

Fraud Awareness Newsletter

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

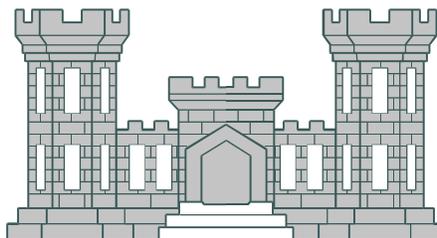


This newsletter is intended to enhance your awareness of fraud involving the Department of Defense (DoD) and what is being done about it. By being better informed you will be better able to help us combat these illegal activities. These articles are based on press releases and public information.

Prosecutions Progress Payments

A four-count superseding indictment was returned against H. Gayle Marshall, attorney at law, Lake Charles, LA. Marshall was charged with conspiracy to defraud the Government, money laundering, obstruction and false declaration before the grand jury. The charges relate to approximately \$821,551 in progress payments from the U.S. Army Corps of Engineers (USACE). A joint Federal and state investigation determined that Marshall allegedly assisted William H. Edmonds and Doyle Luneau, both of Alexandria, LA, in diverting approximately \$785,999 of Government funds for private gain. Edmonds and Luneau previously

pled guilty to similar charges. The conspiracy revolved around the construction of emergency mobile home sites that were needed due to flooding in southern Georgia in 1994. Special Agent Ricky Burrell, Southeast Field Office (FO), is conducting the investigation with the Georgia Bureau of Investigation, Albany, GA, and the U.S. Army Criminal Investigation Command (USACIDC).



Painting

Indictments were returned against Thomas S. Rhoades, Colorado Springs, CO; Stephen L. Schluneger, Scottsdale, AZ; T. Robert Hughes, Fort Collins, CO; and Arco Business Services, Ltd., and Arco Properties, Ltd., Fort Collins, CO, for conspiracy to defraud the DoD. Rhoades and Schluneger allegedly conspired with Hughes, Arco Properties and Arco Business Services to defraud the DoD

through a USACE contract in Tulsa, OK. When the original contractor defaulted on a contract to sandblast and paint locks and gates on the Arkansas River, Rhoades and Schluneger, individual sureties, signed a takeover agreement to complete the project. The contract allowed Rhoades and Schluneger to recover costs and expenses incurred to complete the contract, but did not allow compensation in excess of completion expenditures. Rhoades and Schluneger allegedly solicited a bid from Skyline Painting in Colorado Springs, CO, to complete the contract. Skyline was to pay 29 percent of the remaining contract funds to Arco Business Services, a business that Hughes ran, for fees and services. Most of those funds were then paid to Rhoades and Schluneger. Special Agents Charles Huggins, Denver Resident Agency (RA), and G. Bryan Compton, Tulsa Post of Duty (POD), are conducting the investigation.



Theft of Transponders

An indictment was returned against Derek B. Bellinger in Suffolk County, NY, charging him with grand larceny and possession of stolen property. Bellinger, a truck driver for a

shipping company, allegedly took three F-18 Interrogator, Friend or Foe (IFF) transponders. The IFFs belonged to the Kuwaiti Air Force and were being shipped back to a Greenlawn, NY, defense contractor for repair and refurbishment. Bellinger allegedly took the IFFs prior to delivery to their intended destination and prepared false paperwork indicating the delivery had been made. The IFFs had been manufactured under a Navy contract and then delivered to Kuwait under the Foreign Military Sales Program. Special Agent Mitchell Schlitt, New York RA, is conducting the investigation with the Suffolk County Police Department.



Health Care

A seven-count indictment was returned against Dr. Harry A. Hieke, Jr., a podiatrist practicing in Newport News, VA. Hieke was charged with five counts of grand larceny against the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS), Medicare and Trigon/Blue Cross/Blue Shield of Virginia (Trigon) and two counts of Medicaid fraud. Hieke al-

legedly submitted false claims to CHAMPUS, Medicare, Medicaid and Trigon that misrepresented medical services performed and for services not performed. Special Agent Paul Hastings, Norfolk RA, is conducting the investigation with the Department of Health and Human Services, the Virginia Medicaid Fraud Control Unit and the Trigon Financial Investigations Unit.

