletter is intended to enhance your awareness of fraud involving the Department of Defense (DoD) and what is being done about it. By being better informed you will be better able to help us combat these illegal activities. These articles are based on press releases and public information.

Prosecutions Mental Health

A 166-count indictment returned against Andrew S. Shankman, Thomas E. Davidson, Michael E. Davidson, Mary Jane Pedrick and Shankman/Davidson Psychiatric Management, Incorporated (Shankman/Davidson), was unsealed. They are charged with conspiracy, mail fraud, wire fraud, dispensation of controlled substances and money laundering in a scheme to defraud Government programs, including the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS). Shankman, a licensed psychiatrist in Georgia and Florida, allegedly employed unlicensed and unqualified therapists to provide mental health services to beneficiaries of Medicare and Medicaid, then billed those programs as if he provided the services. Shankman and Thomas

Davidson owned and operated Shankman/Davidson. Its main office was on St. Simons Island, GA. From 1989 through 1995, Shankman/Davidson operated at least 12 offices and at least 60 nursing homes in Georgia and Florida. From 1992 through 1995, Shankman/Davidson received over \$5.2 million from the Government programs. Special Agent Marian Bridgman, Southeast Field Office (FO), conducted the investigation jointly with the Federal Bureau of Investigation (FBI), the Internal Revenue Service (IRS) and the Georgia Department of Medical Assistance and Secretary of State's Office.



Aircraft Parts

A 27-count indictment was returned against Ronald Drellich, president of Federal Air Accessories (Fed-Air), Hollywood, FL, charging him with selling aircraft parts that were not manufactured in accordance with Federal Aviation Administration (FAA) regulations. During an investigation to identify compa-

nies in south Florida dealing in bogus aircraft parts, it was determined Drellich was allegedly supplying bogus aircraft parts to FAA certified repair stations. The Original Equipment Manufacturer determined that intensive generator parts purchased from Fed-Air were not approved nor airworthy. A review of records seized from Fed-Air showed that Fed-Air had supplied aircraft parts to the U.S. military. Special Agent Charles Suttles, Fort Lauderdale Post of duty (POD), is conducting the investigation with the FBI and the Department of Transportation (DoT).

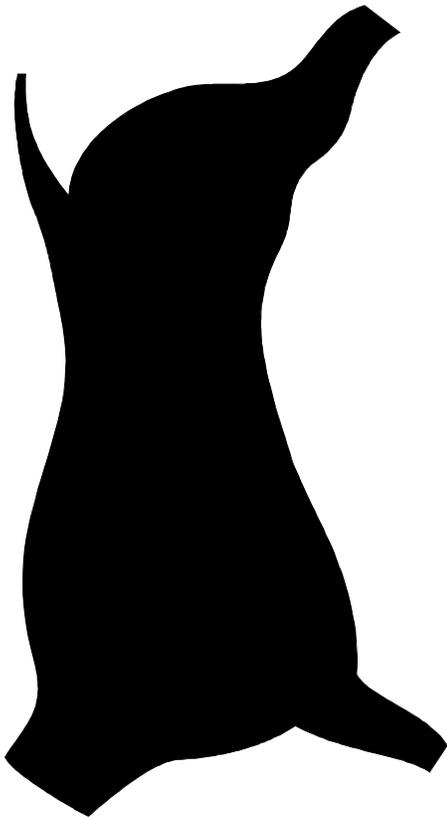
Progress Payments

A 13-count indictment was unsealed that charges George Varrato, Sr., president of Mil-Spec Manufacturing Company, Incorporated (Mil-Spec), Clearwater, FL; Kenneth Varrato, Sr., vice president; Julie Brewer Varrato, his wife; and George Varrato II, quality assurance manager, with conspiracy to defraud the DoD, major fraud against the United States, and obstruction of justice. Mil-Spec manufactured M20 "simplified collective protective equipment" (SCPE) under three U.S. Army contracts totaling over \$13 million. The M20 SCPE portable shelters were designed for field deployment to provide American forces a safe environment during a chemical or biological attack. The defendants allegedly devised a scheme to submit fraudulent progress payment requests to the Army in regard to the SPCE contracts. Special Agent Anthony Hagemeyer, Orlando Resident Agency (RA), is con-

ducting the investigation with the IRS and the U.S. Army Criminal Investigation Command (USACIDC).

