

Fraud Awareness Newsletter

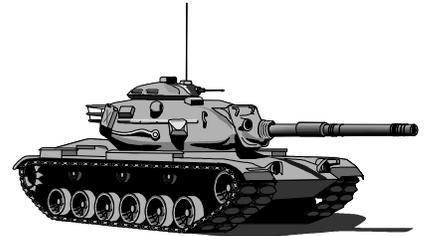
Volume 98-07

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



(USACIDC) and the Air Force Office of Special Investigations (AFOSI).



Major Fraud

Indictments were returned against Computer Systems Development Corporation (CSDC), Chantilly, VA; Jose Luis Hernandez, president, CSDC; Arselia Hernandez, financial vice president, CSDC; and Jesus Hernandez, operating manager, Comtel International Corporation (Comtel), a CSDC subsidiary. The defendants were charged with conspiracy, major fraud against the Government, obstruction of proceedings before Departments and witness tampering. During 1995 and 1996, CSDC allegedly submitted inflated costs on invoices to the Government on a \$24.9 million Department of the Army contract for the Communications-Electronics Command, Fort Monmouth, NJ. The CSDC was performing a time and materials contract on a congressionally mandated program under the Defense Base Realignment and Closure Act of 1990, referred to as BRAC. The defendants al-

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.

counting Service (DFAS)-Columbus, OH, by representing that a quantity of transmission stator reactor plate bushing assemblies for the U.S. Military M60, M48 and M728 tanks were assembled in accordance with contract specifications, when they were not. An investigation determined Ljubomir did not metallurgically or chemically bond the copper lining of the bushing assembly to its steel back. The copper liner had instead been shrunk to fit inside the steel back and readily fell out while under analysis by the U.S. Army Laboratory. The company was paid \$28,662 for two invoices for two shipments of the nonconforming assemblies. The Stanojevs also allegedly concealed SALJ property in a Chapter 11 bankruptcy case and withdrew approximately \$257,950 from an account Teambank, Wichita Falls, TX, held in the name of SALJ Defense Products. Special Agent John Lloyd, Tulsa Post of Duty (POD), is conducting the investigation with the Federal Bureau of Investigation (FBI), the U.S. Army Criminal Investigative Command

Prosecutions

Product Substitution

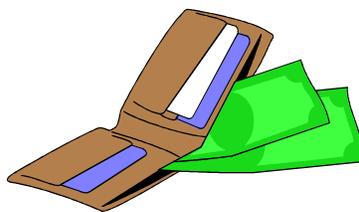
Two indictments were unsealed against SALJ Industries, Incorporated (SALJ), Duncan, OK; Ljubomir Stanojevic, Belgrade, Serbia, former president, SALJ; and Irena Stanojevic, Belgrade, Serbia, former secretary/treasurer, SALJ. In the initial indictment, SALJ and Ljubomir Stanojevic were charged with mail fraud. In a subsequent indictment, Irena and Ljubomir Stanojevic were charged with bankruptcy fraud. In a previous indictment, Ljubomir Stanojevic had been charged with illegal firearms possession. Ljubomir Stanojevic and SALJ allegedly entered into a scheme to defraud the Defense Finance and Ac-

legedly directed CSDC employees responsible for purchasing materials for the BRAC contract to circumvent established procedures to obtain the best possible price for the Government by sole sourcing purchases to the Comtel subsidiary run by Jesse Hernandez. Comtel would contact the same suppliers to CSDC, obtain the CSDC price, then increase the price and provide an invoice from Comtel to CSDC with the inflated price. The inflated costs were then submitted to the Government for payment. The losses were further enhanced when CSDC submitted a bill to the Army, since CSDC was allowed to add a 10 percent profit for general and administrative costs based on the cost of the materials. The Government loss is about \$490,000. The defendants also allegedly submitted altered documents in response to Department of Defense (DoD) IG subpoenas to CSDC and Comtel. Special Agent Tom Gibson, Mid-Atlantic Field Office (FO), is conducting the investigation with the Naval Criminal Investigative Service (NCIS).

