

Fraud Awareness Newsletter

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Gratuities

Bill G. Bass, former deputy director, Microgravity Science and Applications Division, NASA, Marshall Space Flight Center, Huntsville, AL, pled guilty to one count of conspiracy to accept gratuities. An investigation disclosed that Bass accepted gratuities from officials of the Science and Technology Corporation (STC), Hampton, VA, a minority-owned scientific research and development company. At the time, he was in a position to influence the award of a \$3.5 million sole source NASA contract to STC. The contract was for scientific support services of microgravity research and development. The contract involved U.S. Navy funding, transferred to NASA through military interdepartmental purchase requests from the Naval Research Laboratory, Washington, DC. Special Agent John Schlotterer, Norfolk Resident Agency (RA), conducted the investigation with NASA and with audit assistance from the Defense Contract Audit Agency (DCAA).



To receive this newsletter electronically e-mail requests to 40SL@dodig.osd.mil. You can download the newsletter and the Adobe Acrobat Reader at www.dfsc.dla.mil/main/d/home_g.htm. This newsletter is based on press releases and public information.

Indictments

Product Substitution

A 23-count indictment was returned against Hank Cosores, division manager, Solid State Devices, Incorporated (SSDI), La Mirada, CA; Cindy Anderson, quality assurance manager, SSDI; Cory Anderson, production manager, SSDI; and Diane Reeder, general manager, Unisem International (Unisem), a related company. All were charged with conspiracy, false statements and mail fraud. The SSDI manufactured, distributed and sold semiconductors used in military and space applications by the DoD, the National Aeronautics and Space Administration (NASA), the Federal Aviation Administration, the Department

of Energy and various commercial entities. Allegedly, SSDI and Unisem acquired commercial grade semiconductors from commercial suppliers and Government surplus auctions, then used the parts to fill its orders for high reliability semiconductors. High reliability semiconductors are designed and tested to provide greater reliability and durability than commercial grade semiconductors when operating in harsh environments. The scheme included removing date codes and the identity of the original manufacturer, thereby destroying trace-ability; skipping, falsifying or altering required tests and inspections. The SSDI semiconductors are used in the Comanche helicopter, F/A-18 fighter aircraft, S-3 Viking, Atlas II Launch Vehicle, International Space Station and NASA Space Shuttle. Special Agents Craig Wyckoff and Chris Hendrickson, Western Field Office (FO), are conducting the investigation with the NASA, the Defense Logistics Agency and the U.S. Army Criminal Investigation Command (USACIDC).



Obstruction of Justice

H. Gayle Marshall, an attorney and resident of Lake Charles, LA, pled guilty to one count of obstruction of justice and one count of making false declarations before a grand jury. An investigation determined that Marshall assisted William H. Edmonds and Doyle Luneau, both of Alexandria, LA, in diverting approximately \$785,999 of Government funds for their private gain. The charges stem from the defendants' fraudulent conduct relating to a Government contract to provide housing to families displaced as a result of the 1994 Flint River flood in Albany, GA. Edmonds and Luneau previously pled guilty and are awaiting sentencing. Special Agent Ricky Burrell, Southeast FO, conducted the investigation with the Georgia Bureau of Investigation (Governor's Flood Fraud Task Force) and the USACIDC.



Environmental Crimes

Thomas R. Moore, former owner and operator of Moore's & Son, Incorporated, Chesapeake, VA, pled guilty to knowingly marketing off-specification used oil fuel in violation of Environmental Protection Agency (EPA) regulations. Moore's activities surfaced during an investigation into the sale, delivery and disposal of fuel oil in connection with Government contracts at DoD installations and

commercial shipyards. Per an agreement with the manager of an area tank cleaning company, Moore removed oil from tanks at a shipyard where the tank cleaning company was working. The oil was then mixed with used motor oil collected from Moore's usual suppliers and delivered to a local company that burned the oil in a furnace used to process sandblast aggregate. From about April 1995 through March 1996, Moore sold at least 25 loads of off-specification used oil as fuel to the aggregate company and split the sale proceeds with the manager of the tank cleaning company. Moore falsely represented on delivery tickets that the fuel oil was "on spec." Moore also knew the aggregate company did not have an EPA identification number to lawfully burn the used oil. In total, the loads amounted to over 52,000 gallons, for which Moore received \$13,000. Special Agent Henry Myers, Norfolk RA, conducted the investigation with the Naval Criminal Investigative Service (NCIS).

