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Southern District of New York***

**FOR IMMEDIATE RELEASE  
AUGUST 10, 2010**

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**MANHATTAN U.S. ATTORNEY CHARGES 11 WITH OPERATING  
MASSIVE DAY CARE FRAUD AND BRIBERY SCHEME**

*Members Of "The Congregation" Used More Than  
30 Day Care Centers To Fraudulently Obtain  
Millions Of Dollars In Public Funds*

*Seven New York City Officials From Three City Agencies Charged  
With Accepting More Than \$100,000 In Bribes*

PREET BHARARA, the United States Attorney for the Southern District of New York, ROSE GILL HEARN, the Commissioner of the New York City Department of Investigation ("DOI"), and JAMES T. HAYES, JR., the Special Agent-in-Charge of U.S. Immigration and Customs Enforcement ("ICE") Office of Homeland Security Investigations ("HSI") in New York, announced today the unsealing of federal charges against 11 defendants for allegedly operating a massive fraud and bribery scheme through which they more than \$18 million intended to help needy parents obtain public assistance for day care services. The defendants also were charged with conspiring to pay and receive bribes to facilitate the criminal scheme.

Four owners of day care service providers -- LIUDMILA UMAROV, LYUDMILA GRUSHKO, YANA KRUGLY, and RIMMA VOLOVNICK, all of Brooklyn, New York -- and seven New York City officials -- LEONID GUTNIK and ALEKSEY VASILYEV, of the New York City Human

Resources Administration ("HRA"); AURORA VILLAREAL, DIONNE RIVERS-ETTU, EMILE NEKHALA, and CAROLYN EASON, of the New York City Department of Health and Mental Hygiene ("DOH"); and MARIYA RAPOPORT, formerly of the New York City Administration for Children's Services ("ACS") -- are charged with participating in the scheme.

All of the defendants were arrested this morning in the culmination of "Operation Pay Care," a joint investigation led by the U.S. Attorney's Office for the Southern District of New York, DOI, and ICE. The defendants are expected to be presented in Manhattan federal court later today.

Manhattan U.S. Attorney PREET BHARARA stated: "As alleged in the Complaint, the parents of children enrolled in the Congregation's day care centers trusted Liudmila Umarov and her co-conspirators with the care of their children. But Umarov and her Congregation allegedly betrayed that trust by exposing the children to hazards and siphoning off millions of taxpayer dollars meant to provide safe, quality child care for deserving, hard-working parents. And the New York City officials charged today allegedly betrayed the public's trust, taking bribes to look the other way and grease Umarov's gravy train. If proved, today's allegations demonstrate that the defendants cared far more about their wallets than about the welfare and well-being of the children they were obligated to protect. Along with our law enforcement partners at DOI and ICE, we now begin the process of holding each of these allegedly corrupt actors accountable for their conduct."

DOI Commissioner ROSE GILL HEARN stated: "These defendants chose payoffs and profit over their promise to serve the best interests of children, according to the complaint. Public funds were stolen to line the defendants' pockets and integrity was thrown out the window. But DOI and our federal partners exposed this criminal scheme and stopped the corruption. We will continue to work together with our federal law enforcement colleagues to protect children and taxpayers from criminals who exploit these social service programs to enrich themselves."

ICE Special Agent-in-Charge JAMES T. HAYES, JR. stated: "Individuals in positions of public trust must be held accountable when they abuse their authority for personal gain. ICE will continue to work with its law enforcement partners to root out public corruption wherever it exists."

According to the Complaint unsealed today in Manhattan federal court:

### **The Day Care Subsidy Program**

In an effort to help low-income parents obtain gainful employment, New York City administers a program to subsidize eligible parents' day care costs. This day care subsidy program (the "Day Care Subsidy Program") is funded through a combination of local, state, and federal money. About two-thirds of the funds come from the U.S. Department of Health and Human Services.

The New York City Human Resources Administration ("HRA") plays a critical role in the Day Care Subsidy Program, because HRA determines whether low-income families are eligible to participate in that Program. Once eligibility determinations are made by HRA, the day care costs of eligible families are then subsidized through payments made directly to day care providers by the New York City Administration for Children's Services ("ACS"). More specifically, each month, ACS mails a voucher (Form ACS-1) to the day care provider, which lists all of the children receiving care from that provider pursuant to the Day Care Subsidy Program. The provider then indicates on the voucher the number of days and/or hours of care provided to each child pursuant to the program; the provider certifies that the information on the voucher is correct; and the provider submits the voucher to ACS. Based on the information contained in these vouchers, ACS directs a private company under contract with New York City to pay the day care centers for the services.

