

Fraud Awareness Newsletter

Volume 98-08

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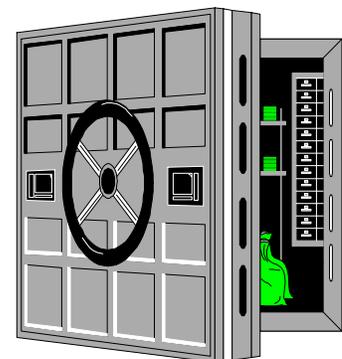
Courtesy of the
Department of Defense
Office of the Inspector General
Defense Criminal Investigative Service
Central Field Office



Stephanie Jimroglou, New York Resident Agency (RA), is conducting the investigation jointly with the IRS.

Bank Fraud

A two-count indictment was returned against Richard Devell Hampton, Los Angeles, CA, charging him with bank fraud and forgery. Hampton allegedly knowing that a U.S. Treasury check for \$14,953.55 was stolen, opened a false and fictitious business checking account at Home Savings of America, Woodland Hills, CA. Hampton then deposited the check, issued by the Defense Finance and Accounting Service (DFAS) in Denver, CO, into the business checking account to convert the funds to his personal use. The DFAS check had been issued to Guild Mortgage, a San Diego based mortgage company, for payment of the November 1996 home mortgages of 16 retired Armed Forces members. Special Agent Donald Bolte, Long Beach RA, is conducting the investigation.



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

Income Tax Evasion

A superseding one-count indictment was returned against Anthony Sainato, Vincent Sainato, Charles Cagegia, Kent Vecchio, Michael Farino and Nicholas Coluccio (the "check cashiers"), to include James McAllister, charging conspiracy to defraud the Internal Revenue Service (IRS). In a second superseding one-count indictment, Anthony Sainato and Vincent Sainato, to include James McAllister, were charged with conspiracy to defraud the IRS by committing corporate income tax evasion. The "check cashiers," owners of various trucking and messenger companies, were previously indicted and charged

with conspiracy to defraud the IRS. The indictments were the result of an ongoing investigation into Royce Aerospace Materials Corporation (Royce), Farmingdale, NY, a former DoD subcontractor that provided raw materials to prime DoD contractors. Between 1990 and 1996, Robert Berger, president of Royce, allegedly conspired with the "check cashiers" and McAllister by devising a fictitious invoicing scheme to generate cash out of Royce. As part of the conspiracy, McAllister and the "check cashiers" provided the names of numerous fictitious companies to Berger. Checks were then written and issued from Royce to these fictitious companies and delivered back to McAllister. McAllister then cashed these checks through various methods, including bank accounts held under their trucking businesses. The cash was then delivered back to Berger, less a fee kept by McAllister, and was used to pay kickbacks to prime DoD contractors. The Sainatos failed to file corporate tax returns on the income received from their fictitious businesses. Special Agent

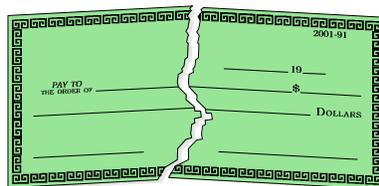
Surety Bond Fraud

An indictment was returned against Charles H. Simpson charging him with 1 count of conspiracy to defraud the Government and 17 counts of false statements and possession of false papers intended to defraud the Government. Simpson allegedly acted in collusion with other not yet named co-conspirators to defraud the U.S. Army and U.S. Air Force by submitting a bogus appraisal for property used as collateral for individual surety bonds. To conceal his relationship with co-conspirators, Simpson allegedly generated an appraisal that set the value of the Henrietta Mines, Poland Junction, AZ, at over \$330 million. He then signed a statement claiming no interest in the Mines. In reality, Simpson had entered into an agreement with the owner of the Henrietta Mines to receive a monthly consultant's fee to manage the Mines. Special Agent Gregory Mohr, Phoenix RA, is conducting the investigation with the U.S. Army Criminal Investigation Command (USACIDC), the Air Force Office of Special Investigations (AFOSI) and the Federal Bureau of Investigation (FBI).

