

FRAUD SECTION

ACTIVITIES REPORT

Fiscal Year 2006

(October 1, 2005, through September 30, 2006)



Fraud Section: www.usdoj.gov/criminal/fraud.html

For the specific fraud areas below, place the following endings after criminal/fraud:

Foreign Corrupt Practices Act: /fcpa.htm

Identity Theft: /idtheft.htm

Internet Fraud: /Internet.htm

Telemarketing Fraud: /telemarketing/index.htm

Securities and Commodities Fraud Working Group: /scfwg.htm

MESSAGE FROM THE ACTING CHIEF

For the past 50 years, the Fraud Section has been charged with responsibility for leading the federal law enforcement effort against various types of economic crime through major prosecutions and other enforcement initiatives and activities. The Section's challenging portfolio of responsibilities encompasses cutting-edge litigation, large-scale international and multidistrict case coordination and prosecution, and the formulation and analysis of policy and legislation. Fraud Section attorneys prosecute complex and sensitive white-collar crime cases throughout the United States. The Section leads and participates in a broad range of white-collar crime enforcement initiatives, identifies new fraud trends and issues, and helps develop Department of Justice policy for combating financial fraud. It has led the Department's economic crime initiatives in the defense procurement and health care enforcement efforts of the mid-1980s, the savings and loan enforcement efforts of the late 1980s and early 1990s, and today's national corporate and securities fraud initiatives. The Fraud Section now routinely is called upon to address and develop strategies to curb the growth of corporate institutional fraud and corruption, the systemic health care fraud, identity theft, energy fraud, and the international consumer scams. Fraud Section attorneys also provide critical interagency coordination for priority enforcement programs and participate in developing and teaching economic crime training courses.

The Fraud Section's attorneys, paralegals, and support personnel, all dedicated public servants, can take special pride in their contributions to the Section's accomplishments, which I am pleased to share with you.

Paul E. Pelletier

Acting Chief

September 2005 - September 2006

SIGNIFICANT STATISTICS

Fiscal Year (FY) 2006

New Investigations Opened	61
Complaints/Indictments/Informations Filed	59
Deferred Prosecution Agreements	2
Defendants Charged	114
Defendants Convicted	62

ENFORCEMENT LEADERSHIP

The Fraud Section leads or partners several white-collar crime enforcement programs:

Corporate Fraud: The Fraud Section conducts complex corporate fraud investigations focusing particularly on major accounting fraud schemes that have been targeted by the Corporate Fraud Task Force.

The Department of Justice defines corporate fraud to include falsification of corporate financial information, self-dealing by corporate insiders, as well as obstruction of justice, perjury, witness tampering and other obstructive behavior relating to falsification or self-dealing activities.

The Fraud Section Chief serves as Acting United States Attorney supervising the Enron Task Force (ETF), which the Department established in January 2002 to investigate and prosecute all criminal matters relating to the financial collapse of the Enron Corporation. The ETF includes experienced prosecutors from U.S. Attorneys' Offices (USAOs) and the Fraud Section, as well as FBI and IRS Criminal Investigation Division Special Agents. The ETF coordinates with numerous other government agencies. To date, the ETF has obtained 21 convictions, either guilty verdicts or pleas. Seven defendants await trial.

Securities, Investment and Financial Institution Frauds: The Fraud Section has been a focal point for the Department's financial institution, securities and investment fraud enforcement programs. The Section devotes substantial resources to prosecution of these types of fraud cases, including prime-bank/high-yield frauds, and undertakes additional casework in USAOs as needs arise. The Section also serves as the Department's primary source of legal and legislative advice on securities, investment and financial institution fraud issues.

Foreign Bribery: The Fraud Section is responsible for all investigations and prosecutions under the Foreign Corrupt Practices Act (FCPA), which prohibits the payment of bribes to foreign government officials in international business transactions. The Section also has policy responsibility with respect to criminal enforcement of the FCPA. The Section was instrumental in negotiating the Organization for Economic Cooperation and Development's (OECD) Convention on Combating Bribery of Foreign Public Officials

in International Business Transactions, and it continues to represent the United States at the OECD's Bribery Working Group.