Computer Theft

Maverick G. Matthews, former summer hire at the Defense Contract Management Command (DCMC), Phoenix, AZ, pled guilty to theft of Government property. On June 11, 1997, Matthews stole a new Compaq Armada notebook computer from a storage room at the DCMC. The computer was recovered after Matthews admitted to the theft. Special Agent Dean Smyth, Phoenix RA, conducted the investigation.

Bid Rigging

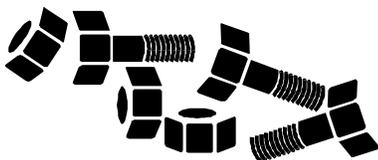
N.S. Meyer, Incorporated, New York, NY, pled guilty to a one-count information filed the same date that charged the company with violating the Sherman Anti-Trust Act. The company participated in a bid rigging conspiracy to fix prices at which it and others sold military insignia and other accessories. From January 1990 through December 1993, the items were sold to the Army-Air Force Exchange Service. Special Agent Stephanie Jimroglou, New York RA, conducted the investigation with the Federal Bureau of Investigation (FBI) and the Air Force Office of Special Investigations.



Sentences Anti-Trust

An information was filed against Charles E. Green and Son, Incorporated (Green), Newark, NJ, charging the company with violating the Sherman Anti-Trust Act. Green subsequently pled guilty to the charge and was sentenced the same date to pay a \$125,000 criminal fine in addition to agreeing to pay a \$100,000 civil settlement. Green supplied metal products 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 facility. The MMOS is now known as General Dynamics Ordnance Systems, Incorporated. An investigation of the MMOS Contracting Office determined Green conspired with former MMOS purchasing agent, Bobby Joe Vasquez, to rig the award of contracts to favor Green. The contracts were valued at \$875,000. Special Agent Robert Winfield, Nashville Post of Duty, conducted the investigation with other task force members from the FBI, the Internal Revenue Service(IRS) and the USACIDC.



Product Substitution

Transpec Fastener Company (Transpec) pled guilty to one count of mail fraud as charged in an information filed on the same date. Transpec was then sentenced to a \$120,000 fine and a \$200 special assessment. From 1989 through 1991, Transpec defrauded military contractors out of approximately \$120,000 by selling them ordinary commercial fasteners and connectors when the ordered parts should have complied with rigid Government specifications. The fasteners were designated for use in the AGM-860 Launch Cruise missile. Special Agent Fred Wenz, Northeast FO, conducted the investigation with other task force members from the FBI, the Department of Transportation, the NCIS and the AFOSI.

Kickbacks

Quy Cong Nguyen, a buyer and repair analyst at McDonnell Douglas Aircraft Corporation (McDonnell Douglas) from 1989 to 1997, was sentenced to 3 years probation, a \$5,000 fine and a \$100 special assessment fee for one count of mail fraud. In December 1995, Nguyen entered into a kickback agreement with Handojo Tjiptorahardjo (a.k.a. James Han and Han Tan) president of Unical Aviation, Incorporated (Unical), and Blue Sky Aviation (Blue Sky), a subsidiary company. Unical, an aircraft parts broker, and Blue Sky, an aircraft parts repair station, are located in Baldwin Park, CA, and provide service to commercial and Government prime contractors. At McDonnell Douglas, Nguyen dealt with airline customers and vendors in the repair and overhaul of hydraulic and pneumatic aircraft parts. The kickback agreement provided that Nguyen be paid 5 percent of the cash value of the McDonnell Douglas purchase orders awarded to Blue Sky by Nguyen. In 1996, Nguyen received kickback payments totaling approximately \$12,000. Special Agent Fredrick Cosby, Western FO, conducted the investigation with the U.S. Postal Inspection Service.

Kickbacks

Gershen Cohen, a salesman for Butler Foods, was sentenced to 5 months imprisonment, 5 months home detention, 3 years supervised release, a \$7,500 fine and a \$1,400 special assessment for 25 counts of mail fraud and filing

false tax returns. An investigation determined that Cohen paid kickbacks to a number of Thriftway Supermarket meat managers in exchange for the purchase of meat from Butler Foods. Cohen also received a cash salary from Butler Foods that he did not claim on his tax returns. The investigation is continuing into Butler Foods' representatives alleged bribery and kickback payments to other commercial and DoD meat managers. Special Agent Heather Zimmerman, Northeast FO, conducted the investigation with the FBI and the IRS.

