

Fraud Awareness Newsletter

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Office of the Inspector General
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INDICTMENTS

Income Tax Evasion

A two-count indictment returned against Peter Simonelli was unsealed. Simonelli, former president of Eastford Tool and Die Company, Incorporated (Eastford), Woodstock, CT, was charged with conspiracy and income tax evasion. In a related case, indictments were returned against Tracey Curry and David Stuart charging them with making false statements. Curry and Stuart are former buyers for Pratt & Whitney Aircraft (Pratt & Whitney), a division of United Technologies Corporation, East Hartford, CT. Simonelli allegedly diverted hundreds of thousands of dollars from Eastford for personal use and failed

to report that income to the IRS. Curry and Stuart allegedly received gifts and gratuities from a Pratt & Whitney supplier and lied to the DCIS and the IRS about doing so. Eastford supplied tools and dies to Pratt & Whitney, which manufactures jet engines for military and commercial use. Special Agents Scott Jackson and Henri Bailargeon, Hartford Resident Agency (RA), are conducting the investigations with the Federal Bureau of Investigation (FBI) and the Internal Revenue Service (IRS).

Embezzlement

Raymond J. Keegan, Jr., Plymouth, MA, former co-owner and president of Argent Research and Recovery, Ltd. (Argent), pled guilty to two counts of Federal income tax evasion. Keegan failed to report \$106,000 on his personal income tax returns filed for 1993 and 1994. Argent was operated as a business that identified Federal, state and local government funds that had not been collected by the payees, and contracted with the payees to collect the funds for a percentage of the proceeds.

Both Argent and Matthew M. Drohan, co-owner and executive vice president of Argent, were previously found guilty and sentenced for embezzling funds collected on behalf of payees, including the DoD. In pleading guilty to tax evasion, Keegan acknowledged that the unreported income he received through Argent was derived from criminal activity. Special Agent Keith Johnston, Boston RA, conducted the investigation with the U.S. Secret Service and the IRS.

Contract Fraud

Annie Marie Roy pled guilty to theft and conspiring to defraud the Government. Roy, a former voucher examiner for the Defense Finance and Accounting Service (DFAS), St. Louis, MO, conspired with another person to create fictitious businesses. They then prepared fraudulent U.S. Army contracts that resulted in two payments being generated that totaled \$24,795. Special Agent Linda Hanley, Central Field Office (FO), conducted the investigation with the FBI and the U.S. Postal Inspection Service.

Product Substitution

Randy B. McNeal pled guilty to 39 counts of making false statements, submitting false claims and mail fraud. From 1991 through 1996, McNeal operated a scheme he devised to defraud the Department of De-

fense (DoD). McNeal was a consultant for five companies: Grove Industries, Incorporated; Divided Manufacturing, Incorporated; Central Pioneer, Incorporated; Eagle Manufacturing, Incorporated; and American Manufacturing, Incorporated. He persuaded individuals with little or no experience to incorporate various entities, assisted in incorporating those entities and then devised a profit sharing plan with the individuals. McNeal then conducted business with the DoD through these corporations and knowingly supplied nonconforming substituted items under numerous purchase orders awarded the corporations by the Defense Supply Center Columbus, Columbus, OH. The purchase orders required Original Equipment Manufacturer (OEM) parts be furnished; however, McNeal supplied parts marked as OEM that proved to be unusable, then invoiced DFAS for payment. Special Agent Michael Hampp, Columbus RA, conducted the investigation.

SENTENCES

Defective Pricing

Frequency Electronics, Incorporated (Frequency), Uniondale, NY, pled guilty to making false statements to the DoD and was then sentenced to pay \$8 million in damages and a \$200 special assessment fee. The plea settles charges of alleged defective pricing on Advanced Medium Range Air-to-Air Missile Program (AMRAAM) and cesium tube contracts with the DoD. Frequency and certain company executives conspired to submit

false claims in connection with a series of contracts (valued at over \$12 million) between Frequency and TRW Space and Defense Sector. The TRW was prime contractor to the National Reconnaissance Office to build timing devices for U.S. space satellites. To conceal the conspiracy, the executives manufactured a second set of books and destroyed original accurate time records. In addition, Frequency submitted false claims on Navy and Air Force contracts for AMRAAM components by inflating and falsely stating its production costs. The company further submitted false claims and statements on production costs for cesium standards, which are components used in a variety of Defense-related contracts. Special Agent Michael Valiando, New York RA, conducted the investigation with the FBI, the Naval Criminal Investigative Service (NCIS), the Air Force Office of Special Investigations (AFOSI) and with audit support from the Defense Contract Audit Agency.

Health Care Fraud

Ronda Anderson, owner and operator of Moon Valley Counseling, Phoenix, AZ, and former employee of Apex Family Counseling, Phoenix, AZ, was sentenced to 4 months home detention, 60 months probation, \$24,953 restitution and a \$200 special assessment. Anderson previously pled guilty to mail fraud and subscribing to a false tax return. An investigation determined that Anderson submitted claims for reimbursement to

TRICARE, formerly the Civilian Health and Medical Program of the Uniformed Services, and private insurance companies for counseling services that were never rendered to patients. The claims for the purported services were submitted under another provider's provider number and were provided by noncertified counselors. Special Agent Janice Flores, Phoenix RA, conducted the investigation jointly with the FBI and the IRS.

