

# Fraud Awareness Newsletter

Volume 98-12

August, 1998

Courtesy of the

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



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](http://www.dfsc.dla.mil/main/d/home_g.htm). This newsletter is based on press releases and public information.

## **Indictments Heat Treating**

A superseding indictment was returned charging West Coast Aluminum Heat Treating Company (West Coast), La Mirada, CA; June Fitch, president and quality assurance manager, West Coast; and Gene Fitch, vice president and general manager, West Coast, with one count of conspiracy to make false statements and nine counts of submitting false statements. Additionally, Gene Fitch was charged with one count of obstruction of a Federal grand jury proceeding and one count of obstruction of a proceeding before a department or agency. The original indictment charged West Coast and June and Gene Fitch with conspiracy

to make false statements and nine counts of submitting a false statement. An investigation disclosed that from 1981 to March 1997, West Coast allegedly improperly heat treated and falsified quality testing on parts used in various Department of Defense (DoD) programs. Those programs included the U.S. Navy Phalanx close-in air and missile defense system, the F/A-18 jet and P-3 aircraft; the U.S. Marine Corps AH-1 Cobra attack helicopter; the U.S. Army OH-58D Kiowa Warrior and Apache attack helicopters; the Air Force Titan IV launch vehicle, C-9, C-17, KC-10, F-15, F-16, F-22 and AWACS aircraft; the multiservice UH-1 Huey and V-22 helicopters; the National Aeronautics and Space Administration (NASA) Space Shuttle; the Boeing Aircraft Company 737, 747, 757, DC-8, DC-9, DC-10, MD-11, MD-80 and MD-90 aircraft; and the Bell commercial helicopter models 22B, 22U, 230, 430 and 412. West Coast allegedly engaged in the fraud so as to complete jobs quicker, process more jobs, save money on natural gas that heated the fur-

naces, and to make more money. On June 16, 1998, the defendants were suspended by the Defense Logistics Agency (DLA) from contracting with the Government. Special Agent Frederick Cosby, Western Field Office (FO), is conducting the investigation with the National Aeronautics and Space Administration (NASA), the Department of Transportation and the Defense Contract Management Command.

## **Bank Fraud**

An indictment returned against David M. Mitchell, co-owner and president of Campbell M. Industries, Incorporated (CMI), Stockton, CA, was unsealed. Mitchell is charged with bank fraud. Initial allegations against CMI involved product substitution and false statements on purchase orders awarded CMI by the Defense Industrial Supply Center, Philadelphia, PA. An investigation disclosed that Mitchell allegedly obtained a \$200,000 tax refund check due to Trillium Digital Systems (Trillium), Incorporated, Los Angeles, CA, and deposited the check into the CMI bank account. When questioned by bank officials regarding the tax refund check, Mitchell allegedly presented fraudulent invoices that gave the appearance he had received the check in exchange for selling surplus aircraft parts

to Trillium. Trillium officials deny ever doing business with CMI or Mitchell. Trillium, a software and Internet engineering firm, does not sell or use surplus aircraft parts. Union Safe Deposit Bank, Stockton, CA, a federally insured bank, was defrauded of \$195,000 as a result of the scheme. Special Agent Tracy McIntosh, San Francisco Resident Agency (RA), is conducting the investigation with the Federal Bureau of Investigation (FBI).

### **Kickback**

A 41-count indictment was unsealed in Tampa, FL, charging Stanford Rome with 1 count of conspiracy, 28 counts of violating the Medicare Fraud Anti-kickback Act and 12 counts of violating the Employee Retirement Income Security Act. Rome allegedly received payments for referring psychiatric patients to Manors Hospital for mental health, alcohol and drug treatments. Some of those patients were covered by the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS). Special Agent James Sutherin, Orlando RA, is conducting the investigation with the Internal Revenue Service (IRS) and the FBI.

### **Bank Fraud**

An indictment was returned against Mirza Z. Ali charging him with bank fraud and making a false statement on a loan application. Ali allegedly operated as a principal in his wife's company, Samtech Research (Samtech), Fremont, CA, under the aliases Zulfigar Eqbal and

Henry Stone. In this capacity he also did business with the DoD, although he was previously debarred from Government contracting by the HHS. Ali also allegedly obtained a home construction loan under the alias Eqbal and used his alias as Stone to verify his income from Samtech Research. These actions allowed Ali to obtain over \$240,000 from Cupertino National Bank, Cupertino, CA. Special Agent Tracy McIntosh, San Francisco RA, is conducting the investigation.