Theft of Checks

Staff Sergeant Robert L. Miller, Jr., U.S. Air Force, was recommended for trial by court-martial as a result of evidence presented in an Article 32, Uniform Code of Military Justice hearing at Wright Patterson Air Force Base, OH. The recommendation includes 5 charges

and 30 specifications against Miller for his role in the theft of funds from the United States. Miller is charged with allegedly stealing a total of 19 U.S. Treasury checks issued by the DFAS Centers in Kettering, OH, and Castle Air Force Base, CA. Miller allegedly caused 19 bogus U.S. Treasury checks, totaling \$938,000, to be issued by DFAS and then shared the proceeds from 8 of the checks with a co-conspirator. Miller's co-conspirator recently entered a guilty plea in U.S. District Court, Dayton, OH, for her part in the conspiracy to steal the 8 checks, which totaled \$372,000. Special Agent John Edmiston, Dayton RA, is conducting the investigation with the AFOSI.



Health Care

An information was filed against Kim Ivan Muncrief, D.O., charging him with Medicaid fraud. Muncrief operated Pathways of Enid, Incorporated (Pathways), a counseling business in Enid, OK. Pathways routinely treated Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) patients and Oklahoma Medicaid patients. An investigation found that the CHAMPUS and Medicaid recipients were routinely counseled by one of Muncrief's counselors and not by Muncrief; however, Muncrief billed the

Government programs at the physician's rate as if he had performed the counseling. Pathways submitted over \$200,000 in fraudulent claims to Medicaid and submitted similar claims exceeding \$68,000 to CHAMPUS. Special Agent Charles Case, Tulsa Post of Duty (POD), conducted the investigation jointly with the Oklahoma Attorney General's Office.

Check Theft

A criminal complaint was filed against Alton H. Braswell charging him with knowingly stealing checks belonging to the DoD. Braswell is employed in the mail room at the DFAS Center in Denver, CO. Several retired military members, after being notified by DFAS of unpaid debts to the DoD, reported they had previously sent checks to the DFAS that had been cashed. The investigation to date has revealed that four checks totaling \$9,300, originally made payable to DFAS, were cashed with the name "Alton Braswell" added on the "pay to" line of the checks. Special Agent Charles Huggins, Denver RA, is conducting the investigation.

Kickbacks

An information filed against Paul Picard was unsealed in U.S. District Court, Tampa, FL, charging him with violating the Anti-kickback Act. Picard was the owner and operator of The Recovery Source, Melbourne, FL. An investigation found that Picard allegedly received kickbacks for patient referrals for mental health, alcohol and drug treatments at Manors Hospital

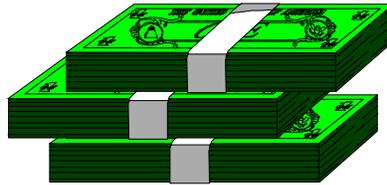
and Horizon Hospital in Florida, including CHAMPUS patients. Special Agent James Sutherin, Orlando RA, is conducting the investigation with the FBI and the IRS.



Bribery

Scott King, Marbury, MD, pled guilty to one count of accepting a bribe and one count of failure to file Federal income tax returns. King was a contracting officer's technical representative with the IRS. In 1990, the IRS, through King, awarded a long-term, follow-on 8(a) contract worth \$57 million to Washington Data Systems (WDS), Landover, MD. The contract required WDS to provide hardware and software maintenance computer services. Mark Nicholas, a consultant to WDS, provided marketing services for them on the contract, as well as other contracts obtained by WDS. Nicholas was paid 5 percent of the gross revenues generated by WDS. The WDS awarded RGI, Incorporated (RGI), Falls Church, VA, a subcontract for the IRS effort. Paul Kinter performed marketing services for RGI. An illicit agreement between King, Nicholas and Kinter solicited payoffs in return for assurances that WDS would be awarded contracts with the IRS under the 8(a) program. The 5 percent commission paid to Nicholas by WDS would be split among the three individuals.

Nicholas was paid \$1.7 million in commission fees by WDS. The payments to Nicholas were expensed to WDS overhead accounts and the billed against DoD cost type contracts that were previously awarded to WDS. The payments to King were concealed through a money laundering scheme where these payments were passed through a series of financial transactions such as consultant commissions and cash payments to Kinter and King. Special Agent Harry Armstrong, Baltimore POD, conducted the investigation with the IRS and with Defense Contract Audit Agency (DCAA) auditing assistance.



