



# Department of Investigation

## *Press Release*

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### **PRESS RELEASE**

## **NEW YORK CONSTRUCTION CONTRACTORS PLEAD GUILTY TO MOB PAYOFFS AND FRAUD SCHEMES TOTALING 40 MILLION DOLLARS**

**ALAN VINEGRAD**, United States Attorney for the Eastern District of New York; **PAUL L. MACHALEK**, Special Agent-in-Charge, Internal Revenue Service-Criminal Investigation, New York; **KENNETH M. MEAD**, Inspector General, U.S. Department of Transportation, Office of Inspector General; **GORDON HEDDELL**, Inspector General, U.S. Department of Labor; **BARRY W. MAWN**, Assistant Director-in-Charge, Federal Bureau of Investigation, New York; **JAY SKIDMORE**, Inspector-in-Charge, Postal Inspection Service, New York; and **EDWARD J. KURIANSKY**, Commissioner, New York City Department of Investigation, announced today that **GUISSEPPE SCALAMANDRE**, also known as "Joseph Scalamandre," and his brother, **FORTUNATO SCALAMANDRE**, also known as "Fred Scalamandre," the

principals of several major construction companies on Long Island, including Sea Crest Construction Corp., Peter Scalamandre & Sons, Inc., and Scalco Construction Corp., pleaded guilty to conspiring to defraud the Internal Revenue Service and conspiring to make payoffs to the Luchese organized crime family and to officers of various construction trade unions in the New York metropolitan area. The guilty plea proceedings were held today before United States District Judge Jacob Mishler at the U. S. Courthouse in Central Islip, New York.

The SCALAMANDRES entered guilty pleas to an information charging them each with two counts of conspiracy, in violation of Title 18, United States Code, Section 371. Count One charges the SCALAMANDRES with developing and participating in a tax fraud scheme between January 1992 and October 1998 in which they issued nearly \$1,000,000 in corporate checks to their subcontractors in payment of fraudulent invoices generated by the subcontractors at the SCALAMANDRES' direction. The subcontractors converted the corporate checks to cash and then returned the cash to the SCALAMANDRES. The fraudulent invoices, in turn, were charged by the SCALAMANDRES to public and private contracts, including a federally-funded MTA subway rehabilitation project on the Brighton Beach Line, in Brooklyn, New York; a construction project at One Penn Plaza, in Manhattan; a federally-funded roadway improvement project on the Meadowbrook Parkway, on Long Island; a federally-funded Long Island Rail Road project at the Ronkonkoma Station, on Long Island; and a roadway improvement project on the Long Island Expressway and the Seaford Oyster Bay Expressway. In pleading guilty today, the SCALAMANDRES admitted that they concealed these funds from the IRS and did not pay taxes on the funds.

In Count Two, the SCALAMANDRES were charged with conspiring between January 1991 and October 1998 to pay members of the Luchese organized crime family, including the former acting boss, Alphonse D'Arco, and former underboss, Anthony "Gaspape" Casso, approximately \$40,000 a year from 1991 through 1998, in order to influence the construction trade unions in the New York metropolitan area. Specifically, they are charged with agreeing to pay officers and employees of Laborers International Union of North America Local 66; Blasters, Miners and Drill Runners Union Local 29; and Bricklayers Union Local 1 to avoid contributing to union benefit funds and paying union dues on behalf of their employees, and to unlawfully influence the union officers and employees in other union-related matters affecting their companies. In pleading guilty today, the SCALAMANDRES admitted the allegations contained in Count Two of the information.

The SCALAMANDRES each face a maximum sentence of ten years imprisonment, three years supervised release, \$500,000 in fines, restitution and the payment of individual and corporate back taxes for the years 1991 through 1998. The defendants must also forfeit to the government \$5,000,000, representing proceeds of their criminal conspiracy to pay-off union officials and members of the Luchese organized crime family. In addition, as part of their plea agreement with the government, the SCALAMANDRES consented to a court-appointed monitor to supervise their construction-related companies for the next five years. The monitor will oversee the daily activities of their companies and ensure that the SCALAMANDRES no longer associate with members or associates of organized crime.

The SCALAMANDRES are scheduled to be sentenced by Judge Mishler on January 18, 2002.

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In a related development, Mr. **VINEGRAD**, Special Agent-in-Charge **MACHALEK**, Inspector General **MEAD**, Inspector General **HEDELLE**, Assistant Director-in-Charge **MAWN**, Inspector-in-Charge **SKIDMORE**, and Commissioner **KURIANSKY** also announced today the unsealing of guilty pleas previously entered by MOHAWK INDUSTRIES (on May 24, 2000), and its principal, FRANCIS JUSTIN BUSCHER (on October 5, 2001), and V.V.S.S. COMPANY, INC., and its principal, VIJAY HAVALDAR (both on October 11, 2001). MOHAWK and V.V.S.S. are minority-owned business enterprises ("MBEs") that the SCALAMANDRES listed as their subcontractors on several public contracts governed by the Minority Business Enterprise Program ("NY-MBE Program") administered by the State and City of New York. As a participant in the NY-MBE Program, general contractors, including the SCALAMANDRES, are required to subcontract a specified percentage of their work to MBEs. The MBEs, in turn, are responsible for directly performing a portion of the contract, including managing and supervising the work involved, and furnishing all required labor, tools, equipment, materials and supplies.