### **Health Care**

A 10-count complaint was filed against Simon Andrew Casey, doing business as Psychoneurological Institute, Mission Viejo, CA. The State charges against Casey include grand theft, filing false claims for health care benefits and violations of a business and professional code. An investigation disclosed Casey allegedly practiced psychology in the State of California for several years without a license and misled his patients to believe he was a licensed practitioner. He then submitted claims for payment to various insurance companies, including CHAMPUS, for these services. Individuals personally paid Casey tens of thousands of dollars for what many now consider questionable psychological advice. Special Agent Michael Blackburn, Western FO, is conducting the investigation jointly with the California Medical Board.

### **Bribery**

An information was filed

against Control Systems Specialist (CSS), Fairborn, OH, and Darrold Crites, president of CSS, charging each with conspiracy, bribery of a U.S. official and violating the Foreign Corrupt Practices Act. As president of CSS, Crites managed the acquisition and refurbishment of aircraft maintenance supplies for resale to the Government of Brazil. Crites allegedly paid a U.S. Government employee to assist him in establishing his business by locating and acquiring Government surplus equipment used for resale to the Government of Brazil. In order to secure and maintain business from the Brazilian Government, Crites allegedly improperly paid a Brazilian Government official. Special Agent John Carper, Dayton RA, is conducting the investigation.

### **Kickbacks**

One-count informations were unsealed in Tampa, FL. The informations charged Lindsay Huttleston with interstate racketeering, Jackie Krone with conspiracy and Miles Ferris with false claims. All were allegedly involved in paying kickbacks in a patient brokering scheme that included referring psychiatric patients to Horizon Hospital for mental health, alcohol and drug treatments. Some of the referred patients were covered by CHAMPUS. Special Agent James Sutherin, Orlando RA, is conducting the investigation with the IRS and the FBI.

### **Kickbacks**

An information was unsealed in Tampa, FL, charging David Hutto with conspiracy. Hutto

was the owner and operator of Resource Management Group (RMG), Tampa, FL. An investigation disclosed that RMG allegedly referred psychiatric patients to Manors Hospital in return for kickback payments. Hutto also illegally received payments for patient referrals for mental health, alcohol and drug treatments at Manors Hospital and Horizon Hospital in Florida. Some of the patients referred were covered by CHAMPUS. Special James Sutherin, Orlando RA, is conducting the investigation with the IRS and the FBI.

#### **Aircraft Parts**

Robert E. Petty, Jr., president and owner of Airweld of Kentucky, Incorporated (AOK), and REP-AIR, both of Louisville, KY, pled guilty to embezzlement, theft of public money and mail fraud. In a related case, Robert V. Petty, former president and owner of AOK, Oakland, CA, pled guilty to mail fraud. The Pettys devised a scheme in which used, repaired and serviceable aircraft parts were purchased and sold at the higher catalog price as if newly manufactured by McDonnell Douglas. The inflated costs for new parts were passed along to commercial and Government prime contractors that included Serv-Air, Greenville, TX, and E-Systems. The parts affected by the scheme were used in the repair and overhaul of wheels and brakes, airstairs and thrust reversers for the McDonnell Douglas DC-9 aircraft. The DC-9 is used by the Navy, the Air Force and the commercial aviation in-

dustry. Special Agent Brian Evans, San Francisco RA, conducted the investigation with the FBI and the Department of Transportation.

#### **Check Theft**

Karim Imari Burke was found guilty in the Court of Common Pleas, Philadelphia, PA, of receiving stolen property. An investigation identified Burke as the source of stolen U.S. Treasury checks being negotiated by various third parties on Burke's behalf. Two of the U.S. Treasury checks had been issued by the Defense Finance and Accounting Service (DFAS) and by Fort George G. Meade, MD. The checks totaled \$37,358. Special Agent John Davis, Northeast FO, conducted the investigation jointly with the U.S. Postal Inspection Service and the Police Department, Philadelphia, PA.

