

# Fraud Awareness Newsletter

Volume 98-09

June 1-15, 1998

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



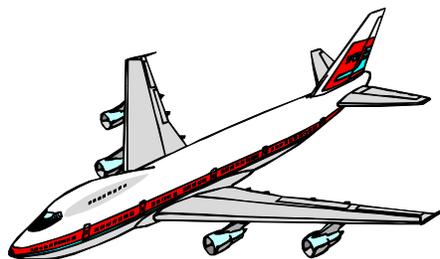
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## Indictments

### Product Substitution

An indictment was returned against Norman L. Clark, former quality assurance consultant, Micacraft Products Company, Incorporated (Micacraft), Newark, NJ, charging him with five counts of mail fraud and one count of wire fraud. Clark was identified during an investigation that targeted companies and individuals who had previously supplied nonconforming items to the Department of Defense (DoD) through the Defense Supply Center Columbus. Prior to working at Micacraft, Clark was an audio engineer for Radalab. Between 1986 and 1991, Radalab bid on and was awarded multiple contracts to supply M-

80 microphones to the DoD. These are critical application items used in battlefield communications systems. In 1991, the DoD notified Radalab and Clark they had supplied more than 72,000 defective M-80 microphones under these contracts, some of which were used in Operation Desert Storm. When Radalab went out of business, Micacraft purchased Radalab's remaining inventory, which unknown to Micacraft, included defective M-80 microphones. Clark allegedly defrauded the Government by falsely representing that the M-80 microphones met all specifications and had passed a series of required tests. Special Agent Bret Flinn, Dayton Resident Agency (RA), is conducting the investigation with the Federal Bureau of Investigation (FBI).



## Heat Treating

Indictments were returned against West Coast Aluminum Heat Treating Company (West Coast), La Mirada, CA; June Fitch, its president and quality assurance manager; and Gene Fitch, Jr., its vice president and general manager. The defendants were charged with one count of conspiracy and nine counts of submitting a false statement to the Government. An investigation disclosed that from 1981 to March 1997, West Coast allegedly improperly heat treated and falsified quality testing on parts used in various DoD programs. Those programs include the U.S. Army OH-58D Kiowa Warrior and Apache attack helicopters; the U.S. Navy Phalanx close-in air and missile defense system, the F/A-18 and P-3 aircraft; the U.S. Air Force Titan IV missile, C-9, C-17, KC-10, F-15, F-16, F-22 and AWACS aircraft; the U.S. Marine Corps AH-1 Cobra attack helicopter; the multiservice UH-1 Huey and V-22 helicopters; the National Aeronautics and Space Administration (NASA) Space Station; the Boeing Aircraft Company 737, 747, 757, DC-8, C-9, DC-10, MD-11, MD-80 and MD-90 aircraft; and Bell commercial helicopter models 22B, 22U, 230, 430 and 412. The fraud was wide spread and affected the majority of compo-

nents processed at West Coast. West Coast engaged in the alleged fraud to complete jobs quicker, process more jobs, make more money. Special Agent Frederick Cosby, Western Field Office (FO), is conducting the investigation with the NASA, the Department of Transportation and the Defense Logistics Agency.



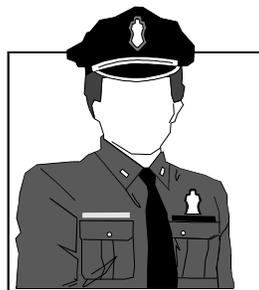
### Health Care

Charges were filed against Merrilee Ann Matheny, owner of Inner Resources Counseling and Educational Services (Inner Resources), Kingsville, TX, for securing execution of a document by deception, a violation of the Texas Penal Code. Matheny allegedly submitted false claims to TRICARE, formerly the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) for individual psychotherapy treatment provided to CHAMPUS beneficiaries by her husband, Lloyd Dempster. Dempster conducted counseling sessions with CHAMPUS beneficiaries and Matheny submitted the claims to CHAMPUS as if she rendered the services. An investigation determined Dempster is not licensed by the State of Texas to conduct counseling. As a result of these actions, Ma-

they improperly received \$5,600 from CHAMPUS. Special Agent George Fifer, Houston RA, conducted the investigation jointly with the Texas Department of Health.

