

# Fraud Awareness Newsletter

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



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billed TRICARE for services rendered in excess of \$500,000. Currently, Shetty is serving a 21-month sentence as the result of his recent conviction for tax fraud. Special Agent Michael Litterelle, Western Field Office (FO), is conducting the investigation with the Federal Bureau of Investigation (FBI).

## Indictments

### Health Care

A 26-count indictment was returned against Dr. Nagesh Shetty charging him with mail fraud. During 1993 and 1994, Shetty allegedly fraudulently billed TRICARE, formerly the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS), and Blue Cross for services he never rendered and/or for medically unnecessary services. When patients visited Shetty to have prescriptions filled or have their cholesterol level or blood pressure monitored, he would recommend weekly visits and allegedly run electrocardiograms, hepatitis tests, syphilis tests and spirometry tests during each visit. Shetty

### Health Care

An indictment was unsealed in Pensacola, FL, charging Holly W. Butcher, The Colony, TX, and John T. Renick, Panama City, FL, with 38 counts of conspiracy to defraud and commit crimes against the United States, wire fraud and money laundering. In May 1993, Renick was excluded from participating in Medicare, CHAMPUS and the Federal Employees Health Benefits Program (FEHBP). From 1993 through 1996, Butcher, the administrator and chief executive officer of the Vendell Florida Network, and Renick, the medical director at Rivendell of Bay County, Panama City, FL, and Rivendell of Ft. Walton Beach, FL, allegedly conspired to present claims to CHAMPUS, Medicare and the FEHBP for

services rendered by Renick while he was an excluded provider. It is also alleged that Butcher conspired to make illegal payments to a psychiatrist for the referral of federally insured patients. Special Agent Craig Brueckman, Pensacola Post of Duty (POD), conducted the investigation with the FBI, the Internal Revenue Service (IRS), the Department of Health and Human Services (HHS) and the Office of Personnel Management, with audit assistance from the Defense Contract Audit Agency (DCAA).



### Phone Harassment

A three-count indictment was returned against Trung Ngo, a former DoD employee, currently employed at the General Services Administration (GSA). The indictment charges Ngo with two counts of anonymous telecommunications harassment and one count of repeated telecommunications harassment. An investigation disclosed that

Ngo allegedly caused numerous anonymous e-mail messages to be sent to a current Defense Information Systems Agency (DISA) employee, the content and volume of which the victim felt to be harassing in nature. Special Agent Patrick O'Brien, Investigative Operations Directorate, is conducting the investigation with the DISA and the GSA.

### **Product Substitution**

A multiple count indictment was returned against John Familetti, former president of Technipower, Incorporated, Danbury, CT. Familetti is charged with conspiracy to commit mail and wire fraud and multiple counts of mail fraud. Technipower manufactured power supplies for the Canadian military under a contract valued at \$1,408,339. Those power supplies were integrated into mobil shelters used in domestic and international field operations. Under a preaward proposal requirement, a prototype unit was required to meet certain electromagnetic interference (EMI) specifications. Power supplies that emit EMI (radio) frequencies can potentially be detected by an enemy in a combat theater. Due to a compressed design and production schedule, Technipower was unable to assemble a prototype prior to award that successfully met the EMI standards. Familetti allegedly instructed another employee to generate a document that was provided to Canadian officials, via facsimile, that suggested the prototype conformed to th delin-

eated EMI specifications. Quality assurance oversight of Technipower had been delegated to the Defense Contract Management Command by the Canadian Department of National Defence, as Technipower also manufactures items for the U.S. military. False certificates of compliance also were allegedly mailed to the Canadian prime contractor with each power supply shipment. The Canadian military has initiated a global recall and is replacing the power supplies Technipower manufactured. Special Agent Michael Campion, Hartford Resident Agency (RA), is conducting the investigation with the FBI.



### **Tax Return**

Frances Taylor pled guilty in U.S. District Court, Eastern District of Pennsylvania, to one count of conspiracy to defraud the United States and three counts of filing a false tax return. Taylor was involved in a scheme in which he was paid a cash salary from his employer, Butler Foods, that was not reported to the IRS. The investigation also disclosed the owners of Butler Foods were involved in other schemes that included bribery of Government officials, kickback payments to commercial cus-

tomers, and mislabeling of meat products. Special Agent Heather Zimmerman, Northeast FO, conducted the joint investigation with the FBI, the IRS and the Department of Agriculture.