Unauthorized Tests

Oneida Research Services, Incorporated (Oneida Research), Whitesboro, NY, was convicted on 15 counts of false statements and 11 counts of false claims. From 1979 until November 1995, Oneida Research performed residual gas analysis tests on microelectronic devices that did not adhere to the military standard or Oneida Research's own standard operating procedures, which were approved by the Defense Electronics Supply Center, Dayton, OH. It was further determined Oneida Research's actual test procedure was known only to its employees, was undocumented within

the company, was not disclosed outside the company and was completely unauthorized by the DoD. The microelectronic devices were tested for use on the Tomahawk missile, Maverick missile, Patriot missile, Seawolf submarine, F-15, F-16 and F-18 aircraft, the Space Shuttle, the Space Station, the Hubble Space Telescope, and other DoD and National Aeronautics and Space Administration (NASA) programs. Special Agent Scott Miller, Syracuse RA, conducted the investigation with NASA.

Health Care

Carol D. Friesen, owner of Cornerstone Counseling of Enid (Cornerstone) and Friesen Reading Clinic, pled guilty to 19 counts of mail fraud and 13 counts of Medicaid fraud. Friesen routinely billed reading lessons provided at the reading clinic as individual psychotherapy. The bills were submitted to CHAMPUS and Medicaid. The particular psychotherapy Friesen billed for must be provided by a physician. Friesen also submitted similar bills for reading students who were not actually in the State of Oklahoma at the time. The investigation determined Friesen/Cornerstone submitted over \$150,000 in fraudulent claims to CHAMPUS and Medicaid. Special Agent Charles Case, Tulsa POD, conducted the investigation jointly with Oklahoma Attorney General's Office.

Health Care

Dr. Muttaiya Darmarajah, a psychiatrist from Panama City, FL, pled guilty to an information

filed earlier the same day in U.S. District Court, Pensacola, FL. Darmarajah was charged with submitting false claims to Federal insurance programs and income tax evasion. Further, a civil settlement was filed in which Darmarajah agreed to pay \$1.8 million. Between January 1992 and December 1996, Darmarajah billed routine medical management visits as one hour psychotherapy sessions. The bills were submitted to CHAMPUS, Medicare and the Federal Employees Health Benefits Program. In the 1994 tax year, Darmarajah failed to report \$105,000 in earnings. As a result of plea negotiations, the losses were established at \$900,000. Special Agent Craig Brueckman, Pensacola POD, conducted the investigation with the FBI, the IRS, the Department of Health and Human Services (HHS) and the Office of Personnel Management, with DCAA auditing assistance.

Sentences Health Care

Dr. David E. Sternberg was sentenced to 60 months incarceration, 3 years supervised release and \$928,690.43 in fines and restitution. Sternberg was previously convicted on 13 counts of mail fraud, 1 count of interstate transportation in aid of racketeering and 21 counts of money laundering. From 1990 through the present, Sternberg operated a psychiatric practice in the Kansas City metropolitan area and enriched himself by maximizing reimbursements from Federal and private insurance

programs by submitting false and fraudulent claims. An investigation found that Sternberg paid 15 percent of the amount he collected for treating patients referred to him by a psychologist as kickbacks. Sternberg also laundered money and promoted the kickback scheme by depositing the proceeds collected from the kickback scheme and then withdrawing the proceeds to pay the kickback. He further solicited a \$250,000 bribe and the referral of 25 new patients per month from a psychiatric hospital, in return for referring patients to the psychiatric hospital for hospitalization. Special Agent Troy Bird, Kansas City RA, conducted the investigation jointly with the FBI.

Health Care

Dr. Howard M. Addis was sentenced in U.S. District Court, South Bend, IN, to 37 months imprisonment, 3 years supervised release and a \$40,000 fine. Addis was convicted of soliciting and receiving kickbacks in exchange for patient referrals to St. Joseph's Medical Center, including CHAMPUS beneficiaries. At the Government's request, Addis' sentence was enhanced by the Court to include obstruction of justice. Addis committed perjury during the first part of his sentencing hearing and during his testimony before the Federal grand jury that eventually indicted him and another physician, Peter D. Farr. Special Agent Jim Terbovich, Dayton RA, conducted the investigation in conjunction with the Northern Indiana Medical Fraud

Task Force. The participating agencies include the FBI, the HHS and the Indiana Medicaid Fraud Unit.