### **New York City Regulation Of Day Care Centers**

In New York City, day care centers may lawfully offer group day care for children only if the centers have been approved by DOH and the centers abide by all the relevant DOH and New York City rules and regulations. To be approved by DOH, a group day care provider must submit an application seeking a day care permit. DOH then undertakes an initial, so-called viability inspection to determine whether the provider's space may appropriately be used as a day care center. The provider's space must also undergo an inspection by the New York City Fire Department ("FDNY") to ensure that the space has adequate fire safety features. Before being approved by DOH, the day care provider must also produce proof that the physical space the provider intends to use has been issued a certificate of occupancy by the New York City Department of Buildings ("DOB").

Further, before being approved by DOH, the provider must demonstrate that its teachers are certified, and the

proposed staff must undergo background checks by DOI, which fingerprints the prospective day care teachers and does criminal history checks. DOH then conducts a final inspection, during which inspectors measure the facility's physical space and determine whether the facility meets certain DOH requirements. Among other things, DOH requires that each facility have 30 square feet per child, and that certain teacher-child ratios -- which vary by children's ages -- be maintained.

### **"The Congregation"**

LIUDMILA UMAROV controls or is otherwise associated with a ring of over 30 day care centers located in Brooklyn, New York, and Staten Island, New York. UMAROV lives in an apartment located above two of the day care centers on Banner Avenue in Brooklyn, namely, Paragon II Day Care, Inc., and Learning Center Paragon. Her daughter co-owns two other day care centers located on the same block on Banner Avenue, namely, Amazing World Day Care Center and Banner Learning Center, Inc., as well as other day care centers located elsewhere in Brooklyn. UMAROV is also closely associated with the predominantly Russian-speaking men and women who own or control other day care centers located in Brooklyn and Staten Island. The ring of UMAROV-related day care centers, and their owners, is commonly referred to by UMAROV's associates as "the Congregation."

### **The Congregation's Scheme To Defraud New York City's Day Care Subsidy Program**

From at least 2007 through August 2010, UMAROV, LYUDMILA GRUSHKO, YANA KRUGLY, RIMMA VOLOVNICK, and other members of the Congregation engineered and participated in an extensive scheme to defraud the Day Care Subsidy Program through the day care centers they owned or controlled. The Congregation defrauded the program in part by requesting reimbursement for providing day care services to children who did not actually receive any such services. To execute the scheme, the Congregation made corrupt payments to HRA and ACS employees in exchange for services and information, including the names of eligible low-income children. The Congregation used these names -- obtained without the knowledge of the children or their parents -- to request reimbursement for providing day care services to children who did not, in fact, receive any day care services. The corrupt City employees also steered low-income parents and families in homeless shelters to enroll their children solely in day care programs administered by members of the Congregation, and expedited processing of reimbursements to members of the Congregation.

The Congregation also made corrupt payments to DOH employees who, in return, issued and expedited day care center permits to members of the Congregation despite incomplete and unsatisfactory applications. Corrupt DOH employees inflated the measurements of the square footage of the Congregation's day care centers so that these centers would be eligible to enroll greater numbers of children, and ignored or downplayed health and fire safety violations to secure new or amended permits and to avoid losing existing permits.

As a result of their criminal schemes, the members of the Congregation received from ACS in excess of \$1 million for day care services they did not actually provide. Moreover, between about 2007 and August 2010, DOI investigators estimate that members of the Congregation received in excess of \$18 million from the Day Care Subsidy Program.

### **The Congregation's Scheme To Corrupt DOH**

On July 9, 2010, a DOH employee (DOH Employee # 1) reported to DOI that GRUSHKO came to her office on June 28, 2010, with another Russian woman to discuss Sesame Street LMN Day Care, Inc. ("Sesame Street"), which GRUSHKO owned. GRUSHKO wished to increase the number of children who could be cared for on the second floor of Sesame Street, but could not do so because the certificate of occupancy for Sesame Street limited the number of children that could be placed on the second floor. After the meeting between DOH Employee # 1, GRUSHKO, the other Russian woman, and AURORA VILLAREAL, DOH Employee # 1 realized that GRUSHKO had left behind an envelope containing a box. Inside the box, DOH Employee # 1 discovered a ring, at which time her supervisor walked into her office and instructed DOH Employee # 1 to report the incident.

On July 13, 2010, an assistant inspector general with DOI ("DOI IG) visited the Sesame Street day care center, pretending to be a DOH inspector. During the inspection, the DOI IG discovered a number of violations, namely, a bookcase blocking the exit sign on the first floor, an exit sign violation on the second floor, and the presence of children napping on the third floor, even though the third floor had not been approved for day care use.