Health Care

Dr. Andrew S. Shankman was sentenced in Brunswick, GA, to 87 months incarceration, 3 years supervised release, 400 hours community service, and a \$6,300 special assessment fee. Shankman was found guilty of 125 counts of conspiracy, mail fraud, wire fraud, dispensation of controlled substances and money laundering. In a related case, Michael E. Davidson was sentenced to 33 months incarceration, 3 years supervised release and a \$50 special assessment fee for one count of conspiracy. An investigation disclosed that Shankman and his company, Shankman/Davidson Psychiatric Management, Incorporated (Shankman/Davidson), employed unlicensed therapists to provide mental health services to beneficiaries of the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS), Medicare and Medicaid. Shankman then billed the Gov-

ernment programs as if he provided the services. Michael Davidson, grandson of Thomas E. Davidson, co-owner and operator of Shankman/Davidson, was the vice president for administrative operations. From 1992 through 1995, Shankman/Davidson received over \$5.2 million from the Government programs. Special Agent Marian Bridgman, Southeast FO, conducted the investigation with the FBI, the IRS, the Georgia Department of Medical Assistance and the Office of the Secretary of State for Georgia.

Civil Settlements Medical Insurance

A civil settlement agreement was reached with Frank Lopez, president of SOMED Company (SOMED), in which Lopez agreed to release \$1.77 million to the Government. The amount was previously held by a temporary restraining order. The settlement will repay the Government for an estimated loss based on SOMED payments to medical providers for patient referrals, including patients covered by CHAMPUS and Medicare. Special Agent Robert Calvert, Orlando RA, conducted the investigation with the IRS, the Department of Health and Human Services and the U.S. Postal Inspection Service.

False Billings

Global Associates, Limited (Global), Arlington, VA, entered into a settlement agreement with the Government. Global will pay \$1,006,000 to resolve allegations that Global submitted false billing invoices to the Government. The

amount reflects \$966,000 in damages and \$40,000 in civil penalties. An investigation determined that Global submitted \$322,000 in false claims to the DoD in violation of the civil False Claims Act. Global is a DoD contractor that does acoustical engineering work, primarily underwater. Special Agent Susan Faulkner, Mid-Atlantic FO, conducted the investigation with the NCIS and with DCAA audit assistance.



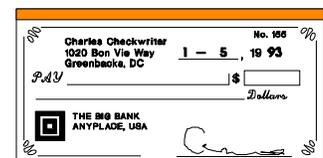
Falsified Tests

American Annuity Group, Incorporated (AAG), Cincinnati, OH, agreed to a civil settlement of \$3.5 million to settle issues arising from a voluntary disclosure filed in November 1991. Sprague Electric Company (Sprague), an electronic components manufacturer, filed the voluntary disclosure. Sprague claimed it failed to properly report test failure data of capacitor products manufactured at its North Adams, MA, facility to the Defense Electronic Supply Center (DESC). The DESC uses this data to rate capacitor/electronic components as having met military testing requirements. After the disclosure was filed, AAG assumed liability for any

actions resulting from the investigation as a result of Sprague dissolving the division responsible for the production of the components. The investigation further revealed nonreporting of irregularities at Sprague's Concord, NH, facility. The items in question may have been removed from the Qualified Parts List had the proper notifications been made. The settlement covers nonreporting of deficiencies in the North Adams and Concord facilities. Special Agent Henri Baillargeon, Hartford RA, conducted the investigation with audit assistance from the DCAA.

Forgery

A consent judgment was filed stipulating a settlement agreement with Kenneth Grace, Castro Valley, CA. Grace was ordered to pay \$16,500 for one count of false statements. The amount will be paid in part by Grace performing 330 hours of community work. Grace forged the signature of deceased Army Staff Sergeant Norman Harness (retired) on a Defense Finance and Accounting Service annual certification of benefits form. As a result, Harness' retirement benefits were continued and deposited into his bank account. Grace received \$16,580 from Harness' bank account through automated teller machines. Special Agent Andrea McTair, San Francisco RA, conducted the investigation.





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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