

Fraud Awareness Newsletter

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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 Embezzlement

An indictment was returned against Teasa Hutchins, Jr., Temple Hills, MD, charging him with one count of embezzlement and theft of public money and five counts of money laundering. Hutchins was a civilian military pay supervisor for the Finance and Accounting Office, Military District of Washington, Fort Myer, VA. From December 1994 to April 1997, Hutchins allegedly misused his supervisory authority and his knowledge of military pay and the operations of the Defense Finance and Accounting Service (DFAS) to embezzle approximately \$169,000. The moneys were then converted for personal use. Hutchins al-

legedly fabricated a Social Security Number and created a ghost pay account in the name of a fictitious military member, Lieutenant Colonel Carol M. Jones, U.S. Army. The DFAS then made 56 electronic funds transfer (EFT) deposits on behalf of pay and allowances for "LTC Jones." Hutchins also arranged for three initial deposits, approximately \$8,500, to be made to the personal checking account of his girlfriend. He later received kickbacks from those deposits. The remaining 53 fund transfers were made to Hutchins' personal checking account. On May 1, 1997, Hutchins was reassigned to the Defense Military Pay Office, Fort Belvoir, VA, and is assigned to administrative duties pending completion of the investigation. Special Agent Peter Agustin, Mid-Atlantic Field Office (FO), is conducting the investigation with the U.S. Army Criminal Investigation Command (USACIDC).

Parts Theft

An indictment was returned against Robert Canales, an employee of the Defense Logistics Agency, San Antonio, TX,

charging him with two counts of conspiracy and one count of theft of surplus Government property. Canales allegedly participated in a scheme to steal aircraft vanes from the Defense Reutilization and Marketing Office, Kelly Air Force Base, TX. The vanes are a component of the T-56 engine used on the C-130 turbo prop aircraft. At the time of the theft, the parts were valued between \$20,000 and \$250,000, depending on the manner in which the items are used. Special Agent Kirby Rogers, San Antonio Post of Duty (POD), is conducting the investigation with the Federal Bureau of Investigation (FBI).

Bribery

The State of Connecticut charged Eugene D'Angelo, Southbury, CT, with two counts of receiving bribes and two counts of larceny. D'Angelo, a Connecticut state police officer, ran the Federal Northstar Program for the State of Connecticut. Under the program, surplus Department of Defense (DoD) equipment is transferred to state and local law enforcement agencies for their use. D'Angelo obtained several million dollars worth of surplus property under the Program for Connecticut law enforcement agencies. However, he allegedly traded some of the surplus property for handguns for his personal use and gave away other equipment to unau-

thorized personnel. Special Agent Stevan Little, Hartford Resident Agency (RA), is conducting the investigation with the Connecticut State Police.

Hiring Restriction

A one count information was filed against Gross Metal Products, Incorporated (Gross), Philadelphia, PA. The DoD contractor was charged with knowingly employing an individual previously convicted of fraud in relation to a DoD contract. From 1990 through 1993, Gross allegedly employed Henry Isenberg in a supervisory capacity on its contract to provide mine housings to the Navy. Isenberg, the former president of Rois Manufacturing Company, Incorporated (Rois), Philadelphia, PA, was convicted in 1990 of conspiracy and submission of false statements on a contract Rois had with the Army. As a result, Isenberg was prohibited from working on Government contracts or first tier subcontracts in a managerial or supervisory capacity until 1995. Special Agent Michael Bradley, Northeast FO, is conducting the investigation with the Naval Criminal Investigative Service (NCIS).

Under Reported Income

A one count information was filed against Phillip Lee Vickery charging him with making a false statement. Vickery is an ex-salesman for Loe's Highport Marina, Incorporated (Loe's Highport), located on Lake Texoma, Pottsboro, TX. Loe's Highport leases land on Lake Texoma from the Tulsa District Corps of Engineers (COE) and operates a

commercial concession that includes over 950 boat slips, nightclubs, retail stores, boat sales and boat repair services. Under the lease terms, Loe's Highport is required to pay a percentage of total receipts from the business operations conducted on the premises to the COE. An investigation determined that Vickery allegedly conspired with officials at Loe's Highport to under report his personal income as a salesman and, subsequently, the corporate income of Loe's Highport to the COE and the Internal Revenue Service (IRS). Special Agent Norman Epstein, Southwest FO, is conducting the investigation with the FBI and the IRS.