Product Substitution

Grimco Pneumatic Corporation (Grimco), Paterson, NJ, and David Grimaldi, Jr., Grimco's owner, were sentenced as follows: Grimco to 5 years probation, a \$64,000 fine and a \$400 special assessment; Grimaldi to 3 months incarceration, 3 months home confinement, 2 years probation, a \$10,000 fine and a \$200 special assessment. They previously pled guilty to obstructing a Government audit and obstructing a Government investigation. Under Grimaldi's direction, Grimco provided defective manufactured machine parts to the Government and falsified documents to conceal the defects. In February 1988, the U.S. Navy contracted with Grimco to produce arresting gear components. These components are critical for the safe and effective operation of landing aircraft aboard aircraft carriers. The \$704,000 contract required Grimco to manufacture the components to exacting specifications and to subject them to various treating and testing procedures. An investigation determined that in many cases, the

specifications and procedures were not followed, nor did Grimco maintain a quality control system to ensure the integrity of the components. After being placed into service, many of the parts eventually failed. When DoD representatives sought inspection records from Grimco to investigate the component failures, Grimco provided false and fictitious inspection records to Government auditors. These same false documents were also provided in response to a Government investigatory subpoena. Special Agent Stanley Newell, New Jersey RA, conducted the investigation with the Naval Criminal Investigative Service.

Health Care

Dr. Sergio C. Stone, formerly of the University of California Irvine (UCI) Center for Reproductive Health, was sentenced to 12 months home detention, 36 months probation, a \$50,000 fine, \$14,819 restitution and a \$450 special assessment fee. Stone was previously convicted on nine counts of mail fraud. Stone and others operating the UCI Center for Reproductive Health billed Federal and private insurance programs for assistant surgeon services during medical procedures when, in fact, no assistant surgeons were present. The Federal insurance programs included Medicare and CHAMPUS. Special Agent Michael Blackburn, Western Field Office (FO), conducted the investigation with the FBI, the IRS, the U.S. Customs Service and the California State Medical Board.

Civil Informations Inflated Claims

A civil complaint was filed against Research Management Corporation (RMC), Virginia Beach, VA, and Joseph Garcia, president and chief executive officer of RMC. The Government seeks a judgment of \$698,958 against the defendants under the False Claims Act. The RMC allegedly failed to disclose quantity discount pricing information on materials, namely equipment racks, in proposals it submitted to the U.S. Navy. Garcia allegedly signed a false certificate of current cost or pricing data that failed to disclose quantity discounts for the equipment racks. An investigation determined RMC was allegedly in possession of discount pricing information on the equipment racks nearly 7 months prior to submitting its final proposal and also had ordered them at discount prices prior to submitting its final proposal. This failure caused the submission of 36 inflated claims to the Government and the resulting overpayment of \$112,986 to RMC. Special Agent Christine Schuck, Norfolk RA, is conducting the investigation, with DCAA auditing assistance.

Civil Settlement Progress Payment

Pacific Aero Manufacturing, Incorporated (Pacific), Pueblo, CO, entered into a settlement agreement with the Government in which Pacific agreed to pay the Air Force \$430,000 to settle a False Claims Act violation. In

addition, Richard Grant, Pacific's president, was ordered to personally pay \$45,000 of the total. Pacific was awarded a contract by the U.S. Air Force to produce SUU-20 A/B bomb and rocket dispensers. The contract was valued at approximately \$2.6 million. Pacific submitted a first production progress payment request for \$271,845 to the Government. Included in that request were invoices for \$120,000 and \$21,845 paid to RCH Engineering (RCH); invoices for \$35,830, \$32,420 and \$1,500 paid to National Technical Systems; and one invoice for \$2,000 paid to the Department of the Army. The entire progress payment request was false, as all the invoices related to first article work, not production work. The Air Force had already reimbursed Pacific for these invoices during the preproduction period. In addition, it was determined Pacific had altered the RCH invoices to claim an additional \$120,000 over the amount RCH had actually billed Pacific. The original RCH invoices were in amounts of \$20,000 and \$1,845, but were altered to read \$120,000 and \$21,845. Special Agents Charles Huggins, Denver RA, and James Schaeffer, Western FO, 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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