Product Substitution

An indictment was returned against Integrated Manufacturing Solutions, Incorporated (IMS), Cincinnati, OH, Wiltec, Incorporated (Wiltec), Cincinnati, OH, and Milton Timothy Garvin, owner of IMS and Wiltec, charging them with one count of conspiracy and four counts of mail fraud. From 1989, Garvin, through Wiltec and IMS, allegedly knowingly supplied nonconforming parts to the Department of Defense (DoD) and directed his employees to falsify inspection records to cover up that fact. Special Agent Michael Hampp, Columbus RA, is conducting the investigation jointly with the FBI.



Adulterated Meat

A 28-count indictment was returned against Gerson Cohen, a

salesman for Butler Foods, Philadelphia, PA, charging him with 25 counts of mail fraud and 3 counts of filing a false tax return. In addition, an information was filed against David Choroser charging him with one count of filing a false tax return and one count of selling adulterated meat. An investigation of Butler Foods representatives disclosed that Choroser and Cohen received a cash salary from their employer, Butler Foods, which allegedly was not reported to the IRS. Choroser was also involved in a scheme to sell misbranded meat products to customers of Butler Foods and Cohen was involved in a scheme in which he paid kickbacks to numerous commercial customers in exchange for purchasing meat products from Butler Foods. The investigation is continuing into the alleged bribery and kickback payments by Butler Foods representatives to commercial and DoD wholesale food managers. Special Agent Heather Zimmerman, Northeast FO, is conducting the investigation with the FBI, the IRS and the U.S. Department of Agriculture.

Fraudulent Resume

A pretrial diversion was filed against Anna M. Granberry, a military dependent residing at Fort Polk, LA, for falsification of official employment records while employed with the Defense Commissary Agency (DeCA). Granberry, a DeCA clerical employee, altered records obtained from her official personnel file at the DeCA to enhance her qualifications for a promotion for which she was competing. She also submitted a false application to the Defense Supply Center, Richmond, VA, and to the Civilian Personnel Office, Fort Polk, when applying for a DoD position at the Fort Polk Hospital. Special Agent

Anthony Burnell, New Orleans RA, conducted the investigation with the USACIDC.

Kickbacks

An information was filed against Dennis Baugher charging him with six counts of receiving kickbacks and one count of Federal income tax fraud. Baugher, former owner/operator of the Florida Impotence Clinic, Fort Meyers, FL, allegedly received payments for patient referrals to a diagnostic services company. Some of the patients were covered by CHAMPUS. Special Agent Robert Calvert, Orlando RA, is conducting the investigation with the IRS, the Health and Human Services (HHS) and the U.S. Postal Inspection Service.



Product Substitution

In accordance with a plea agreement, AeroParts Manufacturing and Repair, Incorporated (AeroParts), Rio Rancho, NM, pled guilty to a one count information filed the same date and agreed to pay \$302,646 to resolve charges of making false statements to the U.S. Government. Prior to relocating to New Mexico, AeroParts was chartered under the laws of California under the name California Aero Dynamics Corporation (CADC), Sun Valley, CA. An investigation determined CADC/AeroParts falsely certified that C-141 nose ring cowling inner skins sold to the Government under a U.S. Air Force contract complied with applicable military specifications. Actually, numerous undocumented and unauthorized welding repairs had been performed on several

parts. Special Agent Jeffery Fauver, Albuquerque POD, conducted the investigation jointly with the FBI and the Air Force Office of Special Investigations (AFOSI).



Health Care

Vendell of Florida, Incorporated (Vendell), Fort Walton Beach, FL, and Rivendell of Bay County, Incorporated (Rivendell), Panama City, FL, pled guilty to an information filed the same date that charges each with one count of conspiring to defraud the United States. Between January 1, 1992 and August 9, 1995, Vendell, Rivendell and others conspired to defraud the United States by falsifying the medical necessity of patient admissions to, or continued participation in, programs operated by Vendell and Rivendell. The conspiracy included paying kickbacks to medical professionals in exchange for referring patients to these programs, knowingly allowing a medical professional who was excluded from participating in Federal health benefits programs to treat patients covered by these programs, and submitting claims

and other reports to CHAMPUS, Medicare, the Federal Employees Health Benefits Program and private insurers for these medically unnecessary, unrendered or unallowable services. Special Agent Craig Bruekman, Pensacola POD, conducted the investigation with the FBI, the HHS and the Office of Personnel Management, with audit assistance from the Defense Contract Audit Agency (DCAA).