Kickbacks

Milton Eugene Beresford, Farmingdale, NY, was sentenced to 4 months imprisonment, 4 months home detention, 3 years supervised release, a \$3,000 fine and a \$100 court assessment. Beresford previously pled guilty to receipt of kickbacks and to income tax evasion. An investigation disclosed that Beresford, a purchasing agent of raw materials for Israel Aircraft Industries International (IAII), New York, NY, illegally received kickbacks from Royce Aerospace Materials Corporation (Royce), Farmingdale, NY, a former DoD subcontractor and supplier of raw materials. Between 1991 and 1994, Beresford received approximately \$57,000 in cash kickback payments from Royce. In return, he provided Royce with the bidding information needed to be the lowest bidder on subcontracts awarded by IAII. Beresford failed to report this additional income on his tax returns. Special Agent Stephanie Jimroglou, New York RA, conducted the investigation with the IRS.

Product Substitution

Plasmaterials, Incorporated, San Ramon, CA, and its president, Donald Sarrach, were sentenced for convictions of one count each of mail fraud. Plasmaterials was sentenced to 36 months probation, fined \$35,000 and ordered to pay a \$100 special assessment fee. Sarrach was sentenced to 6 months confinement, followed by 4 months home detention, 36 months supervised release, ordered to pay a \$5,000 fine and a \$100 special assessment fee. Sarrach was also ordered to surrender to the Bureau of Prisons within 60 days. Plasmaterials purchased low purity level "sputtering targets," repackaged them and provided a certificate of analysis to its customers representing that the targets were of a higher level of purity. Sarrach shipped the nonconforming targets to prime DoD contractors, suppliers and vendors, as well as the Department of Energy and the NASA. The targets, which create thin film coatings on various metallic or non-metallic surfaces to strengthen or illuminate that surface, are used in heads-up displays, aircraft canopies, microprocessor assemblies and a multitude of other aerospace and military applications. Special Agents Davidson Martin and Byron McGinley, San Francisco RA, conducted the investigation with the FBI.

Insurance Fraud

Michael W. McGhee was sentenced to 8 months of home confinement (with electronic monitoring), 3 years probation, a \$4,000 fine, restitution of \$23,735.34, 384 hours of community service and a \$100 special assessment fee. McGhee previously pled guilty to one count of mail fraud. An investi-

gation of McGhee was initiated based on information received through the U.S. Attorney's Health Care Fraud Task Force. A private insurance company had reported McGhee was suspected of defrauding DoD civilian employees, former military members and private citizens in a supplemental life insurance policy scheme. The private insurance company had determined a supplemental life insurance policy had been surrendered for its cash value without any authorization from the policy holder. McGhee set up a scheme using over nine mail drops to falsely represent himself as the actual policy holder. McGhee would contact the insurance companies, execute change of address forms and ultimately forge signatures on documents surrendering the policies. He attempted to obtain over \$30,000 and was able to actually defraud the companies of \$23,754. Special Agent Jay Strauch, Columbus RA, conducted the investigation jointly with the U.S. Postal Inspection Service.

CIVIL INFORMATIONS

Product Substitution

A civil complaint was filed against Jo-Bar Manufacturing Corporation (Jo-Bar), Cleveland, OH, and Alga Masley, its president, secretary and treasurer. Jo-Bar and Masley allegedly knowingly provided defective products to the DoD. Jo-Bar was awarded a U.S. Army contract to produce 130 gear clusters for the Bradley fighting vehicle. The contract specifications required the gear clusters be permanently

joined by an electron beam welding process, which Jo-Bar failed to perform. Jo-Bar was paid more than \$44,000 as a result of false claims for the defective gear clusters. The amount of damages to the United States will be determined at trial. Special Agent Timothy Robertson, Cleveland RA, conducted the investigation jointly with the U.S. Army Criminal Investigation Command (USACIDC).

CIVIL SETTLEMENTS

Health Care

The Government and the Commonwealth of Pennsylvania resolved a civil investigation and a related Federal False Claims Act lawsuit against Altoona Anesthesia Associates, P.C. (AAA), and its physicians. The AAA allegedly submitted false billings to TRI-CARE, Medicare, Medicaid and other Federal health care programs. Under terms of the settlement agreements, AAA paid \$585,000 to indemnify Federal and state health care programs for AAA's false billings; Frank A. Kunkel, M.D., a physician with AAA, agreed to pay \$300,000 as a result of his participation in the billing practices that led to AAA's false billings. The \$885,000 recovery from AAA and Kunkel is more than three times the amount AAA had improperly received. Special Agent Cynthia Krauth, Pittsburgh Post of Duty (POD), conducted the investigation jointly with the U.S. Attorney's Office, the Pennsylvania Attorney General's Office, the Department of Health and Human Services, the Health Care Financing Administration and the Pennsylvania Department of Public Welfare.





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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