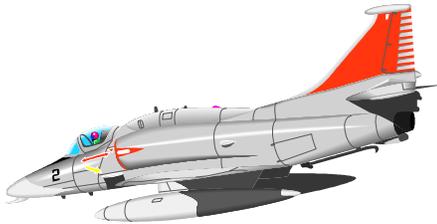
### **Fuel Theft**

Dale Mellies pled guilty to one count of conspiracy to defraud the U.S. Government. Mellies, the former assistant superintendent for Allied Management of Texas, San Pedro, CA, conspired with others to steal over 83,000 gallons of JP-5 and JP-8 fuel from the Defense Fuel Supply Center, San Pedro, CA. The theft occurred during a 6-month period. The fuel was eventually sold to the public as diesel fuel at various gas stations and truck stops in southern California. Special Agent James F. Trost, Van Nuys RA, conducted the investigation with the FBI and the Department of Transportation.

### **Product Substitution**

Stuart M. Kreiner, Nidisco, Incorporated, and KPS Electronics Sales, Incorporated (KPS), Lodi, NJ, each pled guilty to one count of conspiracy to commit mail fraud. From 1986 to 1993, Nidisco, KPS and Kreiner conspired with others and sold non-conforming component electrical parts to the DoD for use on various DoD weapons systems. The component electrical parts did not meet the required contract specifications in that they were not considered Original Equipment Manufacturer parts. An

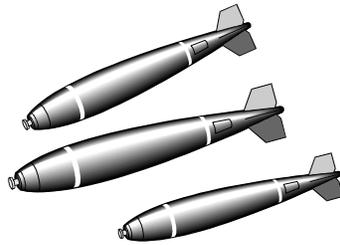
investigation determined the parts were substandard or surplus parts the defendants purchased then obliterated manufacturer markings, falsely labeled and repackaged. Special Agent Bret Flinn, Dayton RA, conducted the investigation with the FBI.



## Sentences

### Anti-Trust

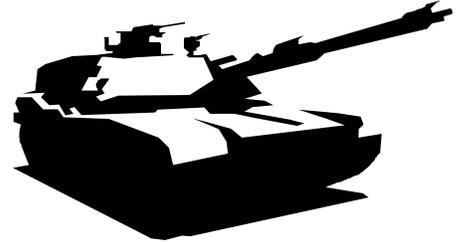
An information was filed against Valentec International, Incorporated (Valentec), charging the company with violating the Sherman Antitrust Act. The same date the company pled guilty and was sentenced to a criminal penalty of \$250,000 and an additional \$250,000 due within 90 days. Valentec and numerous divisions of the company supplied various products to Martin Marietta Ordnance Systems (MMOS), the operating contractor for the Milan Army Ammunition Plant (MAAP), Milan, TN. The MAAP is a Government owned/contractor operated ammunition facility. Valentec representatives conspired with the former MMOS purchasing agent to rig awards of contracts to favor MMOS. Special Agent Gary Fach, Nashville POD, conducted the investigation with other task force members from the FBI, the IRS and the U.S. Army Criminal Investigation Command.



### Test Reports

John Damanda, a quality assurance representative for the Defense Contract Management Command, Syracuse, NY, was sentenced to 3 years probation, 120 hours community service, to pay \$1,669.50 restitution to the DoD, and a \$25 special assessment. Damanda previously pled guilty to submitting a false, fictitious, and fraudulent certification to the Defense Electronics Supply Center (DESC), Dayton, OH. On May 18, 1994, Damanda knowingly submitted a false DoD Form EQC-19H to DESC in connection with the qualification testing of microelectronic devices at Oneida Research Services, Incorporated (Oneida Research), Whitesboro, NY. Damanda certified he witnessed Residual Gas Analysis (RGA) testing at Oneida Research of three microelectronic devices manufactured by EMS Technologies, Incorporated, Norcross, GA. In truth, he did not witness such tests. An employee of Oneida Research brought the completed test report and DoD Form EQC-19H for signature to Damanda's office at the Utica Corporation, Whitesboro, NY, located across the street from Oneida Research. The microelectronic devices were used in a DoD radar system for tracking the movement of tanks and ar-

mored vehicles behind enemy lines. Damanda was also assigned to perform quality oversight for the DoD at Remington Arms Company, Incorporated (Remington Arms), Ilion, NY. On two occasions, from 1985 to 1996, he received firearms from Remington Arms for less than full consideration. Special Agent Scott Miller, Syracuse RA, conducted the investigation with the National Aeronautics and Space Administration (NASA).



### Contract Fraud

Annie Marie Roy was sentenced in U.S. District Court, Eastern District of Missouri, St. Louis, MO, to 4 years probation, ordered to pay \$14,795 in restitution and a \$100 special assessment fee. Roy previously pled guilty to theft and conspiracy to defraud the Government of \$24,795. Roy, a former voucher examiner for the Defense Finance and Accounting Service, St. Louis, MO, and another person created fictitious businesses and prepared fraudulent U.S. Army contracts that resulted in two payments totaling \$24,795. Special Agent Linda Hanley, Central FO, conducted the investigation with the FBI and the U.S. Postal Inspection Service.