As part of their guilty pleas before United States District Judge Joanna Seybert, MOHAWK, BUSCHER, V.V.S.S. and HAVALDAR admitted that they acted as "fronts" for the SCALAMANDRES and other general contractors in order to qualify for NY-MBE Program public works construction projects, and, in return, received "fees" from the general contractors of approximately 5 percent of the value of the subcontract. Specifically, BUSCHER and HAVALDAR admitted that their respective companies served only as a payroll and invoice processing service for the general contractors; that they prepared and routinely submitted false certified payrolls and other documents to public contracting agencies, including the New York State Department of Transportation, the New York City Department of Design and Construction, the New York City Department of Environmental Protection, the New York City Department of Transportation, the New York State Metropolitan Transportation Authority, and the Port Authority of New York & New Jersey; that they falsified the books, records and tax returns of their respective companies and submitted false documentation to various unions and union benefit funds to conceal the fact that the work attributed to their MBEs was actually performed by the general contractors; and that they fraudulently processed approximately 60 MBE subcontracts valued at over \$40 million to give the appearance that the MBEs had actually performed work. Approximately 18 of the fraudulent subcontracts, which totaled \$20 million, were processed for the SCALAMANDRES' companies. As part of the SCALAMANDRES' plea agreements with the government, the court-appointed monitor will supervise their implementation of a program to ensure strict compliance by the SCALAMANDRES' companies with all government-regulated MBE programs.

When sentenced on their pleas of guilty to conspiring to defraud the United States, in violation of Title 18, United States Code, Section 371, BUSCHER and HAVALDAR each face a maximum sentence of five years in prison, three years supervised release, \$250,000 in fines, restitution, and the payment of back taxes (BUSCHER for the years 1991 through 1999, and HAVALDAR for the years 1993 through 2000). When sentenced on their guilty pleas to money laundering, in violation of Title 18, United States Code, Section 1956, MOHAWK INDUSTRIES and V.V.S.S. COMPANY each face a maximum sentence of five years probation and a fine of up to twice the value of the fraudulent contracts. As part of their plea agreements with the government, V.V.S.S. has agreed to forfeit approximately \$21,000,000, and MOHAWK has agreed to forfeit approximately \$2,000,000.

In announcing the guilty pleas, United States Attorney **VINEGRAD** stated: "This case represents law enforcement's continuing commitment to investigate and prosecute corrupt businessmen who avail themselves of myriad criminal methods to advance their own competitive aims. The SCALAMANDRES defrauded government agencies, evaded taxes, paid off organized crime leaders for 'labor peace' and perverted a worthy minority-business program, all for their own selfish ends. By using both the mob and MBE's to line their pockets, the SCALAMANDRES caused enormous harm to honest competitors in the construction industry, hardworking members of industry trade unions, and legitimate minority-owned businesses seeking to provide their skills and services on public projects in our community." Mr. **VINEGRAD** emphasized that the investigation is continuing.

Special Agent-In-Charge **MACHALEK** stated: "This prosecution is a result of successful team work and cooperation by all the agencies involved. The IRS is committed to these complex financial investigations that benefit from Criminal Investigation's expertise in forensic accounting, which facilitates the identification and seizure of the proceeds of illegal activity."

Inspector General **MEAD** stated: "This investigation, which has revealed the systemic use of minority-owned businesses as 'fronts' by general contractors in the New York metropolitan area and uncovered one of the largest MBE frauds in the United States, should stand as a warning that general contractors and MBEs that participate in such conduct will find themselves vigorously prosecuted."

Inspector General **HEDDELL** stated: "This investigation is a fine example of the U.S. Department of Labor, Office of Labor Racketeering's commitment to detect and combat the ongoing control of unions, union benefit funds, and construction contractors by organized crime and other labor racketeers in the New York metropolitan area."

Assistant Director-in-Charge **MAWN** stated: "The FBI is committed to maintaining the pressure on organized crime families' attempts to control the construction industry in New York. Construction companies that find it easier to associate with organized crime, rather than operate honestly, will find that illegal conduct will be uncovered and prosecuted."

Inspector-in-Charge **SKIDMORE** stated: "Postal Inspectors remain committed to keeping the nation's mail system free from criminal misuse. This prosecution should send a clear message that the Postal Inspection Service and other law enforcement agencies, working together, will continue to bring associates of organized crime to justice."

Commissioner **KURIANSKY** stated: "This remarkable joint effort has uncovered a massive fraud on City and Federal contracts that required the use of Minority Business Enterprise companies. For over a decade, these unscrupulous contractors and their sham MBEs not only deprived legitimate minority firms of many lucrative public works subcontracts, they also duped numerous City agencies - including DOT, DDC and DEP - into paying tens of millions of dollars to these 'fronts' for concrete, sidewalk and structural steel work on a host of important street and bridge reconstruction projects in neighborhoods such as Bayside, Woodside, and Staten Island and at the Owl's Head Water Treatment Plant in Brooklyn. DOI and its law enforcement partners will continue to aggressively root out this and other insidious scams on government contracts."

The guilty pleas announced today are the result of a joint investigation conducted by the Federal Construction Fraud Task Force<sup>(1)</sup> organized by the United States Attorney's Office in June 1999 to investigate corruption

and organized crime influence in federally-funded construction projects. These cases were prosecuted by Assistant United States Attorneys Burton T. Ryan, Jr., and Charles P. Kelly.

1. The members of the Task Force are the United States Attorney's Office (EDNY), the IRS, the U.S. Department of Transportation, the U.S. Department of Labor, the FBI, the Postal Inspection Service, and the New York City Department of Investigation.