Procurement Fraud: The Fraud Section prosecutes procurement fraud cases and serves as a clearinghouse of information, expertise and guidance on procurement fraud issues handled by USAOs and a diverse group of federal agencies and Department of Defense (DoD) components involved in procurement and law enforcement. Because of the Section's specialized knowledge of procurement fraud, it plays a central role in coordinating government activities, including new initiatives, related to procurement fraud, proposing and commenting on legislation, and participating in interagency committees and working groups on these and other white-collar issues. The Section is also the designated focal point for matters admitted under the DoD Voluntary Disclosure Program, and in that capacity reviews and coordinates all contractor voluntary disclosures submitted to the DoD Inspector General.

Health Care Fraud: The Fraud Section prosecutes health care fraud cases across the country and leads the Department's effort to strengthen the integrity of our health care system by participating in all aspects of federal health care law enforcement. In addition to handling cases of national significance, the Section focuses its efforts on coordinating with agencies to identify crime trends and develop practical and effective administrative and investigative solutions. The Section also assists in evaluating and developing policies and strategies for program integrity safeguards, evaluating proposed opinions and agency action, and educating federal agents and attorneys on current legal developments in the areas of fraud and abuse enforcement. The Section chairs a national-level working group designed to bring criminal health care fraud coordinators from all districts up to date on fraud schemes, enforcement trends, resource issues and effective litigation solutions.

Internet Fraud: The Fraud Section leads the Department's Internet Fraud Initiative to define the scope of the problem, develop litigation expertise, coordinate the federal response, train prosecutors and investigators, develop investigative and analytical resources, and conduct public education and prevention programs.

Bankruptcy Fraud: The Fraud Section assists USAOs in resolving bankruptcy fraud enforcement issues and works closely with the Executive Office for U.S. Trustees in planning and coordinating enforcement initiatives.

MAJOR FRAUD CASES

The Fraud Section prosecuted cases as part of initiatives undertaken by the Department, Criminal Division, or Section; when the law requires or national interest rises above that of any particular USAO; when a USAO is recused; upon request from a USAO for assistance in the form of expertise or trial support; or upon request by a USAO to handle a particular prosecution.

Enron Task Force (ETF): The Fraud Section Chief is the Acting United States Attorney for the ETF, which includes, among others, Fraud Section Trial Attorneys. Since its creation in January 2002, the ETF has obtained twenty-two convictions, including guilty verdicts against former Enron chief executive officers Jeffrey Skilling and Kenneth Lay. Four additional convictions have been overturned by the Supreme Court or the Fifth Circuit.

“Enron’s top executives perpetrated a series of lies designed to mislead analysts and the investing public,” said Assistant Attorney General Alice S. Fisher of the Criminal Division. “People have the right to expect honesty and integrity in the marketplace.”

Foreign Bribery: Three defendants, including a managing director at American International Group, Inc. (AIG), were indicted in New York on various charges, including conspiracy to violate the FCPA, arising from a scheme to pay large bribes to senior Azerbaijan government officials to obtain an advantage in the anticipated privatization of that country’s national oil company. Two defendants are awaiting trial. The third is in custody in the Bahamas, pending extradition. The Fraud Section is prosecuting this case jointly with the USAO, Southern District of New York.

In a joint case with the USAO, District of Columbia, the Fraud Section obtained an FCPA guilty plea from a former employee of a government contractor in Iraq, who admitted offering a bribe of approximately \$60,000 to a senior Iraqi police official in exchange for the official facilitating the sale of armored vests and a sophisticated map printer for approximately \$1 million.

The Fraud Section obtained an FCPA guilty plea from a former Africa Regional Manager for ITXC, then a global telecommunications company, who admitted making illegal payments to officials in Nigeria, Rwanda and Senegal.

The Fraud Section obtained an FCPA guilty plea from a former executive of an international subsidiary of Willbros Group, Inc., a provider of engineering and other services to the oil and gas industry, who admitted that he arranged for payment of approximately \$1.5 million in cash in Nigeria. This payment was part of at least \$6 million in corrupt payments promised to Nigerian officials to obtain and retain gas pipeline construction business in Nigeria. The defendant also admitted that he participated in a conspiracy involving the submission of fictitious invoices to fund corrupt payments to Nigerian officials, as well as a conspiracy to pay at least \$300,000 to Ecuadoran officials to obtain a gas pipeline rehabilitation project in Ecuador.