### Theft

Alex Roland Parrish was convicted for theft of Government property. When employed as a police lieutenant at the Defense Depot Memphis, Memphis, TN (DDMT), Parrish allowed two unidentified males to enter the depot and then escorted them in his police vehicle to the DDMT motor pool. He then permitted the individuals to take a Government truck fully loaded with DoD property and drive off the depot. Parrish was convicted for the theft of the truck, valued at \$92,605. The truck was later recovered; its contents were not. Special Agent James B. Hogan, Nashville Post of Duty (POD), conducted the investigation with assistance from the Office of the director of Security, DDMT.



### False Test Report

John Damanda, quality assurance representative, Defense Contract Management Command, Syracuse, NY, pled guilty to submitting a false statement to the Government. Damanda falsely certified he witnessed "residual gas analysis" testing of

three microelectronic devices manufactured by EMS Technologies, Incorporated, Norcross, GA, at Oneida Research Services, Incorporated (ORS), Whitesboro, NY. In fact, an employee of ORS brought the already completed testing documents for signature to Damanda's office at the Utica Corporation, Whitesboro, NY, across the street from ORS. The microelectronic devices are used on DoD radar systems to track the movement of tanks and armored vehicles behind enemy lines. Special Agent Scott Miller, Syracuse RA, conducted the investigation with the NASA.

### Kickback Conspiracy

William Robert Pilkey was found guilty on 1 count of conspiracy and 13 counts of false claims. Pilkey is the owner of CAIAM Coatings, Thatcher, UT, a former subcontractor to Corident Technologies, Thiokol Propulsion (formerly Thiokol Corporation, Strategic Operations), UT. Pilkey and Dennis Jenkins, a former senior planning engineer with Thiokol Corporation, conspired to accept cash and other gratuities regarding modification of contract obligations awarded to CAIAM Coatings. Pilkey subsequently submitted false and inflated invoices under the modification in conjunction with a maintenance contract valued at \$700,000. Special Agent Donald Spatig, Salt Lake City RA, conducted the investigation jointly with NASA and the Air Force Office of Special Investigations.

## Overcharging

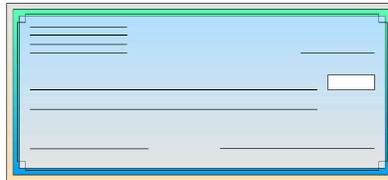
Joseph P. Garcia, president and chief executive officer, Research Management Corporation (RMC), Virginia Beach, VA, pled guilty on behalf of RMC to one count of making a false statement. The RMC failed to disclose quantity discount pricing on materials (equipment racks) manufactured by a subcontractor in a proposal RMC submitted to the Navy. The investigation disclosed that discount pricing information on the equipment racks was known to RMC and that RMC placed an order with its subcontractor for the equipment racks at the discounted price prior to RMC submitting its final proposal to the Navy. Failure to disclose this information caused the submission of inflated claims and an overpayment of \$112,986 to RMC. Special Agent Christine Schuck, Norfolk RA, conducted the investigation with audit assistance from the Defense Contract Audit Agency (DCAA).



## Kickbacks

Coast Scientific, Incorporated (CSI), Saeid Shahri, owner of CSI, and Priscilla Gallares Bray, an employee of Scripps Research Institute (Scripps), La Jolla, CA, pled guilty to conspiracy to commit mail fraud. Scripps, a scientific research facility, is funded in part by DoD grants. An investigation determined that Shahri conspired with Bray to

submit fraudulent invoices to Scripps based on fictitious purchase orders provided by Bray. Bray would then confirm receipt of the purchases to the Scripps Accounting Department. Shahri obtained over \$170,000 from Scripps for medical supplies that were never delivered and paid Bray a portion of that amount in kickbacks. Special Agent Gregory Hedtke, San Diego RA, conducted the investigation jointly with the FBI.