Kickbacks

An information was filed against Quy Cong Nguyen, a buyer and repair analyst at McDonnell Douglas Aircraft Corporation (McDonnell Douglas), Long Beach, CA, charging him with mail fraud. Nguyen worked for McDonnell Douglas from 1989 to May 1997 where he dealt with vendors in the repair and overhaul of hydraulic and pneumatic aircraft parts. In December 1995, Nguyen allegedly entered into a kickback agreement with Handojo Tjiptorahardjo, president of Unical Aviation, Incorporated (Unical), and its subsidiary, Blue Sky Aviation (Blue Sky). Unical, an aircraft parts broker, and Blue Sky, an aircraft parts repair station, are collocated in Baldwin Park, CA, and service commercial and DoD prime contractors. The agreement provided that Nguyen receive 5 percent of the cash value of the McDonnell Douglas purchase orders he awarded to Blue Sky. During 1996, Nguyen received about \$12,000 in kickbacks. Special Agent Fred Cosby, Western FO, is conducting the investigation with the U.S. Postal Inspection Service.



Counterfeit Parts

An information was filed in Fort Worth, TX, against Pacific Air Logistics, Incorporated (PAL), Billy Joe Neighbors, president of PAL, Michael Neighbors, vice president of PAL, and Mark Turner, quality assurance manager of PAL, charging all with mail fraud. An investigation disclosed the defendants were refurbishing surplus aircraft parts and stamping them with counterfeit Original Equipment Manufacturer quality control and manufacturing date stamps. The parts were then sold with falsified certificates of conformance that stated the parts were new and met military and/or commercial specifications. In fact, the actual condition of the parts had not been determined. Investigators seized the parts before they were installed on military or commercial aircraft. Special Agent George Castillo, Southwest FO, is conducting the investigation with the Federal Bureau of Investigation (FBI), the Federal Aviation Administration and the Department of Transportation.

Kickbacks

A three-count information was filed against Robert L. Berger,

former president of Royce Aerospace Materials Corporation (Royce), Farmingdale, NY, charging him with bankruptcy fraud, violations of the Anti-Kickback Act and conspiracy. Royce, which went bankrupt in September 1993, was a subcontractor providing raw materials such as aluminum and titanium to prime DoD contractors. Berger allegedly conspired with others and devised a fictitious invoicing scheme to divert cash out of Royce. The checks were written and issued from Royce to fictitious companies, cashed by various individuals and the cash returned to Berger. The checks, totaling about \$1.2 million, were then claimed as business expenses and were taken as false deductions on the Royce corporate tax return. Berger and others used this cash to pay kickbacks to prime DoD contractors in return for bid information and DoD subcontracts for Royce. Special Agent Stephanie Jimroglou, New York RA, conducted the investigation jointly with the Internal Revenue Service (IRS).

Health Care

Swaran K. Jain, Ph.D., Leavenworth, KS, pled guilty to accepting remuneration in exchange for referring patients to Two Rivers Psychiatric Hospital, Incorporated (Two Rivers), Kansas City, MO. During 1990 and 1991, Jain conspired with Ronald Rowe, former managing director of Two Rivers, to refer patients in exchange for multiple monthly payments, which totaled \$41,400. Some of those referred

were insured by CHAMPUS. Two Rivers billed CHAMPUS approximately \$142,593 and received approximately \$63,000 for the patients referred by Jain. Special Agent Troy Bird, Kansas City RA, conducted the investigation with the FBI.



Health Care

Following a trial in Brunswick, GA, Andrew S. Shankman was found guilty of conspiracy, mail fraud, wire fraud, dispensation of controlled substances and money laundering. Mary Jane Pedrick was found guilty of conspiracy, mail fraud and wire fraud. Shankman, a psychiatrist, owned and operated Shankman/Davidson Psychiatric Management, Incorporated (Shankman/Davidson). Pedrick was the vice president of clinical operations and lead therapist. From 1992 through 1995, Shankman/Davidson employed unlicensed therapists to provide mental health services to beneficiaries of CHAMPUS, Medicare and Medicaid. The services were then billed to those Government programs as if Shankman provided the services. Shankman/Davidson received over \$5.2 million from those billings. Special Agent Marian Bridgman, Nashville POD, conducted the investigation jointly with the FBI,

the IRS, the Georgia Department of Medical Assistance and the Georgia Secretary of State's Office.