### Tax Return

Byron E. Abbott, Jr., former vice president and shareholder, ACS Systems and Engineering, Incorporated (ACS), Virginia Beach, VA, was sentenced to 5 years supervised probation, a \$2,000 fine, to pay restitution of \$6,762 and a \$50 special assessment. Abbott previously pled guilty to filing a false Federal income tax return. In August 1993, Abbott, with agreement of another ACS corporate officer, set up a corporate account at a bank using his home address. Company statements and canceled checks were subsequently sent to that location and the account was not reflected on the corporate records. In 1993, corporate receipts totaling \$57,535, to include corporate loan proceeds and DoD contract proceeds from computer repair and maintenance contracts with the Navy, were deposited into the account. Abbott drew checks on the account to disburse the funds to himself and the other corporate official. Abbott admitted understating his income by about \$24,150 on his 1993 tax return. Special Agent Steven G. Simpso, Norfolk RA, conducted the investigation with the IRS, the Naval Criminal Investigative Service and with assistance from the DCAA.



### Health Care

Robert L. Grden, former vice president, and Brian A. Patten, former president of Freedom Medical, Incorporated (Freedom), Hilliard, OH, were sentenced. Grden, who pled guilty to two counts of money laundering and mail fraud, was sentenced to 4 months incarceration, followed by 4 months home confinement (through electronic monitoring), 3 years supervised release and ordered to pay a \$100 special assessment. Patten, who pled guilty to one count of conspiracy to commit mail fraud, was sentenced to 6 months home confinement (through electronic monitoring), 100 hours of community service and 12 months probation. Grden and Patten also were held jointly and severally liable for \$205,269 in restitution to various Government and private insurance programs. Freedom, a durable medical equipment company, had two locations in the Columbus metropolitan area. Under the direction of Grden and Patten, Freedom submitted false billings to Government health benefits plans, particularly CHAMPUS, the FEHBP, the State of Ohio Workers Compensation Program and over 15 private health insurance programs. The principal

scheme involved the use of telemarketing techniques to sell "scooters" and "adjustable beds" to people with physical handicaps. However, Freedom submitted insurance claims for more sophisticated and expensive equipment such as motorized wheelchairs and hospital beds. Three-wheeled scooters and adjustable beds cost substantially less than motorized wheelchairs and do not provide the same level of benefit. In many instances, Freedom failed to deliver any equipment to beneficiaries despite receiving payment for the equipment from the insurance programs. Special Agent Jay Strauch, Columbus RA, conducted the investigation with other task force members from the FBI, the IRS, the U.S. Postal Inspection Service and the Ohio Bureau of Worker's Compensation Special Investigations Unit.



### Kickback

Dennis R. Jenkins, former senior planning engineer, Thiokol Corporation, Brigham City, UT, was sentenced to 3 years supervised probation, fined \$1,500, ordered to pay \$29,995 restitution and a \$50 special assessment. Jenkins previously pled

guilty to one count of accepting a kickback. Jenkins accepted a cash kickback from William R. Pilkey and Caiam Coatings (Caiam), a Thiokol subcontractor, in return for a contract modification favorable to Caiam. Special Agent Donald Spatig, Salt Lake City RA, conducted the investigation jointly with the Air Force Office of Special Investigations and the NASA.



### Inspection Stamps

Unity Knitting Mills, Incorporated (Unity), Wadesboro, NC, was sentenced to pay \$300,000 restitution and a \$200 assessment fee. An investigation determined Unity obtained printed copies of Government quality assurance representative (QAR) inspector stamps to resemble the official Federal stamps. The Government QARs assigned to inspect Unity were unaware Unity used the counterfeit Government QAR inspector stamps to mark noncompliance goods that were sent to the DoD. This is the second Federal investigation of Unity. In March 1989, Unity was investigated for product substitution that resulted in Unity paying the Government \$100,000 in an out of court civil settlement. Special Agent Marty McGuire, Chapel Hill RA, conducted the investigation.

### Health Care

Talat Lalani, Yuma, AZ, was sentenced to 60 months probation and ordered to pay \$25,000 restitution to TRICARE. Lalani previously pled guilty to theft of public money. An investigation determined that Lalani fraudulently submitted claims to CHAMPUS (now called TRICARE) for services provided to patients when Lalani knew CHAMPUS was not responsible for payment of those services. Special Agent Harold Nicholson, Phoenix RA, conducted the investigation with the FBI and the HHS.