## Check Theft

Nick Coluccio pled guilty to conspiring to defraud the Internal Revenue Service (IRS). Coluccio conspired with and acted as a “check cashier” for Robert Berger, president of Royce Aerospace Materials Corporation (Royce), Farmingdale, NY, to defraud the IRS. Berger devised a fictitious invoicing scheme to generate cash out of Royce. As part of the scheme, Coluccio and other check cashiers, provided the names of numerous fictitious companies to Berger. Checks were written and issued from Royce to these fictitious companies. The checks were then cashed by the check cashiers and the cash delivered back to Berger, minus a fee kept by the check cashiers. Berger then used the cash to pay kickbacks to prime DoD contractors. In a related case, Ronald

Leonardi, East Rockaway, NY, pled guilty to accepting kickbacks and income tax evasion. Leonardi, former purchasing manager of raw materials for Israel Aircraft Industries International (IAII), New York, NY, accepted kickbacks from Royce. Between 1991 and 1993, Leonardi received about \$47,000 in cash payments from Royce. In return, he provided Royce with bidding information that allowed the company to be the lowest bidder on subcontracts awarded by IAII. The additional income was not reported on Leonardi’s tax returns. Special Agent Stephanie Jimroglou, New York RA, conducted the investigations jointly with the IRS.

## Sentences

### Progress Payment Fraud

Everett Weber, president, Rubin Gloves, Incorporated (Rubin), was sentenced to 1 day in prison, 6 months home confinement, 120 days community service, 5 years supervised release, to pay \$154,245 in restitution and a \$100 special assessment fee. Weber previously pled guilty to major fraud against the Government and bank fraud. Rubin had a contract with the Defense Logistics Agency to manufacture approximately \$7.5 million worth of dress gloves for the U.S. Military Services. A number of suppliers provided Weber with fictitious invoices for leather that Weber used to support claims to the DoD. Weber also made false statements to Key Bank concerning his inventory of leather, including the leather being used on this DoD

contract. Weber fraudulently received progress payment moneys from the Government amounting to approximately \$692,000. Suspension and debarment proceedings are pending. Special Agent William Bates, Syracuse RA, conducted the investigation with the FBI and with audit assistance from the DCAA.



### Witness Tampering

Elizabeth J. Rogers, former on-site manager for Specialized Services, Incorporated (SSI), was sentenced to 12 months in prison, 3 years supervised release and ordered to pay \$11,627 in restitution, a \$3,000 fine and a \$300 special assessment fee. Rogers was previously convicted of theft and tampering with a witness. The SSI provided shelf-stocking and janitorial services at the Scott Air Force Base Commissary for the Defense Commissary Agency. An investigation disclosed that Rogers obtained 18 payroll checks of a former employee of SSI by submitting false timecards. The funds were deposited into Rogers' personal checking. Rogers then attempted to enlist the former employee's cooperation in the scheme by providing financial incentives for her to lie. The for-

mer employee will not be charged in the scheme. Special Agent Steven Wattles, Central FO, conducted the investigation.

### Forgery

Nathaniel Robert Wilson was sentenced in U.S. District Court, Minneapolis, MN, to 6 months probation, 100 hours of community service, and a special assessment of \$50. Wilson previously pled guilty to committing forgery, counterfeiting and falsely altering a certificate of discharge from the Military Service of the United States. Wilson, a former U.S. Army veteran, altered and used a false Report of Separation from Active Duty (DD Form 214) document to obtain State of Minnesota Combat Wounded (Purple Heart) license plates from the Minnesota Department of Driver and Vehicle Services. Minnesota Purple Heart license plate holders are exempt from paying personal property tax for that vehicle. Special Agent Daniel Boucek, Minneapolis POD, conducted the investigation jointly with the FBI.

### Bank Fraud

Harry Carboni, former management consultant of Cableco, Incorporated (Cableco), Rocky Hill, CT, and of North American Cable Corporation (North American), a wholly-owned subsidiary of Cableco, was sentenced to 25 months incarceration, 3 years supervised release, \$195,840 restitution and a \$150 special assessment. Carboni was previously convicted of mail fraud. Cableco, a now defunct DoD prime contractor, supplied the DoD

with various types of electrical wire and cable products. Carboni created false invoices and submitted fraudulent borrowing base certificates to a Connecticut bank to obtain funds under the terms of its line of credit. Cableco received a term loan and line of credit to support its manufacture and distribution of wire and cable products to its customers, the largest being the Defense Industrial Supply Center (DISC), Philadelphia, PA. Cableco subsequently defaulted on its loan and its contracts with DISC. Special Agent Scott Jackson, Hartford RA, conducted the investigation with the FBI.