Environmental Crimes

Seawitch Salvage, Baltimore, MD, and Kerry Ellis, Pasadena, MD, were each found guilty of three counts of violating the Clean Air Act, two counts of violating the Clean Water Act, one count of making a false statement to the Government and one count of violating the Rivers and Harbors Act. Seawitch Salvage dismantles ships. Ellis is the manager and operator of the company. In December 1992, the Defense Reutilization and Marketing Service (DRMS), Memphis, TN, awarded Seawitch Salvage a contract to dismantle three Navy minesweepers. Seawitch Salvage was to remove all hazardous material, including asbestos, aboard the ships. In addition, DRMS awarded Seawitch Salvage a contract to dismantle the Navy aircraft carrier USS CORAL SEA. An investigation

disclosed that Ellis directed Seawitch Salvage employees to illegally dump asbestos they had removed from one of the minesweepers and the USS CORAL SEA. To conceal the illegal dumping, false documentation was provided to the DRMS. Special Agent Harry Armstrong, Baltimore POD, conducted the investigation jointly with the Environmental Protection Agency (EPA) and the NCIS.

Kickbacks

Gershen Cohen was convicted on 25 counts of mail fraud. As a salesman for Butler Foods, a Philadelphia based meat distributor and a DoD contractor, Cohen paid kickbacks to a number of Thriftway supermarket meat managers. In return, the meat managers purchased meat from Butler Foods. The investigation is continuing into Butler Foods representatives alleged bribery and kickback payments to commercial and DoD wholesale food managers. Special Agent Heather Zimmerman, Northeast FO, is conducting the investigation with the FBI and the IRS.

Health Care

Thomas E. Davidson, chairman and chief executive officer of Shankman/Davidson Psychiatric Management, Incorporated (Shankman/Davidson), pled guilty to seven counts that included conspiracy, mail fraud, wire fraud and money laundering. An investigation determined that Shankman/Davidson, owned and operated by Davidson and Andrew Shankman, a licensed psychiatrist in Georgia and

Florida, employed unlicensed and unqualified therapists to provide mental health services. Those services were then billed to the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS), Medicare and Medicaid as if Shankman provided all the services. From 1992 through 1995, Shankman/Davidson received over \$5.2 million from the Government programs. Special Agent Marian Bridgman, Southeast FO, conducted the investigation jointly with the FBI, the IRS, the Department of Health and Human Services, the Georgia Department of Medical Assistance and the Georgia Secretary of State Office.

Illegal Influence

John Hart, a former GS-12 intelligence specialist with the U.S. Army 902nd Military Intelligence Group (902nd MI), Fort Meade, MD, pled guilty to conspiracy. In a separate proceeding, Harold Fink, a former GS-13 intelligence specialist with the 902nd MI, and Donald V.R. Hicks, retired U.S. Army major formerly assigned to a 902nd subordinate unit at Redstone Arsenal, Huntsville, AL, each pled guilty to one count of conspiracy. Hart, Fink and Hicks were originally indicted along with Michael Joslin, a former noncommissioned officer assigned to the 902nd MI, and Dolores Clark, a major in the Air Force and the sister of Hicks. Joslin and Fink created Technology Protection, Incorporated (TPI), to provide services and training to DoD personnel on

technology protection programs and systems. Joslin and Fink later solicited Hart and Hicks to assist with TPI, then Hicks enlisted the help of Clark, his sister. Joslin and Fink attempted to secure financial backing and attempted to use their current or former Government positions to obtain contracts for TPI; Hicks attempted to obtain DoD contracts through his sister. Following the pleas of Fink, Hart and Hicks, charges against Clark were dismissed. Special Agent Michael Alexander, Baltimore POD, conducted the investigation jointly with the FBI and the USACIDC.

Failure to Pay

John Davis Construction and Supply, Incorporated (Davis), Urbana, OH, pled guilty per plea agreement to one count of false statements. Davis, a small, disadvantaged, minority-owned business, was awarded a U.S. Army COE contract. The \$2.2 million contract was for maintenance and repair of the bituminous pavements and drainage systems at the Defense Supply Center Columbus, Columbus, OH. Davis submitted invoices to the Government for work completed and submitted prompt payment certifications indicating it was paying its subcontractors. An investigation determined that Davis failed to pay some of its subcontractors and owes them approximately \$76,741. Special Agent Michael Hampp, Columbus RA, conducted the investigation with the USACIDC.