Health Care Fraud

An information was filed against James W. Bennett, Ph.D., a mental health counselor associated with Arizona Counseling Associates, Tucson, AZ, for one count of filing false claims, or causing a false claim to be filed, against the Department of Health and Human Services (HHS). Bennett allegedly filed a claim for counseling he did not perform. The counseling was accomplished by other

counselors who were not authorized to file claims in their names. Bennett has agreed to be excluded, directly or indirectly, as an eligible provider from TRICARE (formerly the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS)), as well as Medicare and Medicaid. Special Agent Robert Hendricks, Tucson POD, is conducting the investigation jointly with the FBI and the HHS.



Kickbacks

A two-count information was filed against Ronald Leonardi, East Rockaway, NY, charging him with one count each of illegal receipt of kickbacks and income tax evasion. Leonardi, former purchasing manager of raw materials for Israel Aircraft Industries International (IAII), NY, is alleged to have received kickbacks from Royce Aerospace Materials Corporation (Royce), Farmingdale, NY, a former DoD subcontractor and supplier of raw materials. Between 1991 and 1993, Leonardi allegedly received about \$47,000 in cash kickback payments from Royce. In return, he provided Royce with the bidding information that would allow Royce to be the lowest bidder on IAI sub-contract awards. Leonardi failed to report this additional income on his tax returns. Special Agent Stephanie Jimroglou, New York

Resident Agency (RA), is conducting the investigation with the Internal Revenue Service (IRS).

Tax Evasion

Informations were filed in related cases against Kent Vecchio and Charles Cagegia, operators of various businesses that included messenger services and trucking companies, charging them with conspiracy to defraud the IRS by committing corporate income tax evasion. The same week, Vecchio and Cagegia each pled guilty to the charges. In addition, indictments were returned against Anthony Sainato and Vincent Sainato, owners of various trucking companies, charging them with conspiracy to defraud the IRS by committing corporate income tax evasion. The defendants were involved with Robert Berger, president of Royce, Farmingdale, NY, a former DoD subcontractor, in devising a fictitious invoicing scheme to generate cash out of Royce. The defendants would provide Berger the names of numerous fictitious companies, checks were then written and issued from Royce to these fictitious companies and delivered back to the defendants. The defendants then cashed the checks and returned the cash to Berger, less a fee. Berger used the cash to pay kickbacks to prime DoD contractors. Corporate tax returns were not filed on the income received from these various business transactions. Special Agent Stephanie Jimroglou, New York RA, is conducting the investigation with the IRS.

Death Benefits Fraud

Sonya R. Fernandez pled guilty in the U.S. District Court, Santa Ana, CA, to two counts of theft and embezzlement and two counts of submitting false statements to an agency of the U.S. Government. Fernandez continued to receive Federal retirement benefits destined for Luciano Garcia, a former U.S. Navy veteran, for 10 years after his death in 1987. The funds were electronically deposited into a bank account held jointly by Garcia and Fernandez, his adopted daughter. Fernandez failed to notify the Government of Garcia's death, then illegally received and converted to her own use over \$97,000 from DFAS. In addition, the Social Security Administration continued to electronically deposit monthly retirement funds into Garcia's same bank account for about 10 years after his death. Those funds amount to over \$91,000. The Department of Housing and Urban Development also indicated that Fernandez failed to declare the above income on forms submitted to Federal and local welfare agencies and received over \$81,00 in Federal housing subsidies. Special Agent Michael Blackburn, Western FO, conducted the investigation.

Embezzlement

Mychael Rodriguez pled guilty to one count of embezzlement over \$20,000 and one count of conspiracy to commit embezzlement over \$20,000. From August 1993 to April 1996, Elena Rodriguez devised a scheme to defraud the Lockheed Martin

Services Group (LMSG), Albuquerque, NM, by forging checks for fictitious materials and making the checks payable to two companies owned by Mychael Rodriguez. The forged checks were then deposited into personal and business accounts in the names of Elena and Mychael Rodriguez. To avoid detection by the prime contractor and other LMSG personnel, Elena Rodriguez altered LMSG documents to conceal the embezzled funds. Elena Rodriguez also used other methods to embezzle LMSG funds. Because of the direct billings and indirect cost accounts that were affected, the embezzled moneys were passed on to LMSG as well as the DoD. Misappropriated funds totaling \$267,694 have been identified. Special Agent Jeffery Fauver, Albuquerque POD, conducted the investigation jointly with the Albuquerque Police Department White Collar Crimes Division.