That same day, GRUSHKO presented the DOI IG with a certain DOB form that indicated a proposed use for day care with 27 children on the third floor of Sesame Street. In response to GRUSHKO and another woman's plea not to issue a violation, the DOI IG said he would give them a break. Ultimately, GRUSHKO told

the DOI IG that "if you help me, I will help you." On July 15, 2010, DOH closed Sesame Street.

After learning of GRUSHKO's bribery attempts, DOI conducted further interviews and learned that four other DOH employees -- AURORA VILLAREAL, DIONNE RIVERS-ETTU, EMILE NEKHALA, and CAROLYN EASON -- also received thousands of dollars in cash and numerous gifts from UMAROV and her associates in exchange for their assistance in obtaining the necessary DOH approvals for day care centers operated by the Congregation.

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On August 5, 2010, DOH inspected a number of the Congregation's day care centers. To date, DOH has shut down six of the centers because of significant violations and conditions found at the centers. In total, over 250 children were present at the centers at the time they were closed for the violations.

At one of the closed centers -- the Pitkin Avenue center controlled by UMAROV's daughter -- DOH found violations ranging from use of areas for day care that had not been approved by the DOB or FDNY; no educational director on site; an exit door secured with a slide bolt; inadequate ventilation; a teacher without proof of fingerprint results; and evidence of food being prepared but no valid DOH food protection certificate, a certificate that is issued only after the completion of a food safety course.

At a second center, one located on Bay Parkway, DOH found unqualified staff, including staff without criminal conviction statements, no fingerprint results for three staff members, and no results of a check in the New York State registry of child abuse; hanging wires in a classroom and stairway; no safety barrier on the staircase; blocked or locked emergency exits and gates; cleaning agents and paint in unlocked cabinets and closets; mice droppings in the kitchen; and open bottles of hard alcohol in the refrigerator next to children's lunches.

At a third center located on West 7<sup>th</sup> Street in Brooklyn, DOH found no record of CPR or first aid training by staff; no DOB approval for areas used for infant/toddler use; children being transported in a van not properly permitted or inspected; an uncertified staff teacher; and an unqualified educational director.

At a fourth center located on Avenue L in Brooklyn, DOH found inadequate staff for the number of children present; no records of any certification, fingerprinting, or the results of

the check of the New York State registry of child abuse; evidence of the presence of mice; a non-operational second exit; and an easel that collapsed on a child during the inspection.

Between August 5 and 9, 2010, DOI investigators visited all of the day care centers and conducted interviews of day care staff and personnel. As noted above, DOH has independently inspected some of the day care centers and is continuing its own inspections of day care centers associated with the Congregation.

### The Charges

The Complaint charges LIUDMILA UMAROV, LYUDMILA GRUSHKO, YANA KRUGLY, RIMMA VOLOVNICK, LEONID GUTNIK, ALEKSEY VASILYEV, MARIYA RAPOPORT, AURORA VILLAREAL, DIONNE RIVERS-ETTU, EMILE NEKHALA, and CAROLYN EASON with conspiring to pay and receive bribes in connection with a federally-subsidized program. The Complaint also charges each of those defendants, other than VASILYEV, with conspiring to commit mail fraud in connection with the fraudulent scheme to obtain payment for day care services. Each of the defendants faces a maximum sentence of 20 years in prison on the mail fraud conspiracy charge, and a maximum sentence of 5 years in prison on the bribery conspiracy charge. Each also faces a maximum fine on the mail fraud conspiracy of \$250,000 or twice the gross gain or loss from the offense; and a maximum fine on the bribery conspiracy of \$250,000 or twice the gross gain or loss from the offense.

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To report any complaints related to a day care center, please call the New York City Department of Investigation complaint line at (212) 825-5959. For more information about day care centers in New York City, please call the New York City Department of Health and Mental Hygiene at (212) 676-2444.

Mr. BHARARA praised the outstanding investigative work of DOI and ICE. Mr. BHARARA also thanked the Social Security Administration, Office of Inspector General, and the United States Secret Service for their assistance in the investigation. Mr. BHARARA stated that the investigation is ongoing.

The prosecution is being handled by the Office's Public Corruption Unit. Assistant United States Attorneys HARRIS FISCHMAN, MICHAEL BOSWORTH, and BRENT WIBLE are in charge of the prosecution.

The charges contained in the Complaint are merely accusations, and the defendants are presumed innocent unless and until proven guilty.