#### **Sentences**

##### **Retirement Benefits**

Sonya R. Fernandez was sentenced in U.S. District Court, Los Angeles, CA, to 24 months confinement, 36 months probation and to pay \$269,488 in restitution and a \$400 special assessment. Fernandez previously pled guilty to theft and embezzlement and submitting false statements to an agency of the Government. For 10 years after the death of Luciano Garcia, a former U.S. Navy veteran, Fernandez continued to receive the Federal retirement benefits of Garcia. The funds were electronically deposited by DFAS into the joint bank account of Garcia and Fer-

nandez, his adopted daughter. In failing to notify the Government of Garcia's death, Fernandez illegally received and converted to her own use \$97,340. Likewise, the Social Security Administration (SSA) continued to electronically deposit monthly retirement funds into Garcia's bank account. Those funds amounted to \$91,106. Fernandez also falsified numerous income declarations she submitted to Federal and local welfare agencies by failing to declare the income she obtained from DFAS and SSA. The Department of Housing and Urban Development concluded that Fernandez received \$81,042 in Federal housing subsidies as a result of the omissions. Special Agent Michael Blackburn, Western FO, conducted the investigation jointly with the SSA.

##### **Gratuities**

William R. Pilkey, former owner of Caiam Coatings (Caiam), was sentenced to 12 months imprisonment, 3 years supervised release, ordered to pay restitution of \$29,995 and a special court assessment of \$750. Pilkey was previously found guilty of submitting false invoices and conspiracy to commit fraud. Pilkey and Caiam, a subcontractor for Thiokol Corporation, a DoD contractor, gave cash and gratuities to a Thiokol employee in return for facilitating a contract modification favorable to Caiam. 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 the Air Force Office of Special Investigations (AFOSI) and the NASA.

### **Embezzlement**

Mychael Rodriguez was sentenced to 2 years imprisonment and to pay restitution totaling \$266,021 for embezzlement and conspiring to commit embezzlement. Elena Rodriguez (Mychael's wife) devised a scheme to defraud Lockheed Martin Services Group (LMSG), Albuquerque, NM, by forging checks for fictitious materials made payable to two companies owned by her husband. The forged checks were deposited into personal and business accounts in the names of Elena and Mychael Rodriguez. Elena Rodriguez also altered LMSG documents to avoid detection and to conceal the embezzled funds. The cost of the embezzled moneys was passed to LMSG and the DoD by the direct billings and indirect cost accounts that were affected. Special Agent Jeffery Fauver, Albuquerque Post of Duty (POD), conducted the investigation jointly with the White Collar Crimes Division of the Albuquerque Police Department.

### **Civil Settlements**

#### **Qui Tam**

Charter Hospital Orlando South (Charter Hospital), Kissimmee, FL, reached a \$4.7 million settlement agreement with the Department of Justice. The complaint was originally filed by two former employees

of Charter Hospital. An investigation found that Charter Hospital improperly admitted and retained patients for psychiatric treatment who were actually suffering from dementia, organic brain disorders and symptoms of Alzheimer's Disease. Personnel at Charter Hospital knew such treatment was not medically necessary for those patients, in addition to falsifying patient medical records to receive Government reimbursement. Special Agent Robert Calvert, Orlando RA, conducted the investigation.

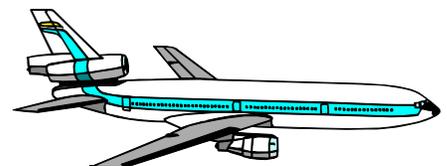
#### **Laboratory Tests**

Quest Diagnostics (Quest), successor company to Damon Clinical Labs, Incorporated (Damon), formerly of Needham Heights, MA, agreed to pay \$15 million to settle charges that it participated in a scheme to defraud Medicare. The scheme involved submitting false or fraudulent claims for certain laboratory tests provided to patients with end stage renal disease. A civil complaint was also filed against the dialysis companies-- Transitional Hospitals Corporation, Incorporated, as successor to Community Psychiatric Centers, Incorporated (CPC), and Dialysis Holdings, Incorporated, as successor in interest to Vivra, Incorporated (Vivra)--that allegedly participated in the scheme to submit the false claims. An investigation found that Damon, CPC and Vivra entered into a joint arrangement to operate a clinical laboratory in Smyrna, GA. Under the agreement, CPC and Vivra agreed to have the laboratory refer the blood testing for end stage renal disease patients treated at their nationwide system of dialysis clinics in return for a portion of the profits. Damon, CPC and Vivra conspired to manipulate

the normal blood panels of those patients. Instead of drawing a onthly panel of 19 blood tests, the panel was split into two separate panels administered on two separate days. This evaded Medicare reimbursement rules, caused unnecessary monthly blood draws for those patients, and increased profits. In addition, medically unnecessary tests were added to the panels to further increase revenue received from Medicare. The civil settlement with Quest also resolves a portion of a dispute, originally filed as a qui tam complaint, alleging wrongdoing by Damon and Vivra concerning the unnecessary blood draws. The individual who provided the initial information will recover \$1.5 million of the Government settlement amount with Quest. Special Agent Ann Previtali, Boston RA, conducted the investigation with the FBI and the Health and Human Services (HHS).