Health Care Fraud

Dr. Nader Afrooz, a licensed neurologist, Youngstown, OH, pled guilty to one count of mail fraud. From 1992 through 1997, Afrooz caused his office staff to bill third party payers, such as Medicare, Medicaid, Ohio Bureau of Workers Compensation, Blue Cross and Blue Shield of Ohio and CHAMPUS, for needle electro-myography (EMG) on patients. The EMGs were either only partially performed or not performed at all and, in some cases, not even necessary for the health of the patient. Special Agent Wayne Dorschu, Cleveland RA, conducted the investi-

gation with the FBI and the Ohio Bureau of Workers Compensation Enforcement Division.

Product Substitution

Garnett C. Hodgson, president and owner of Oro Valves, Incorporated (OVI), Azusa, CA, pled guilty to four counts of conspiracy, submitting false claims and theft of Government property. In a related case, James Ernest Larios, shop foreman and director of quality assurance at OVI, pled guilty to one count of conspiracy to submit false claims in relation to DoD contracts. Hodgson conspired with Larios to submit false claims under U.S. Army and U.S. Air Force contracts. As instructed by Hodgson, Larios directed mechanics he supervised to not properly overhaul and repair air pressure regulator valves and hydraulic accumulators according to DoD contract specifications. The valves are used on the Air Force F-5 fighter and the T-38 training jet; the accumulators are used on various helicopters, including the Army Blackhawk, the Navy/Marine Corps Seahawk and Sea Stallion, and the U.S. Coast Guard/U.S. Coast Guard (USCS) Jayhawk. Special Agent Julio DeGuzman, Van Nuys RA, conducted the investigation with the BI, the US-ACIDC, the NCIS, the Department of Transportation (DoT) and the USCS.

Health Care Fraud

Ronda Anderson, owner and operator of Moon Valley Counseling (Moon Valley), Phoenix, AZ, and former employee of Apex Family Counseling (Apex), Phoenix, AZ, pled guilty

to one count each of mail fraud and subscribing to a false tax return. An investigation determined claims were submitted to CHAMPUS and private insurers for reimbursement of counseling services that were never rendered, submitted under another provider's provider number, or counseling services were performed by noncertified counselors. Special Agent Janice Flores, Phoenix RA, conducted the investigation jointly with the FBI and the IRS.

False Certifications

The following defendants each pled guilty to mail fraud: John L. DeFulgentis, Riverton, NJ, president and owner of Aspen Manufacturing, Delran, NJ; Karl Van Rossi DeFulgentis, Philadelphia, PA, secretary and co-owner of National Parts Distributor, Incorporated, and National Appliance Parts Distributor. An investigation determined the defendants falsified certifications for critical air conditioning and refrigeration parts supplied to the DoD over a 5-year period. Special Agent Margaret Maestas, Northeast FO, conducted the investigation.

Sentences

Theft of Surplus

Richard Haggard, former chief of police, Bainbridge, OH, was sentenced to 5 years probation, 120 days house arrest, to pay \$7,000 in restitution, and fined \$2,500. Haggard had previously pled guilty to a state charge of theft in office. Haggard converted to his personal use surplus military property obtained from Project Northstar. This DoD

program enables the transfer of surplus military property to state and local law enforcement agencies to assist in drug interdiction activities. Participating agencies can receive a wide variety of surplus military property, to include aircraft, vehicles, communications equipment and clothing, as well as items such as furniture and like items. As chief of police, Haggard obtained a large quantity of surplus items, including construction materials. Haggard misappropriated 13,056 feet of new lumber worth \$32,509 received on behalf of his department. The lumber was not used for its intended purpose and a quantity was provided to a contractor in exchange for services during the construction of Haggard's residence. Special Agent James Terbovich, Dayton RA, conducted the investigation jointly with the Ross County Sheriff's Department.



Theft of Surplus

Chester H. Hirano, reserve police officer, Honolulu Police Department (HPD), was sentenced to 3 years probation, a \$5,000 fine, 1,500 hours of community service and a \$25 special assessment fee. Hirano had previously pled guilty to one count of theft from the Defense Reutilization and Marketing Office (DRMO).

An investigation revealed Hirano had used his position with the HPD to obtain transferred property from the DRMO that was then diverted for his and others personal use from February 1995 through March 1997. Special Agent Wade Muraoka, Hawaii POD, conducted the investigation with the FBI and the IRS.