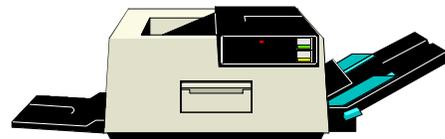
Health Insurance

Henry Edward Eugene Bonham, M.D., and Beverly LaRae Bulger, his long time office manager, were each convicted on 22 counts of mail fraud and 1 count of conspiracy to commit mail fraud and file false claims. Bonham was also convicted of one count of submitting false claims to the Government. An investigation disclosed that Bonham submitted claims to insurance programs for unrendered services or services rendered by unauthorized persons and received payment from hospitals for patient referrals. The insurance programs included CHAMPUS, Medicare and Medicaid. It was also determined that Bulger received payment from certain hospitals for little to no services performed as a "geriatric liaison" for patients Bonham referred from nursing homes to those hospitals. Special Agent Karen Shifflett, Southwest FO, conducted the investigation with the IRS and the HHS.

Computer Theft

William D. Smith, a former computer technician for Inter-Lock Resources, Incorporated, St. Louis, MO, pled guilty to one count of interstate transportation of stolen property. In December 1994, Smith stole a Mitsubishi Sublimation full color printer, valued at \$18,000, from the DoD Plant Representative's Office at the McDonnell

Douglas Corporation, St. Louis, MO. He then transported the printer to Illinois where it was sold. Special Agent Patrick Reidy, Central FO, conducted the investigation with the FBI.



Kickbacks

Dr. Anis Hussein Makarem, Institute of Laboratory Medicine (ILM), was convicted on California State charges of offering and paying remuneration for referral of Medi-Cal recipients to ILM. During the investigation, fictitious patient names were submitted to Makarem for laboratory tests; in return, Makarem delivered a check for \$2,000 as a kickback for referring CHAMPUS, Medi-Cal and Medicaid business to ILM. Special Agent Brian Cusumano, Van Nuys RA, conducted the investigation with the HHS and the Bureau of Medi-Cal Fraud, Office of the Attorney General, State of California.

Air Quality Tests

Emilia Okoli, administrative assistant for Khemsafe Environmental, Incorporated (Khemsafe), New York, NY, pled guilty to one count of falsifying business records. Khemsafe contracted with the DoD and others to monitor the level of airborne asbestos fibers. Khemsafe was required to analyze samples and report any results that exceeded New York State standards. During asbestos removal at Fort Totten, Queens, NY, Khemsafe submitted false documentation indicating that asbestos samples were taken and analyzed when, in fact, they were not. It was further determined Khemsafe falsely certified to the DoD that it was prop-

erly insured as required by the contract. Special Agent Susan Lynn, New York RA, conducted the investigation with the Office of the Attorney General, State of New York, and the School Construction Authority, City of New York.

Counterfeit Stamp

Elizabeth R. Knight, Hamilton Square, NJ, vice president of Rylco Rubber Products, Incorporated (Rylco), Trenton, NJ, pled guilty to one count of mail fraud. Over a 2-year period, Knight used a forged DoD Quality Assurance Representative signature and stamp on payment claims from Rylco that were mailed to the DoD. The claims exceeded \$54,000. Special Agent Charles Dick, Northeast FO, conducted the investigation.

Sentences



Export Violations

The criminal information and guilty pleas of Ronald and Larry Vaught, Dallas, TX, businessmen, were unsealed. The same date, each man was sentenced to 3 years probation, to pay a \$10,000 fine and a \$100 special assessment fee. The Vaughts conspired to export F-5 fighter aircraft parts from the United States to Iran by using false documentation to disguise the true nature of the contents of the packages to be exported. The false export documentation dis-

guised the F-5 aircraft parts as agricultural equipment. Special Agent Joseph Diebert, Southwest FO, conducted the investigation with the U.S. Customs Service and the Office of Export Enforcement of the Department of Commerce.

Fasteners

Sentry Fastener, Incorporated (Sentry), and Lawrence Kanarek, its owner, were sentenced for conspiracy, mail fraud and wire fraud. Sentry was sentenced to 55 months probation, a \$35,000 fine and a \$1,400 special assessment; Kanarek to 5 months imprisonment, 5 months home detention, 3 years probation and a \$350 special assessment. In addition, Sentry and Kanarek were jointly ordered to pay restitution of \$88,201. From about 1989 through 1992, Sentry, Kanarek and Theodore Frikken, former Sentry quality control manager, provided substituted, nonconforming fasteners and fittings to the Defense Industrial Supply Center (DISC), Philadelphia, PA, in place of parts that should have complied with rigid Government specifications. The defendants falsely certified that the parts met all military specifications and submitted forged and altered certifications and test reports representing such. Sentry and Kanarek also participated in a scheme to defraud a fastener supply business in Philadelphia, PA. Special Agent Brian Hunt, Northeast FO, conducted the investigation jointly with the FBI, the DoT, the Naval Criminal Investigative Service (NCIS) and the AFOSI.

