



U. S. Department of Justice

United States Attorney  
Northern District of Illinois

Patrick J. Fitzgerald  
United States Attorney

Federal Building  
219 South Dearborn Street, Fifth Floor  
Chicago, Illinois 60604  
(312) 353-5300

FOR IMMEDIATE RELEASE  
FRIDAY NOVEMBER 11, 2011  
[www.justice.gov/usao/iln](http://www.justice.gov/usao/iln)

PRESS CONTACTS:  
AUSA Stephen Heinze 312-886-1265  
AUSA Jacqueline Stern 312-353-5329  
Randall Samborn 312-353-5318

**SEVEN KRAHL CONSTRUCTION EXECUTIVES AND EMPLOYEES AND TWO OTHERS INDICTED IN ALLEGED BILLING FRAUD AND KICKBACK SCHEME**

CHICAGO — The principal owner and six top executives and employees of a former general contractor, together with two former employees of client companies, were indicted for allegedly engaging in a fraudulent billing and kickback scheme. The seven defendants affiliated with the former contractor, Krahl Construction, allegedly caused losses of \$9 million and \$400,000 respectively to the two client companies, while the former employees of those firms allegedly received kickbacks valued at \$645,000 and \$119,500, respectively. All nine defendants were charged together in a 16-count indictment returned late yesterday by a federal grand jury, Patrick J. Fitzgerald, United States Attorney for the Northern District of Illinois, and Robert D. Grant, Special Agent-in-Charge of the Chicago Office of the Federal Bureau of Investigation, announced today.

Krahl Construction, which specialized in interior construction, closed its Chicago office at 322 S. Green St., in January 2010 after FBI agents executed a federal search warrant. The company also had an office in Denver.

The indictment alleges that between 2005 and 2009, certain defendants fraudulently inflated the cost of renovation projects performed by Krahl and caused the creation of false documents to support the inflated costs, resulting in over-billing at least \$15 million to Company A, which suffered actual losses of at least \$9 million, and losses of approximately \$400,000 to Company B. At the same time, the two clients' employees secretly used their positions to solicit and accept bribe/kickback payments and home improvements in exchange for favorable action to help Krahl obtain contracts with those companies, the indictment charges.

Company A is identified as a San Francisco-based real estate investment trust that hired Krahl to renovate portions of an eight-story building located at 350 E. Cermak, Chicago. Company B is identified as a property management firm located on Michigan Avenue, Chicago, that hired Krahl to develop commercial property in Bolingbrook known as the Tallgrass project.

Defendant **John Paderta**, 52, of Fontana, Wis., and formerly of Burr Ridge, the president of Krahl who owned approximately 85 percent of the company, was charged with one count of mail fraud. Also indicted were:

**Thaddeus Stepniewski**, 50, of Lisle and formerly of Lombard, Krahl's chief financial officer, who was charged with 15 counts of mail and wire fraud;

**Doug Harner**, 47, of Chicago, Krahl's executive vice president and part owner, who was also charged with 15 counts of mail and wire fraud;

**Scott Mousel**, 48, of New Orleans and formerly of Lisle, a Krahl project manager for two portions of the Cermak project, who was charged with five counts of mail fraud;

**John Bak**, 37, of Ringwood, Ill., also a Krahl project manager on portions of the Cermak project, who was charged with one count of mail fraud;

**Heather Ellis**, 34, of Midlothian, a Krahl project manager assistant on portions of the Cermak project, who was charged with one count of mail fraud;

**Erin Scott**, 36, of Clarendon Hills, also a Krahl project manager assistant on the Cermak project, who was charged with four counts of mail fraud;

**Scott Solano**, 40, of Burr Ridge, property manager for the Cermak building, first as an employee of Company C, which managed the building for Company A, and then, beginning in April 2009, as an employee of Company A, who was charged with one count of mail fraud; and

**Timothy Scannell**, 48, of Chicago, vice president of Company B, who managed a three-story office building and warehouse in Bolingbrook, known as the Tallgrass building, which Krahl was hired to remodel, and who was charged with one count of mail fraud.

Each defendant will be arraigned at a later date in U.S. District Court.

The indictment also seeks forfeiture from Paderta, Stepniewski and Harner of at least \$9 million. Separately, it seeks forfeiture of approximately \$645,000 from Solano, and approximately \$119,500 from Scannell, representing the value of the bribes/kickbacks they each allegedly received.