Corporate/Securities Fraud: Three former senior executives of General Re Corporation and a former senior executive of AIG were indicted on conspiracy, securities fraud, and other charges stemming from a scheme to manipulate AIG’s financial statements through, among other things, false statements in reports filed with the SEC. The Fraud Section and the USAO for the Eastern District of Virginia executed an agreement with AIG in which the company accepted responsibility for its actions, resolved its criminal liability, and agreed to pay \$25 million in penalties and to cooperate with the continuing criminal investigation.

In a joint case with the USAO, District of Colorado, the Fraud Section obtained an indictment charging a former chief executive officer and Board member of Qwest Communications International, Inc., with insider trading based on his sale of more than \$100 million in Qwest stock while in possession of material, non-public information.

In a joint case with the USAO, District of South Carolina, the Fraud Section obtained an indictment charging ten senior executives of Medical Manager Corporation (MMC), a subsidiary of WebMD Corporation, with conspiracy to commit securities fraud and money laundering. The case is pending trial. Also, another former MMC executive pleaded guilty to charges stemming from a scheme to fraudulently inflate MMC’s reported earnings between 1997 and 2001 and to obtain kickbacks.

In a joint case with the USAO, Southern District of Ohio, the Fraud Section obtained an indictment charging seven former executives of National Century Financial Enterprises, once one of the largest purchasers of health care accounts receivable in the United States, with conspiracy, mail fraud and other offenses stemming from a multibillion-dollar scheme to defraud bondholders.

Corruption: In separate cases shared with the Criminal Division's Public Integrity Section, former lobbyist Jack A. Abramoff, former public-relations specialist Michael P.S. Scanlon, and former lobbyists Tony C. Rudy and Neil G. Volz, once members of Representative Robert W. Ney's staff, pleaded guilty to a conspiracy involving a kickback scheme that defrauded Abramoff's clients of approximately \$25 million. Abramoff, Rudy and Volz also pleaded guilty to other related charges. Additionally, a former General Services Administration official was convicted after trial on obstruction and false statement charges.

Energy Commodities Fraud: The Fraud Section obtained a guilty plea from a former trader at BP Products North America (BP), a U.S. subsidiary of British Petroleum, PLC, to conspiracy to manipulate and corner the February 2004 TET propane market. The conspirators used BP's market power and financial resources to buy large quantities of February 2004 TET propane to become the dominant long-holder of the commodity, and sold the propane at an inflated price, causing other market participants to pay more.

In a joint case with the USAO, Northern District of California, the Fraud Section entered into a deferred prosecution agreement with The Williams Power Company, Inc. (WPC), a subsidiary of The Williams Companies, Inc. (Williams), in which WPC accepted responsibility for knowingly submitting inaccurate reports concerning a commodities market and paid a \$50 million penalty. Williams, one of the largest volume-transporters of natural gas in the United States, agreed to uphold the agreement.

Investment Fraud: In a joint case with the USAO, Northern District of Georgia, the Fraud Section obtained an indictment against a defendant on mail and securities fraud charges stemming from a \$110 million fraudulent investment scheme that resulted in the collapse of hedge funds operated by the defendant's companies.

Procurement Fraud: In a joint case with the USAO, Central District of Illinois, the Fraud Section obtained a guilty plea from a former procurement employee of Kellogg Brown & Root, Inc. (KBR), who was charged with a scheme to defraud the government by accepting illegal kickbacks from a subcontractor in Kuwait. The employee accepted kickbacks from managers of Tamimi Global Co., Ltd. (Tamimi) of Saudi Arabia, for awarding two military dining subcontracts valued at \$21.8 million. A Tamimi manager also pleaded guilty to wire fraud, money laundering, and false statement charges.

In a joint case with the USAO, Central District of Illinois, the Fraud Section obtained a guilty plea from a former Middle East regional vice president of Eagle Global Logistics, Inc. (EGL), to a charge of major fraud against the United States stemming from a \$1.14 million billing scheme involving a subcontract for the U.S. Army in Iraq. EGL provided air-cargo transportation for military equipment and supplies into Iraq.

In a joint case with the USAO, Southern District of Indiana, the Fraud Section obtained a guilty plea from the president and owner of Flat Rock Furniture, Inc., to paying illegal gratuities to a former U.S. Army director of contracting and an Army undercover agent, and related charges, in connection with contracts awarded by the Edelweiss Lodge and Resort, Armed Forces Recreation Center, in Germany.

In a joint case with the USAO, Eastern District of New York, the Fraud Section obtained a guilty plea from the president and owner of Bramson House, Inc., to paying illegal gratuities to a former Army contracting director.

