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# **News Release**

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## **Brothers sentenced for conspiring to defraud the IRS**

Two brothers from western Minnesota were sentenced earlier today in federal court in Minneapolis for devising a tax-evasion scheme that involved concealing income they and many of their employees received from their road construction business. United States District Court Judge Patrick Schiltz sentenced Joseph Edward Riley and John Thomas Riley to 42 months each in federal prison for their crime. The brothers own Riley Bros. Companies, Inc., a holding company that owns 100 percent of Riley Bros. Construction as well as a number of other companies in whole or in part. The men were indicted on April 15, 2009, on one count of conspiracy to defraud the U.S., and they pleaded guilty on November 5, 2009, without entering into a plea agreement with the government. Judge Kyle also fined each defendant \$250,000, the maximum fine allowed, and ordered them to pay all taxes and penalties they owe to the Internal Revenue Service.

In imposing the sentence, Judge Schiltz said the crime was “as serious a tax offense as one can imagine,” adding that cheating “was a way of life” for the defendants, who “got rich by the taxes paid by honest people.” In addition, Judge Schiltz said the defendants “sat in my courtroom under oath and lied” in December of 2010.

Following sentencing, U.S. Attorney B. Todd Jones added, “The Riley brothers not only defrauded the government, they harmed their own community, which relies on their companies for employment of a large segment of the local population. Because of their greed and its consequences, the town may be adversely affected economically for some time to come.”

Between 1984 and August of 2003, the defendants conspired to defraud the U.S. by concealing income earned by Riley Bros. Companies, Inc. The object of their conspiracy was to evade paying income taxes, social security taxes, Medicare taxes, and unemployment taxes to the federal government. The brothers also defrauded the State of Minnesota by evading the payment of state taxes and facilitating fraudulent claims for unemployment benefits.

The Internal Revenue Service-Criminal Investigation Division's ("IRS-CID") St. Paul Field Office headed the investigation, and today, Special Agent in Charge Kelly R. Jackson warned others who may be contemplating tax fraud. "Taxpayers thinking about participating in fraudulent tax schemes, including failing to report all forms of income, should stop in their tracks and simply look at the consequences of taking the next step. Those consequences include going to prison, being branded a convicted felon for the rest of their lives, and paying back all the taxes owed, plus steep penalties and interest."

To further their scheme, the Rileys converted to their own benefit income for work and materials provided by Riley Bros. Construction. This was done primarily by cashing checks made payable to Riley Bros. Construction and not reporting the income through the company. The cash then was spent primarily by the defendants. For example, Joseph Riley used the money to purchase a time-share condominium in Cancun, Mexico, and four motorcycles, totaling more than \$70,000. In addition, the Rileys used converted funds to provide employees with more than \$95,000 in cash. That money, as well as the funds converted for the benefit of the Riley brothers themselves, was never reported to the IRS or the Minnesota Department of Revenue.

Furthermore, the defendants arranged for more than 70 employees of Riley Bros. Construction to get paid for work performed while those employees were also collecting unemployment benefits. Some of those payments were disguised in order to facilitate tax fraud by certain employees in addition to facilitating the fraudulent unemployment claims. "You helped make tax cheats out of many of your employees and helped them cheat the State of Minnesota," Judge Schiltz, while later noting that the defendants also hurt the many honest, hard-working people who worked at Riley Bros. Construction.

Between 1996 and 2003, the defendants also caused Riley Bros. Construction to pay more than \$79,000 of their personal expenses. To facilitate that fraud, they directed company bookkeepers to falsify records and disguise the payments as business expenses. For example, expenses incurred for their children's wedding receptions were altered to appear to be related to business meetings and other business events. For instance, more than \$7,000 in the rental of tables, china, a champagne fountain, and other items was recorded as traffic control signs and cones. Expenses related to their homes and lake cottages, including bricks purchased for Joseph Riley's home and John Riley's lake house, were disguised as materials for company buildings. And, repairs and other maintenance expenses for Joseph Riley's Cadillac Escalade, John Riley's Chevrolet Corvette, and many vehicles used by their children and other relatives were recorded as expenses for vehicles used for company business only.

As a result of their conspiracy, approximately a half million dollars in improperly reported money was paid to Joseph Riley, John Riley, and Riley Bros. Construction employees by Riley Bros. Companies, Inc. Judge Schiltz noted that figure was greatly understated.

This case was the result of an investigation by the IRS-CID. It was prosecuted by Assistant U.S. Attorneys Michael L. Cheever and Nancy E. Brasel.

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Per U.S. Department of Justice policy, the U.S. Attorney's Office is not allowed to provide the age and city of residence for defendants charged in criminal tax cases.