



# Department of Justice

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## PRESS RELEASE

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### **NORTH CAROLINA MAN ARRESTED ON CHARGES OF MAIL, WIRE AND HEALTH CARE FRAUD AND TAX EVASION**

*Defendant Allegedly Stole Workers' Compensation and Health Insurance Premiums*

GREENSBORO, N.C./WASHINGTON D.C. - Anna Mills Wagoner, United States Attorney for the Middle District of North Carolina, Eileen J. O'Connor, Assistant Attorney General for the Tax Division, United States Department of Justice, Ann L. Combs, Assistant Secretary of Labor for employee benefits security, and Nancy Jardini, Chief, Internal Revenue Service, Criminal Investigation, announced today the arrest of Steven E. Edwards, age 49, formerly of Durham, North Carolina.

Edwards was arrested Monday, August 1, 2005, in Chanute, Kansas, on charges filed July 26, 2005, by a federal grand jury sitting in Greensboro, North Carolina. The twenty-one count indictment, unsealed today, charges Edwards with eleven counts of mail fraud (18 U.S.C. § 1341), three counts of wire fraud (18 U.S.C. § 1343), one count of money laundering (18 U.S.C. § 1957), two counts of making false statements to a financial institution (18 U.S.C. § 1014), one count of embezzlement from a health care benefit program (18 U.S.C. § 669), and three counts of tax evasion (26 U.S.C. § 7201). The indictment also seeks the forfeiture of approximately \$ 3.8 million in proceeds of the scheme and a mountain chalet in Boone, North Carolina.

The indictment alleges that Edwards was an officer and manager of Magna Corporation, Nations Group, and Integrity Group. The three companies were professional employer organizations (PEOs), or employee leasing companies, with an office in Durham, North Carolina, and an operations center in Topeka, Kansas. A PEO provides personnel services to smaller companies (client companies) through employee leasing agreements. While the client company retains the right to hire, terminate, manage and supervise its employees, the agreement makes the PEO responsible for paying the employees, collecting and transmitting federal and state taxes, providing workers compensation insurance and administering employee benefits such as healthcare. The client companies reimburse the PEO for the employee-related expenses and pay the PEO for performing those services.

Edwards' clients are alleged to have included other PEOs to whom he purported to provide workers' compensation and health insurance coverage. The indictment refers to client companies in various states, including North Carolina, Kansas, Michigan, California, Florida, South Carolina, Mississippi, Oklahoma, and Tennessee. The indictment also alleges that Edwards was involved with Fidelity Group, Inc., which was created to promote a fraudulent health care benefits program and was officed with Edwards' other companies in Durham, North Carolina.

The indictment alleges that neither Edwards nor his PEOs were licensed in North Carolina to sell workers' compensation or health insurance. Specifically, the scheme to defraud alleges that between January, 1999, and April, 2001, Edwards collected millions of dollars in workers' compensation premiums and health care premiums from his employee leasing clients and other PEO clients; failed to obtain or to continue workers' compensation insurance protection and health care insurance; and falsely led his clients and employees to believe they had workers' compensation and health care coverage. It is charged that Edwards collected premiums from employees and clients whose coverage had lapsed and from employees and clients located in states for which he had no coverage. In addition, he is charged with providing false

information to banks and insurance companies in order to obtain coverage and services and to confer the illusion of legitimacy to his schemes.

Edwards allegedly diverted the premiums to live a luxurious life style, to build a palatial home and to acquire a collection of expensive vehicles and motorcycles. The indictment charges that Edwards concealed the diverted premiums by depositing funds into financial accounts maintained in the names of nominees and placing other assets in the names of nominees and that he failed to report those monies as income on his federal income tax returns.

If convicted, Mr. Edwards faces the following maximum potential sentences:

1. on each mail and wire fraud charge, a maximum potential sentence of five (5) years imprisonment, followed by up to three (3) years supervised release, and a \$250,000 fine;
2. on each money laundering charge, a maximum potential sentence of ten (10) years imprisonment, followed by up to three (3) years supervised release and a \$250,000 fine;
3. on each charge of making false statements to a financial institution, a maximum potential sentence of thirty (30) years imprisonment, followed by up to three (3) years supervised release and a \$1,000,000 fine;
4. on each healthcare fraud charge, a maximum potential sentence of ten (10) years imprisonment, followed by up to three (3) years supervised release and a \$250,000 fine; and
5. on each income tax evasion charge, five (5) years imprisonment, followed by up to three (3) years supervised release, a \$250,000 fine and costs of prosecution.

Edwards will have an initial appearance in the District of Kansas on Wednesday August 3, 2005, and will then be directed to appear in Greensboro, North Carolina, for arraignment and trial. Trial will be set for the fall. The investigation was conducted by the U.S. Department of Labor, Employee Benefits Security Administration, and the Internal Revenue Service, Criminal Investigation.

The charges contained in the indictment are only allegations. In the American justice system, a person is presumed innocent unless and until he or she is proven guilty in a court of law.

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