Sentences

Forgery

Elizabeth R. Knight, Hamilton Square, NJ, was sentenced to 2 years probation and to pay \$3,495 in restitution and a \$50 special assessment fee. Knight previously pled guilty to one count of mail fraud as a result of fraudulent claims mailed to the DoD on behalf of Rylco Rubber Products, Incorporated (Rylco), Trenton, NJ. Over a 2-year period, Knight, vice president of Rylco, submitted claims to the DoD bearing the forged signature and stamp of a DoD quality assurance representative, thereby falsely representing the parts had passed inspection. The contracts to supply the Military Services with rubber products, totaled approximately \$60,000. Knight has been suspended from Government contracting and debarment proceedings are pending. Special Agent Charles Dick, Northeast FO, conducted the investigation.

Product Substitution

Dynaco Gears, Incorporated (Dynaco), Live Oak, FL, Robert Wiegand, its president, and Karyl Wiegand, its vice president, were sentenced as follows: Dynaco to \$2,000 restitution and a \$6,200 special assessment; Robert Wiegand to 4 months in prison, 4 months home confinement, 1 year probation, a \$2,000 fine and \$56 restitution; Karyl Wiegand to 4 months home confinement, 5 years probation, a \$1,000 fine and \$56 restitution. Dynaco previously pled guilty to 31 counts of false statements and false claims. The Wiegands each pled guilty to one count of false

claims. Dynaco manufactured various gears and related parts under contracts with the Defense Construction Supply Center and DoD contractors. The defendants supplied nonconforming parts and also provided false certifications to conceal that the parts were nonconforming. Special Agent Anthony Hagemeyer, Orlando RA, conducted the investigation with the NCIS and the FBI.

Fuel Theft

Robert Shakarian was sentenced to 12 months in prison, 36 months probation, a \$6,000 fine, \$75,614 in restitution and a \$150 special assessment for mail fraud and false statements in a tax return. Shakarian, owner of Hye Gas, was a member of the "Keroles Group." He and other members of the group participated in a scheme to fraudulently steal and sell \$8 million of fuel. An undetermined portion of the fuel was from the Defense Fuel Supply Center, San Pedro, CA. Special Agent Robert Koger, El Segundo POD, conducted the investigation with the FBI, the IRS, the Department of Transportation, the Los Angeles and Long Beach, CA, Police Departments, and the California Department of Justice.

Computer Fraud

Donald R. Jenkins, Marion, IL, was sentenced to 2 years probation, a \$1,000 fine and a \$25 special assessment fee for providing false certificates or writings. Jenkins was an engineer for the Ordnance Division of the Olin Corporation (Olin) in Marion, IL. From spring 1990 to 1993,

Jenkins reprogrammed in-process inspection computer software used in the production of millions of 20mm PGU28/B semiarmor piercing high explosive incendiary round ammunition. Jenkins made the unauthorized changes because of pressure from Olin executives to reduce high scrap rates. The changes included widening incendiary powder consolidation pressure and raising height tolerances beyond the tolerances allowed in the DoD contracts. The changes were concealed from Olin and Government representatives, thus causing Government quality assurance representatives to execute false DD 250 certificates. Olin disclosed Jenkins' misconduct when he revealed to an Olin supervisor that he had manipulated the inspection software. In September 1996, Olin accepted responsibility for Jenkins' misconduct and agreed to pay \$8 million as partial resolution of the allegations. Special Agent Colleen Nichols-Muschler, Central FO, conducted the investigation with the NCIS and the Air Force Office of Special Investigations.

Fuel Theft

Emil Girgis Michael was sentenced to 2 years probation and a \$50 special assessment for making false statements on a tax return. Michael, as a member of the "Mikaelian Organization," was involved in the fraudulent obtaining, theft and sale of \$8 million of fuel within a 3-month period. An undetermined portion of the fuel was from the Defense Fuel Supply Center, San Pedro,

CA. Special Agent Robert Koger, El Segundo POD, conducted the investigation with the FBI, the IRS, the Department of Transportation, the Los Angeles and Long Beach, CA, Police Departments and the California Department of Justice.