#### **Grants**

Spire Corporation, Bedford, MA, reached a \$547,000 civil settlement agreement with the U.S. Attorney's Office, Eastern District of Virginia, Alexandria, VA. The agreement settles concerns that resulted from an investigation of contracts and grants awarded to Spire, including those awarded by the Defense Advanced Research Projects Agency through the Small Business Innovation Research Program. Special Agent Keith Dixon, Mid-Atlantic FO, conducted the investigation with the National Science Foundation, the NASA and the HHS.





*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.*

**CENTRAL Field Office**  
1222 Spruce Street  
Room 8.308E  
St. Louis, MO 63103-2811  
Voice: (314) 539-2172  
Telefax: (314) 539-2967  
E-Mail: 40sl@dodig.osd.mil

**CHICAGO Post of Duty**  
2350 E. Devon Ave., Suite 150  
P.O. Box 483  
Des Plaines, IL 60018-4606  
Voice: (847) 827-9480  
Telefax: (847) 827-3724  
E-Mail: 40ch@dodig.osd.mil

**CLEVELAND Resident Agency**  
7550 Lucerne, Suite 200  
Islander Park One Building  
Middleburg Heights, OH 44130  
Voice: (216) 522-2296/7  
Telefax: (216) 522-7196  
FTS: 942-2296/7  
E-Mail: 40cl@dodig.osd.mil

**COLUMBUS Resident Agency**  
P.O. Box 13163  
Whitehall Branch,  
Columbus, OH 43213-0163  
Physical Location:  
Defense Supply Center  
3990 E. Broad St., Bldg. 100  
Columbus, OH 43213-5000  
Voice: (614) 692-3629/3855  
Telefax: (614) 231-8905  
E-Mail: 40co@dodig.osd.mil

**DAYTON Resident Agency**  
3055 Kettering Blvd.  
Suite 205  
Dayton, OH 45439  
Voice: (937) 534-0100  
Telefax: (937) 534-0117  
E-Mail:  
40dy.rac@dodig.osd.mil

**KANSAS CITY Resident Agency**  
Federal Building, Room 565  
500 State Street  
Kansas City, KS 66101-2433  
Voice: (913) 551-1350  
Telefax: (913) 551-1362  
E-Mail: 40kc@dodig.osd.mil

**INDIANAPOLIS Post of Duty**  
Attn: Column 117W  
8899 East 56th Street  
Indianapolis, IN 46249-4500  
Voice: (317) 542-4009  
Fax: (317) 542-4012  
E-Mail: 40in@dodig.osd.mil

**MILWAUKEE Post of Duty**  
301 W. Wisconsin Ave.  
Suite M-95  
Milwaukee, WI 53203  
Voice: (414) 297-1810  
Telefax: (414) 297-1817  
E-Mail: 40ml@dodig.osd.mil

**MINNEAPOLIS Post of Duty**  
Galtier Plaza, Box 14, Suite 414  
175 East Fifth Street  
St. Paul, MN 55101-2901  
Voice: (612) 222-0212  
Telefax: (612) 222-8316  
E-Mail: 40mn@dodig.osd.mil

**SIOUX FALLS Post of Duty**  
230 S. Phillips Ave., Suite 404  
Sioux Falls, SD 57102  
Voice: (605) 330-4211  
Telefax: (605) 330-4410  
E-Mail: 40sx@dodig.osd.mil

**WICHITA Post of Duty**  
53456 Lawrence Ct. Suite 230  
McConnell AFB, KS 67221  
Voice: (316) 682-1991  
Telefax: (316) 682-1609  
E-Mail: 40wc@dodig.osd.mil

*You may also call, write or e-mail the Department of Defense Hotline at Defense Hotline  
The Pentagon  
Washington, DC 20301-1900  
Voice: (800) 424-9098  
Voice: (703) 604-8546  
E-Mail: hotline@dodig.osd.mil*