### Jury Tampering

Steven Dalgetty was sentenced to 3 years probation, fined \$5,000 and assessed a \$50 fee for accepting a kickback and influencing or injuring an officer or juror. Dalgetty, a former employee of Harbert Construction Company (Harbert), a prime DoD contractor at Fort Leonard Wood, MO, received a \$30,000 kickback in the form of a home remodeling job by two Harbert subcontractors. Subsequent to providing the kickback, Dalgetty awarded the subcontractors, Richard and Frank Schulte, owners of Schulte Construction Company, Iberia, MO, three subcontracts totaling \$169,911, of which \$113,000 was profit. Dalgetty also instructed the Schultes to lie to the grand jury about the remodeling job. Special Agent Edwin Outlaw, Kansas City RA, conducted the investigation with the U.S. Army Criminal Investigation Command.

### Relocation Expenses

Adrinadream Starms was sentenced in U.S. District Court, Columbus, OH, to 3 years probation and ordered to pay \$2,001 in restitution and a \$50 special assessment fee. Starms previously pled guilty to false claims.

When her computer operator position was abolished, Starms, a former GS-5, transferred from the Defense Finance and Accounting Service (DFAS), Indianapolis, IN, to the DFAS, Columbus, OH (DFAS-CO). Starms was granted a permanent change of station and received advance funds for travel, per diem and movement of household goods. She subsequently submitted three travel vouchers to DFAS-CO for her travel and relocation expenses that included a fraudulent receipt from the Oakwood/Woodcrest Apartments (OWA), Reynoldsburg, OH, for \$2,001. An investigation revealed Starms never lived at the OWA. Special Agent Valerie Van Meter, Columbus RA, conducted the investigation.

### Product Substitution

Steven Karlik, Jr., former president, Philips Components, Discrete Products Division (Philips), West Palm Beach, FL, was sentenced to 40 months incarceration, 36 months supervised release, a \$25,000 fine and a \$50 special assessment fee. Karlik previously pled guilty to conspiracy to defraud the DoD. An investigation revealed that Karlik engaged in a scheme to supply nonconforming Qualified Products List (QPL) capacitors to the Defense Electronics Sup-

ply Center (DESC) and DoD contractors. The scheme included changing and falsifying test data to conceal from DESC that capacitors failed various required tests. Karlik and others also concealed from DESC that QPL capacitors were manufactured and tested at a Philips facility in the Dominican Republic that was never approved by DESC to produce QPL capacitors. Special Agent Anthony Hagemeyer, Orlando RA, conducted the investigation with the FBI.



### Civil Informations Product Substitution

A civil complaint was filed against the following companies and individuals: Sircle Spring Company (Sircle), Cleveland, OH; Patrick Leneghan, Sr., president of Sircle; North Shore Strapping Company, Incorporated (North Shore), Cleveland, OH; Kevin Leneghan, vice president of North Shore; Patrick Leneghan, Jr., secretary/treasurer of North Shore; and Bridgette Leneghan, president of North Shore and secretary/treasurer of Sircle. Sircle and North Shore were awarded DoD contracts to supply galvanized 1 1/4 inch flat steel strapping. The defendants are charged with knowingly supplying the DoD with defective 1 1/4 inch flat steel strapping for which they received \$115,000. The amount of damages will be

determined at trial. Special Agent Christopher Hale, Cleveland RA, is conducting the investigation.

### Life Insurance Fraud

A civil complaint was filed in U.S. District Court, Tacoma, WA, against American Fidelity Life Insurance Company (AMFI), Pensacola, FL; its affiliated company, Trans World Assurance Company (TWA), San Mateo, CA; and Charles B. Royals, president TWA. They are charged with conspiracy, fraud and unlawful financial transactions. An investigation has determined that AMFI and TWA and their representatives allegedly have targeted young and inexperienced U.S. military personnel for the sale of whole life insurance policies known as the "flexible dollar builder" (FDB). Through deceptive sales practices, the FDB policies are misrepresented as an "investment," "savings plan" or "supplemental retirement plan." The insurance agents allegedly circumvented DoD Directives and military regulations to gain entrance to military installations throughout the United States and overseas. The defendants also used a variety of ruses to induce Service members to buy policies, to include buying alcoholic beverages for the Service members, making false statements and bribing noncommissioned officers to gain access to the Service members. The Government is seeking damages up to \$200 million. Special Agent Henry Mungle, Seattle RA, is conducting 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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