The indictment alleges that certain defendants engaged in aspects of the scheme as follows:

- ▶ **budgets:** during the budgeting phase of the Cermak projects, Paderta, Stepniewski, Harner, Mousel, Bak and Solano fraudulently identified and included fictitious costs to be added to the project budgets to generate additional profits for Krahl;
- ▶ **spreadsheets:** Paderta, Stepniewski, Mousel, Bak, Ellis and others created financial spreadsheets to keep track of the fraud, identifying the actual amounts owed to subcontractors along with the inflated amounts that were billed by Krahl. Stepniewski reviewed those spreadsheets on a regular basis, and he and others manually input the inflated amounts into the accounting records;
- ▶ **sham companies:** Paderta instructed Stepniewski to set up sham companies that could be used to fraudulently obtain payment from customers, and Stepniewski arranged for those companies to be incorporated, knowing that they would be shell corporations used for fraudulent billing purposes;
- ▶ **creation of false documents:** Paderta, Stepniewski, Harner, Mousel, Bak, Ellis, Scott and others created documents containing false information to support the inflated prices being charged by Krahl. Those documents included fraudulent invoices, change orders, lien waivers, applications and

certifications for payment, and numerous documents from the sham companies. Certain documents were created by cutting and pasting information and signatures. Some documents contained forged signatures and falsely notarized signatures. Krahl maintained two sets of files; one containing legitimate documents, and the other containing false and fraudulent documents;

- ▶ **inflated amounts:** Paderta decided on the inflated amounts that should be added to certain invoices, and he gave Mousel, Bak and others that information. Mousel and Bak created inflated invoices or made handwritten changes on documents to inflate the charges and gave those documents to Stepniewski, Ellis and Scott, who then created new documents using the inflated numbers. On some occasions, Harner told Mousel and Bak to inflate certain costs for Company A projects;
- ▶ **inflated bids:** Paderta, Stepniewski, Harner, Mousel, Bak, Ellis, Scott and others inflated bids to support the overstated invoices that were submitted for payment. They also inflated bids in order to make it appear that certain sham companies had submitted lower bids, which justified awarding the work to the sham companies. Paderta gave Bak inflated amounts to include in certain bid proposals, which Bak did;
- ▶ **false documents to Company A:** Paderta, Stepniewski, Harner, Mousel, Bak, Ellis, Scott, Solano and others caused false and fraudulent invoices to be submitted to Company A, as well as other false documents, resulting in over-billing of at least approximately \$15 million. Paderta, Stepniewski and Harner received substantial salary and bonus payments as a result of the overstated charges paid by Company A to Krahl;
- ▶ **Company A's request:** in December 2009, in response to Company A's request for documents pertaining to the Cermak projects, Paderta, Stepniewski, Mousel and Ellis provided to Company A copies of numerous false and fraudulent documents, which had previously been submitted to Company A, showing inflated and fictitious costs, knowing that they were false and fraudulent; and
- ▶ **Company B:** Paderta, Stepniewski, Harner and others submitted false and fraudulent documents to Company B, including invoices, payment applications, and lien waivers, falsely representing that at least three of the sham companies — Harvey Glass, Everygreene Electric, and Great Lakes Illinois Supply — had provided services and materials. In fact, Paderta, Stepniewski and Harner knew that those sham companies had not provided such services or materials.

Regarding bribes and kickbacks, the indictment alleges that Solano solicited and accepted kickbacks from Krahl, including payments totaling approximately \$520,000 and renovations on Solano's home totaling approximately \$125,000. The renovations included work on the basement, general repairs, new windows, and installation of a generator and new televisions. In exchange for the kickbacks, Solano promised to, and did, take favorable action on behalf of Krahl as requested and as opportunities arose, including helping Krahl obtain contracts from Company A, while Solano was employed at Company A and elsewhere.

Scannell allegedly solicited and accepted kickbacks from Krahl, including payments totaling approximately \$100,000, as well as renovations on his home totaling approximately \$19,500. In exchange for the kickbacks, Scannell promised to take favorable action on behalf of Krahl as requested and as opportunities arose, including agreeing to help Krahl obtain contracts from Company B, while Scannell was employed at Company B.

The government is being represented by Assistant U.S. Attorneys Stephen Heinze, Jacqueline Stern and John Kness.

Each count of mail and wire fraud carries a maximum penalty of 20 years in prison and a \$250,000 fine, or a fine totaling twice the loss to any victim or twice the gain to the defendant, whichever is greater. If convicted, the Court must impose a reasonable sentence under federal sentencing statutes and the advisory United States Sentencing Guidelines.

The public is reminded that an indictment contains only charges and is not evidence of guilt. The defendants are presumed innocent and are entitled to a fair trial at which the government has the burden of proving guilt beyond a reasonable doubt.

###