### Overcharging

Research Management Corporation (RMC), Virginia Beach, VA, was sentenced to 2 years probation and a \$200 special assessment. In addition, RMC was barred from conducting any contract work for local, state and Federal governments during the probationary period. As part of a settlement agreement, RMC and Joseph P. Garcia, president and chief executive officer of RMC, paid a \$160,000 civil judgment. The company pled guilty to making a false statement in the certification of current cost or pricing data for a proposal submitted to the Navy. It was determined

RMC failed to disclose quantity discount pricing on materials, namely equipment racks manufactured by a subcontractor, when submitting its final proposal to the Navy. The failure to disclose the discount pricing information caused an overpayment of \$112,986 by the Government to RMC. Special Agent Christine Schuck, Norfolk RA, conducted the investigation, with audit assistance from the DCAA.



### Health Care

Muttaiya Darmarajah, M.D., a psychiatrist from Panama City, FL, was sentenced to 30 months imprisonment, 3 years probation, and ordered to pay \$29,549 in back taxes and interest. Darmarajah previously pled guilty to income tax evasion and submitting false claims. Between January 1992 and December 1996, Darmarajah billed CHAMPUS, Medicare and the FEHBP for 1-hour psychotherapy sessions that actually were routine medical management visits. In addition, Darmarajah billed for therapy sessions that were never performed or were performed by less qualified providers. In tax year 1993, Darmarajah failed to report \$105,712 in earnings related to his psychiatry practice. As a result of plea negotiations,

the losses attributed to the fraudulent activity were \$900,000. In May 1998, he settled a qui tam Civil False Claims Act lawsuit related to these charges and agreed to pay \$1.8 million to the Government. Fifteen percent of that amount and \$40,059 in attorneys' fees will be paid to the relators. Special Agent Craig Brueckman, Pensacola POD, conducted the investigation with the FBI, the IRS, the HHS, the Office of Personnel Management and with audit assistance from the DCAA.

## Civil Settlements

### Health Care

The Straub Clinic and Hospital, Incorporated (SCHI), reached an agreement with the U.S. Attorney's Office, District of Hawaii, wherein SCHI will pay \$2.4 million to settle allegations SCHI knowingly made false claims to the TRICARE Management Activity (TMA), the Medicare and the Medicaid programs. From January 1, 1992 through December 31, 1995, SCHI unbundled claims for outpatient laboratory services submitted to the TMA and Medicare. The investigation also determined that SCHI maintained credit balances on numerous patient accounts over several years. Instead of reconciling the accounts and determining whether the credit balances were the result of overpayments that should be reimbursed to the appropriate Government agency or beneficiary, SCHI simply erased the credit balances from its books. Special Agent Wade Muraoka,

Hawaii POD, conducted the investigation jointly with the FBI and the State of Hawaii Attorney General's Medicaid Investigation Division, with audit support from the Office of Audit Services, OIG, HHS.



### Health Care

Yale University School of Medicine (Yale), New Haven, CT, entered into a civil settlement and agreed to pay \$5.6 million to settle issues arising from an investigation into its billing practices. Yale is a health care provider to patients who have insurance coverage with several Government and commercial insurance carriers, to include Medicare, Medicaid, TRICARE and General Dynamics Corporation, Electric Boat Division (EB), a Top 100 DoD contractor. The costs for EB's health care benefits are part of its overhead costs and are totally funded by the DoD. From 1990 through 1995, Yale failed to properly report and return unallocated funds that accumulated in Yale accounts as the result of questionable billing practices and inaccurate record maintenance. Special Agent Richard Cannon, Hartford RA, conducted the investigation with the FBI and with audit assistance from the DCAA.

## Health Care

Spectrum Emergency Care, Incorporated (Spectrum), St. Louis, MO, agreed to pay the U.S. Government and various states \$3.1 million. The agreement settles allegations that Spectrum overcharged several Federal and state health care programs millions of dollars as a result of payments from false claims Spectrum's billing company, Emergency Physicians Billing Service, Oklahoma City, OK, submitted to Federal and state agencies. The agreement also settles a qui tam suit against Spectrum and the estate of the relator will receive about \$522,781. Spectrum, one of the Nation's largest physician staffing companies, provides staffing and other services for emergency treatment at hospitals at various locations throughout the country. An investigation found that Emergency Physicians Billing Service, in submitting bills on behalf of Spectrum for services provided at Spectrum, engaged in upcoding (billing for services at a rate higher than provided), billed for the same services twice and billed for services not provided. The inflated billings were submitted to CHAMPUS, Medicare, Medicaid and private insurance companies. Special Agent John Lloyd, Tulsa POD, conducted the investigation jointly with the FBI.





*To report suspected criminal activity 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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