Health Care

Timothy Mark Bowlan, a counselor at Cornerstone Counseling of Enid, Enid, OK, was found guilty of state Medicaid fraud. Timothy Bowlan counseled CHAMPUS and Medicaid patients in Enid, OK, and submitted claims for payments that falsely listed his father, Dr. Walter L. Bowlan, as providing the psychotherapy services. Timothy Bowlan was previously investigated by the DCIS and was excluded from the CHAMPUS and Medicaid programs after his conviction in 1994 for filing fraudulent claims, theft of public money and forgery. Special Agent Charles Case, Tulsa POD, conducted the investigation jointly with the Oklahoma Attorney General's Office.

Cellular Phone

Gevork Khrimian pled guilty to one count of unauthorized use of telecommunications services, namely, a cloned cellular telephone encoded with a stolen electronic serial number. Khrimian was a member of the Mikaelian Organization, which was led by Hovsep Mikaelian. Mikaelian and members of the group were involved in fraudulently obtaining, stealing and selling \$8 million of fuel. An undetermined portion of that fuel was from the Defense Fuel Supply Center, San Pedro, CA. Khrimian owned a service station through which the stolen fuel was sold to the public and he

used the cloned cellular telephone to facilitate the purchase, delivery and sale of the fuel. Special Agent Robert Koger, El Segundo RA, 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.



Sentences

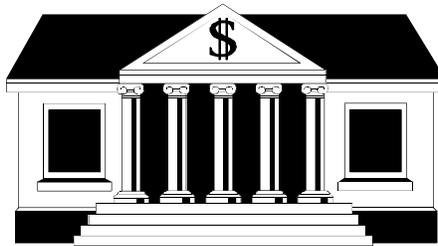
Employment Restriction

Gross Metal Products, Incorporated (Gross), Philadelphia, PA, pled guilty to one count of knowingly employing an individual previously convicted of a felony relating to fraud on a DoD contract. The same date, Gross was sentenced to a \$10,000 criminal fine, a \$10,000 civil fine and a \$25 special assessment fee. Gross employed Henry Isenberg, former president of Rois Manufacturing Company, Incorporated (Rois), Philadelphia, PA, as a supervisor from 1990 through 1993 on its contract to provide mine housings to the Navy. In 1990, Isenberg was convicted of conspiracy and submission of false statements to the Government 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, conducted the investigation jointly with the Naval Criminal Investigative Service (NCIS).

Bank Fraud

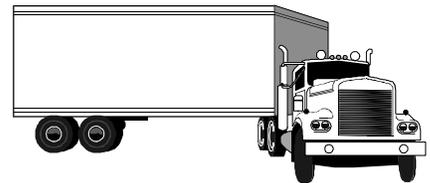
Mocheet Q. Smith was sentenced to 8 months incarceration and ordered to pay a \$50 special assessment fee for conspiracy to commit bank fraud. Smith, an employee of the Defense Finance and Accounting Service (DFAS), Columbus, OH, stole U.S. Treasury checks valued in excess of \$310,000 before the checks were mailed from DFAS in payment of DoD contracts. The checks were then given to co-conspirators involved in the scheme to defraud several financial institutions. The scheme included opening fraudulent business accounts at several banks, depositing the stolen checks into those accounts and attempting to withdraw the proceeds of the accounts by using false identification documents. Special Agent James Olmstead, Columbus RA, conducted the investigation with the U.S. Secret Service.



Health Care

Physical Therapy and Rehabilitative Services of Northwest Florida, Incorporated (PTRS), and Patricia D. Socarras, its vice president, Fort Walton Beach, FL, were sentenced as follows:

PTRS to \$57,999 in fines, restitution and assessments; Socarras to 4 months home confinement, 2 years probation and \$1,500 in fines, restitution and assessments. The PTRS and Socarras were each previously convicted of 10 counts of mail fraud. An investigation determined they submitted claims to CHAMPUS requesting reimbursement for services provided by individuals less qualified than the physical therapist whose name appeared on the claims. Physical therapy services are not reimbursed by CHAMPUS unless provided by a licensed physical therapist. An audit by the Defense Contract Audit Agency (DCAA) and CHAMPUS determined CHAMPUS paid for services based on claims and treatment notes that falsely reported the services were provided by a licensed physical therapist. The PTRS and Socarras face further civil damages and penalties under a stayed civil False Claims Act case and administrative sanctions by CHAMPUS and/or state licensing authorities. Special Agent Craig Brueckman, Pensacola POD, conducted the investigation with audit assistance from the DCAA and CHAMPUS.