Explosives

Thao Dinh Le, Tulsa, OK, was sentenced to 130 months incarceration, 3 years supervised probation and to pay \$3,000 in restitution and a \$300 special assessment. Le previously pled guilty to possessing destructive devices, including military 40mm high explosive grenades and a M79 40mm grenade launcher, as well as unlawfully possessing a M240 machine gun and possessing a weapon while drug trafficking. Special Agent Charles Case, Tulsa POD, conducted the investigation with the Bureau of Alcohol, Tobacco and Firearms.



Contract Fraud

John Davis Construction and Supply, Incorporated (Davis), Urbana, OH, was sentenced to pay restitution of \$79,869, a \$1,000 fine and a \$200 special assessment as a result of a false statement to the Government. Davis, a small disadvantaged minority-owned business, was awarded a \$2.2 million U.S. Army Corps of Engineers contract for the maintenance and repair to bituminous pavements and drainage systems at the De-

fense Supply Center Columbus, Columbus, OH. Davis submitted invoices to the Government for work completed on the contract and submitted prompt payment certifications indicating it was paying its subcontractors. An investigation revealed Davis had not done so. Davis has been suspended from Government contracting and debarment proceedings are pending. Special Agent Michael Hampp, Columbus RA, conducted the investigation with the USACIDC.

Civil Settlements Health Care Fraud

Home Pharmacy Service, Incorporated (Home Pharmacy), Belleville, IL, a supplier of drugs and other pharmaceutical products to nursing homes in southern Illinois, reached a \$5.3 million settlement with the U.S. Attorney's Office, Southern District of Illinois. The settlement concerned allegations that Home Pharmacy failed to properly credit the Illinois Department of Public Aid for medicines that were returned. Based on allegations made by several former Home Pharmacy employees under the qui tam provisions of the Federal False Claims Act, it was determined Home Pharmacy failed to properly credit the Illinois Department of Public Aid account for unused drugs returned to Home Pharmacy by the nursing homes. The former Home Pharmacy employees will receive a percentage of the amount recovered. In addition, Home Pharmacy's corporate parent will enter into a corporate integrity agreement with the HHS

to ensure against future occurrences of similar conduct. Special Agent Colleen Nichols-Muschler, Central FO, conducted the investigation with other members of the Southern Illinois Health Care Task Force that include the Department of Labor, the Drug Enforcement Administration, the FBI, the Food and Drug Administration, the HHS, the IRS, the U.S. Postal Inspection Service and several Illinois State agencies.

Failure to Test

A settlement agreement with Microwave Communications Associates, Incorporated (MA-Com), was unsealed. MA-Com agreed to pay \$3 million to settle charges it failed to perform required critical testing on components for the Advanced Self-Protection Jammer (ASPJ) program. From 1991 to 1992, MA-Com manufactured critical components for the ASPJ program, which involved the production of an advanced radar jamming system used in U.S. Navy and U.S. Air Force combat aircraft. The jamming system protects the pilot and aircraft from enemy radar guided air-to-air and surface-to-air missiles by "jamming" the enemy's radar signals. An investigation found that MA-Com did not perform required critical testing on integrated microwave assembly components provided to ASPJ prime contractors (Westinghouse Electric Corporation and ITT Avionics). Special Agent James Ives, Boston RA, conducted the investigation with the FBI, the NCIS and the AFOSI.

Overcharging

A \$1.2 million civil settlement agreement was reached with MSM Security Services, Incorporated (MSM), Greenbelt, MD. The settlement resolves civil false claims allegations relating to contracts for security background investigations conducted for the DoD and the USCS. The civil settlement is the result of an investigation into fraudulent billings that were charged to a U.S. Air Force cost reimbursable contract between 1989 and 1994. The investigation focused on a "less than arms length" transaction between MSM and a related company in April 1989. In that transaction, MSM purportedly paid \$550,000 to acquire exclusive use and control of an accounting software product the Government had already leased in 1987 for 20 years. The cost of the source code was depreciated by MSM over 5 years and billed on a bimonthly basis to the DoD contract as a certified allowable cost. In 1989, MSM and two of its principal officers allegedly billed for the 1989 source code transaction. This duplicated the 1987 software licensing agreement, in essence charging the Government twice for the same product. It was further alleged the 1989 source code purchase was not allowable, beneficial or demonstrably related to the performance of MSM's contracts with the DoD and USCS. Special Agent Christopher Williams, Mid-Atlantic FO, conducted the investigation with audit assistance from the Defense Contract Audit Agency.



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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