Bid Rigging

Ben's Truck Parts and Equipment, Incorporated (Ben's), Toledo, OH, and Donald L. Solomon, president of Ben's, were sentenced for violating the Sherman Anti-Trust Act. Ben's was fined \$110,000; Solomon was fined \$50,000 and ordered to perform 100 hours of community service. The company and Solomon also agreed to a \$200,000 civil settlement. From about 1992 to October 1994, Solomon and several bidders participated in a conspiracy of collusive bidding at various DoD surplus auctions. The bidders' purchases totaled approximately \$4 million during the course of the conspiracy. Special Agent David King, Northeast FO, conducted the investigation with the NCIS.

Clean Air Act

Keith A. Shepherd, former asbestos abatement supervisor, Del-Tray Construction Management Company, Incorporated, Wilmington, DE, was sentenced to 6 months house arrest, 3 years probation, a \$3,000 fine and a \$25 special assessment for violating the Clean Air Act. An investigation determined that Shepherd violated the Act while performing under a contract for asbestos removal from building 720, Dover Air Force Base, Dover, DE. Special Agent James

Cinelli, Jr., Northeast FO, conducted the investigation with the EPA.

Health Care

Carl R. Hale, licensed professional counselor, Biloxi, MS, was sentenced to 6 months home confinement, 5 years probation and \$8,639 in restitution for submitting claims for services he did not render. Hale was also ordered to surrender his medical license to state authorities. Over a 2-year span, Hale defrauded CHAMPUS by billing for psychotherapy services for two of his patients, when he was actually meeting them for romantic encounters. Hale also falsely billed for another patient who was the mother of one of the two patients. Medical malpractice suits in this matter were settled in favor of the complainants. License revocation and debarment actions against Hale are being pursued. Special Agent Anthony Burnell, New Orleans RA, conducted the investigation with the FBI and the Office of Personnel Management, with audit assistance from the Defense Contract Audit Agency (DCAA).

Civil Settlements Progerss Payments

Roberts Electrical Contractors (REC), Lynn Haven, FL, entered into a civil settlement agreement with the Government. The REC agreed to pay \$104,852.70, which includes a \$10,000 civil penalty and \$16,341.25 in interest, to resolve false claims submitted on work performed for the U.S. Army COE. The Office of Counsel, Savannah District,

COE, forwarded information that REC submitted altered documents as part of progress payment claims filed with the COE, Fort Bragg, NC. An investigation revealed that REC, working as a subcontractor on a \$53 million COE contract for the Brigade Area Revitalization Program, altered requests for payments by "whiting out and changing the dollar figures." The REC submitted 16 invoices for payment that had been upwardly adjusted 27 percent to include profit and overhead on stored materials. The contract specifically precluded contractors from receiving such payments. The Government loss was \$78,511.45. Special Agent Steven Barrett, Chapel Hill RA, conducted the investigaion with the USACIDC.

Fasteners

Hughes Aircraft Company (HAC), a subsidiary of General Motors Corporation, reached a civil settlement agreement with the Department of Justice. The HAC agreed to pay \$500,000 as civil compensation in relation to using contractually substandard parts and improper testing methods on parts for the Mark 48 Advanced Capability (ADCAP) torpedo and other DoD systems manufactured by HAC. An investigation revealed that HAC managers failed to purge defective stainless steel fasteners from the inventory after tests by HAC engineers found the cap screws did not meet the required fastener specifications. These fasteners were subsequently used in

39 DoD contracts. In addition, HAC employees failed to adequately test electronic parts used in the ADCAP guidance and control units, and managers at Hughes Aircraft Mississippi, Incorporated, deleted Government inspection of ADCAP power supply units at the subcontractor level to speed delivery and meet production deadlines. Special Agent Mark Hollomon, New Orleans RA conducted the investigation with the NCIS.

Understated Value

Plant Facilities and Engineering (PF&E), St. Louis, MO; Morley D. Elton, former owner and president of PF&E; David D. Dabbs, former secretary/treasurer, PF&E; and John T. Darr, former plant manager, PF&E, agreed to pay \$376,000 in civil fines to the Government. The fine was in connection with a modification made to a PF&E contract that called for the removal and disposal of scrap equipment from a Government ammunition plant. The PF&E represented to the Government that the scrap equipment was valued at \$45,000; however, PF&E's actual proceeds from the sale of the scrap exceeded \$755,000. The proceeds, which were funneled through Darr, were divided between Elton, Dabbs and Meryl M. Humphreys, a retired contract administrator who was the on-site Government representative at PF&E. Special Agent Colleen Nichols-Muschler, Central FO, conducted the investigation with the FBI, the IRS and the US-ACIDC, with DCAA audit assistance.



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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