Environmental Crimes

C. Dewitte Loe, Jr., president of Loe's Highport Marina, Incorporated (Loe's Highport), located on Lake Texoma, Pottsboro, TX, was sentenced to 12 months confinement, 2 years probation, a \$3,000 fine and an as yet-to-be-

determined cost of environmental cleanup as restitution. Loe previously pled guilty to disposing of hazardous waste without a permit. Loe's Highport entered into a 25-year lease contract with the Tulsa District Corps of Engineers (COE) for 347 acres of land on Lake Texoma to establish a commercial concession. Loe's Highport has built a substantial business at the site, which includes over 950 boat slips, nightclubs, retail stores, boat sales and boat repair services. Incident to a COE property inspection, a large quantity of suspected hazardous waste was generated from the boat repair facility at the COE property. Loe was instructed to dispose of the suspect waste according to Environmental Protection Agency (EPA) guidelines. He, however, chose to instruct employees to remove the suspect waste and bury the drums on a nearby ranch. During a subsequent search warrant executed on the ranch property, 25 drums were recovered and the contents were tested and confirmed to be hazardous waste. Special Agent James Wray, Tulsa POD, conducted the investigation with the FBI and the EPA.

Certificates of Conformance

Robert Boss, former quality assurance manager at Tactair Fluid Controls, Incorporated (Tactair), Liverpool, NY, was sentenced to a \$250 fine and a \$25 special assessment for causing the filing of false certifications. From April 1994 to August 1996, Boss knowingly made or caused to be made false certificates of conformance to the DoD and its prime contractors. The DoD parts manufactured by Tactair were required to be subjected to nondestructive testing by a certified Level III inspector. The Tactair employee that per-

formed the nondestructive tests was not a certified Level III inspector. Nevertheless, Boss certified that the parts had been manufactured and tested in conformity with all military standards and specifications. Special Agent Scott Miller, Syracuse RA, conducted the investigation.

Kickbacks

Alexander Bevvino, a former purchasing agent at Sikorsky Aircraft Corporation (Sikorsky), Stratford, CT, was sentenced to 3 years probation, a \$5,000 fine and a \$50 special assessment for conspiring to violate the Anti-Kickback Statute. Bevvino and others conspired to ensure the award of purchase orders in connection with DoD contracts to a Sikorsky subcontractor. Bevvino admitted receiving over \$100,000 in cash kickbacks as a result of his involvement in this and other kickback schemes while a purchasing agent at Sikorsky. Sikorsky, a Top 100 DoD contractor, builds the Army Blackhawk and the Navy Seahawk helicopters. Special Agent Scott Jackson, Hartford RA, conducted the investigation with other members of the Connecticut Anti-Kickback Task Force that include the FBI, the IRS, the NCIS, the U.S. Postal Inspection Service and the DCAA.

Kickbacks

James L. Martin, chief executive officer for Rainbow Tool and Machine Company, Gadsden, AL, was sentenced to 3 years probation, 80 hours community service, a \$16,512 fine and a \$150 special assessment for payment of kickbacks. Martin paid at least \$2,100 to Ronald A. Smith, a senior tool engineer at the Rockwell International Corporation (Rockwell), Duluth, GA, under a DoD prime contract for Hellfire missiles. Smith was instrumental in directing purchase orders and coordinating

the procurement approvals and funding for orders awarded to Rockwell's subcontractors. Special Agent Roger Holland, Southeast FO, conducted the investigation.