Freight Carriers

Sharon Trace, a former freight classification specialist at the Defense Depot Letterkenny, PA (DDL), was sentenced to

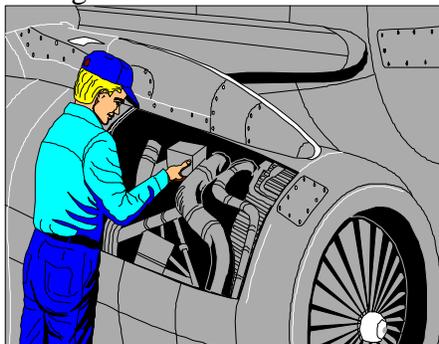
14 months incarceration, 24 months probation and \$650 in fines and restitution. Trace previously pled guilty to making and using false documents in the performance of her official duties as a freight classification specialist. From January 1992 through June 1995, Trace created, altered and used freight documents, to include carrier release orders, that allowed Trace's favored freight carriers to be substituted for those freight carriers authorized to haul designated freight loads. Her actions resulted in DoD paying in excess of \$500,000 more for the freight hauling jobs. Special Agent Richard Marr, Northeast FO, conducted the investigation jointly with the FBI.



Bribery

Ronald E. Howard, a former senior produce buyer for the Defense Subsistence Office (DSO), Chicago, IL, was sentenced to 2 years probation, a \$1,500 fine and a \$50 special assessment for bribery. From December 1991 through August 1993, Howard, while acting in his official capacity as a produce buyer for DSO Chicago, regularly solicited and received small personal monetary loans from Chicago area produce vendors. Cooperating vendors then received preferential treatment from Howard through the

guaranteed award of future DoD business. Howard did not repay the loans; however, with Howard's full knowledge and preferential contract awards, one vendor recovered a significant portion of the approximate \$2,850 he loaned to Howard. Special Agent Philip King, Chicago RA, conducted the investigation.



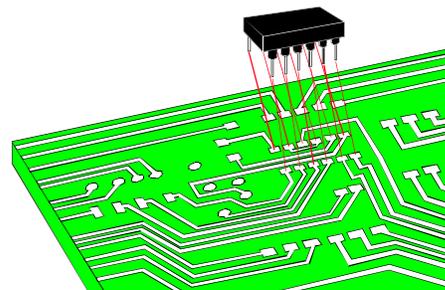
Civil Information Foreign Military Sales

A civil complaint was filed against Page Avjet Corporation (Page), a Delaware corporation with offices in San Antonio, TX, charging Page violated the False Claims Act. At the time of the alleged fraudulent activity, Page was an aircraft parts and equipment manufacturer for the DoD and was under contract to provide items under the Foreign Military Funding (FMF) program. Page allegedly diverted FMF funds he received from the U.S. Government to projects not funded by the FMF grants made available to the Government of Israel (GOI). Page further falsely certified that over half the value of goods provided to the GOI were of American origin. Those funds, in the amount of \$1.25 million, were disbursed and administered by the Defense

Security Assistance Agency. Special Agent Crystal Davenport, San Antonio POD, conducted the investigation with audit assistance from the DCAA.

Civil Settlement Failure to Test

Lockheed Martin Corporation (Lockheed), Owego, NY, reached a civil settlement agreement with the Department of Justice and will pay \$200,000 to the Government. Lockheed acquired Loral Federal Systems (Loral) in February 1996. Loral previously acquired IBM Federal Systems (IBM). The DoD had awarded contracts to IBM to provide computer page frame assemblies (circuit boards used to house electrical equipment) for use in various military aircraft and equipment. An investigation into allegations the assemblies were corroded beyond acceptable levels of tolerance determined the lack of proper testing of the parts could lead to excessive corrosion of the parts. Lockheed Martin agreed to repair or replace all related parts, up to \$500,000 in value, that fail to function due to visible corrosion. Special Agent William Bates, Syracuse RA, conducted the investigation with the US-ACIDC, the NCIS and the Air Force Office of Special Investigations.





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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