International Mass-Marketing Fraud: In two separate Operation Global Con cases targeting international mass-marketing schemes, the Fraud Section charged twenty defendants with various offenses stemming from offshore telemarketing schemes based in Costa Rica.

The Fraud Section also is handling an international mass-marketing, advance-fee fraud scheme in which U.S. victims lost more than \$1.2 million. In that case, four defendants have been indicted on charges of conspiracy, mail and wire fraud. One defendant also is charged with bank fraud.

EDUCATION AND TRAINING

The Section is a full participant, through its development of courses and provision of faculty, in the Department's training of federal economic crime prosecutors and investigators. The Section also assists other agencies in their fraud enforcement seminars/conferences and training programs and partners with other federal agencies in conducting identity theft enforcement training for state and local law enforcement offices.

INTERAGENCY COORDINATION

Hurricane Katrina Fraud Task Force: The Fraud Section spearheads strategic enforcement initiatives to combat fraud stemming from disasters. In FY 2006, the Section led the establishment and operation of the Hurricane Katrina Task Force Command Center, which coordinates and supports multiagency efforts to collect intelligence information, reports, and complaints and generates referrals for disaster-related fraud, including charity fraud, identity theft, emergency-benefit fraud, procurement fraud, and public corruption. The Section also promotes leadership in interagency coordination with the Inspector General community, investigative agencies, and Federal Emergency Management Agency on critical enforcement issues.

Identity Theft Task Force: In FY 2006, the Department created the Identity Theft Task Force, which subsumed the identity theft group chaired by the Fraud Section. Since 1999, when that initial ID theft group was formed, the Fraud Section has led the Department's interagency cooperation and communication efforts in ID theft enforcement. The Section also provides leadership and expertise in the Task Force's Criminal Law Enforcement Subgroup.

Securities and Commodities Fraud Working Group: This group, chaired by the Fraud Section, provides a forum for the enforcement community to exchange information on developing trends, new laws and regulations, and law enforcement issues and techniques. Participants include federal law enforcement, securities and commodities regulatory agencies, including the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC), enforcement representatives from securities and commodities exchange self-regulatory organizations, and the Public Company Accounting Oversight Board.

Bank Fraud Enforcement Working Group: This national, interagency working group, chaired by the Fraud Section since its formation in 1984, promotes enhanced coordination and communication between the federal law enforcement and financial institution regulatory communities.

Bankruptcy Fraud Working Group: As part of the Department's Bankruptcy Fraud Training and Identification Program, the Fraud Section chairs this working group, which serves as a forum for addressing enforcement problems and facilitating interagency cooperation and coordination.

Health Care Fraud Working Group: Co-chaired by the Fraud Section with the Civil Division, this national, multiagency working group provides a forum for exchanging information and addressing issues relating to the identification, investigation and prosecution of fraud in the health care industry. In addition to the Working Group, the Section participates in monthly conference calls with the Centers for Medicare and Medicaid Services (CMS), Department of Health and Human Services, Office of the Inspector General (HHS-OIG), Federal Bureau of Investigation, state Medicaid Fraud Control Units, and other federal health care program agencies, as well as quarterly CMS-law enforcement staff-level meetings, and quarterly meetings of senior-level agency representatives.

Mass-Marketing Fraud Working Group: This national, multiagency working group, chaired by the Fraud Section, provides a forum for exchanging information and ideas on telemarketing and Internet fraud law enforcement. Telemarketing fraud is estimated to cost consumers in the United States billions of dollars per year. Concentrated in U.S. urban areas and in Canadian cities, fraudulent telemarketers contact prospective victims throughout the United States. Many operations target senior citizens, often causing victims to lose their life savings and to suffer financial ruin. Internet fraud schemes often operate from outside the United States, requiring the Section to play a key role in facilitating international law enforcement initiatives.

According to the National Consumers League, the average loss from telemarketing fraud rose from \$1,974 in 2004 to \$2,892 in 2005, and Internet fraud losses more than doubled, from an average of \$895 in 2004 to \$1,917 in 2005.

Consumer Protection Initiatives Committee: The Fraud Section co-chairs an interagency committee which develops and coordinates consumer protection initiatives focusing on enforcement, deterrence, and public awareness. The committee also seeks to facilitate referrals of potential criminal cases to the Department and USAOs for prosecution. It works closely with state and local law enforcement and non-governmental groups.