Stolen Fuel

Hovsep "Joe" Mikaelian was sentenced to 168 months incarceration, 60 months supervised release, restitution of \$2.5 million and a \$250 special assessment. Mikaelian previously pled guilty to conspiracy, wire fraud, mail fraud, tax evasion and possession with intent to distribute heroin. Mikaelian, the leader of an organized crime family known as the "Mikaelian Organization," and 12 members of his organization were involved in, among other enterprises, the purchase and sale of over \$8 million worth of stolen fuel. An undetermined portion of that fuel was stolen from the Defense Fuel Supply Point San Pedro, CA. Special Agent Robert Koger, El Segundo POD, conducted the investigation with the FBI, the IRS, the DoT, the Los Angeles and Long Beach, CA, Police Departments and the California Department of Justice

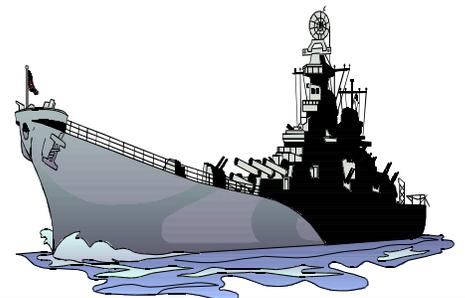
Civil Information

Truth in Negotiations
A civil complaint was filed against Alliant Techsystems, Incorporated (Alliant), Hopkins, MN, charging violations of the False Claims Act and the Truth in Negotiations Act. Alliant allegedly failed to provide U.S. Army negotiators with current, complete and accurate cost and pricing data for the purchase of AT-4 light anti-armor weapons. As a result, the Government paid inflated prices. The complaint seeks treble damages and penalties in an amount to be determined by the Court. Special Agent Craig Adams, Minneapolis POD, is conducting the investigation with the USACIDC,

with DCAA audit assistance.
Civil Settlements

Shipbreaking

Sigma Recycling, Incorporated (Sigma), Wilmington, NC, entered into a civil settlement agreement and will pay the United States \$195,840 for violating employee safety and health regulations. Sigma, a maritime company involved in the demolition of ships previously owned by the U.S. Navy, performed work on multi-vessel contracts awarded by the Defense Logistics Agency. The contracts are valued at \$2.5 million. Although Sigma purchased the vessels, title remained with the DoD until the vessels were completely broken down. The vessels contained hazardous materials, to include asbestos and polychlorinated biphenyls. Under Federal and state laws, the generator of hazardous materials (in this case, the U.S. Navy) has "cradle to grave" responsibility for the hazardous materials. Sigma was required to comply with all applicable Federal, state, local and multi-jurisdictional environmental laws. An investigation revealed that Sigma did not properly ensure the safety of the employees engaged in the shipbreaking operations and those employees were exposed to hazardous materials (asbestos and polychlorinated biphenyls) in violation of the standards of the Occupational Safety and Health Administration (OSHA). Special Agent Allan Samson, Chapel Hill RA, conducted the investigation with the Department of Labor and the OSHA.





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.

CENTRAL Field Office
1222 Spruce Steet
Room 8.308E
St. Louis, MO 63103-2811
Voice: (314) 539-2172
Telefax: (314) 539-2967

CHICAGO Resident Agency
2350 E. Devon Ave., Suite 150
P.O. Box 483
Des Plaines, IL 60018-4606
Voice: (847) 827-9480
Telefax: (847) 827-3724

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

COLUMBUS Resident Agency
P.O. Box 13163
Whitehall Branch,
Columbus, OH 43213-0163
Physical Location:
Defense Supply Center
3990 E. Broad St., Bldg. 100
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
Voice: (913) 551-1350
Telefax: (913) 551-1362

INDIANAPOLIS Post of Duty
Attn: Column 117W
8899 East 56th Street
Indianapolis, IN 46249-4500
Voice: (317) 542-4009
Fax: (317) 542-4012

MILWAUKEE Post of Duty
301 W. Wisconsin Ave.
Suite M-95
Milwaukee, WI 53203
Voice: (414) 297-1810
Telefax: (414) 297-1817

MINNEAPOLIS Post of Duty
Galtier Plaza, Box 14, Suite 414
175 East Fifth Street
St. Paul, MN 55101-2901
Voice: (612) 222-0212
Telefax: (612) 222-8316

SIOUX FALLS Post of Duty
c/o U.S. Attorney's Office
P.O. Box 5073
Sioux Falls, SD 57102
Physical Location:
U.S. Attorney's Office, Suite 600
230 S. Phillips Avenue
Sioux Falls, SD 57102
Voice: (605) 330-4400
Telefax: (605) 330-4410

WICHITA Post of Duty
53456 Lawrence Ct. Suite 230
McConnell AFB, KS 67221
Voice: (316) 682-1991
Telefax: (316) 682-1609

You may also call or write the Department of Defense Hotline at
Defense Hotline
The Pentagon
Washington, DC 20301-1900
Voice: (800) 424-9098
Voice: (703) 604-8546

