IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF ILLINOIS

UNITED STATES OF AMERICA,)
)
Plaintiff,)
)
vs.) CRIMINAL NO. 09-40040-JPG
)
TARA MORGAN,)
a/k/a "Tara Prince,")
a/k/a "Tara Jones,")
Defendant.)

INFORMATION

THE UNITED STATES ATTORNEY, UNDER OATH, CHARGES:

Background Information

1. Employee leasing companies are also known as "Professional Employer Organizations" ("PEOs"). PEO's are businesses that contractually assume responsibility for the human resource ("HR") related functions for small businesses, for example: interviewing and hiring assistance, payroll management, employee benefit design and administration, and administration of federal and state workplace regulations. Employee leasing agreements are best described as co-employment relationships where, for purposes of taxes, payroll, benefits, and workers' compensation, the employees of the client company become employees of the PEO. Many client companies will control employee interviewing, hiring and firing; however, the employees who work in this environment are formally employees of the PEO and not of the PEO's client business for whom the employees actually perform work. The PEO leases the employee back to its client in exchange for a fee. This arrangement allows the PEO to provide HR services to its client, which frees the client to dedicate its time to focusing on the substance of its underlying business.

2. PEOs can provide employee insurance benefits more economically than small businesses through economies of scale by obtaining employee insurance benefits at reduced costs by pooling large volumes of employees together for purposes of obtaining group insurance coverage.

3. The State of Illinois regulates Employee Leasing Companies through the Illinois Employee Leasing Company Act, 215 ILCS, Section 113/1 *et. seq*. The State of Illinois defines an employee leasing arrangement[1] in terms of whether a contractual arrangement obligates the PEO to secure workers' compensation insurance.

4. An Administrative Services Organization ("ASO") is a business model that also provides HR services to small businesses. ASO's have a fundamentally different structure than a PEO. Under both models, the employees perform work for the client business. However, under an ASO model, the workers remain employees of the client business; whereas in a PEO the workers become employees of the PEO and are leased back to the client business. Further, ASO's are not contractually obligated to provide workers' compensation insurance for the client's employees, while employee leasing companies are defined by their obligation to secure workers' compensation insurance for the employees a PEO leases to its clients.

5. Illinois law generally requires employers to maintain workers' compensation insurance coverage on their employees. 820 ILCS Section 305/4. Workers' compensation insurance can be obtained when an employer submits application directly to an insurance carrier,

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1 Pursuant to 215 ILCS Section 113/115, an employee leasing arrangement is defined as "a contractual arrangement, including long-term temporary arrangements whereby a lessor obligates itself to perform specified employer responsibilities as to leased employees including the securing of workers' compensation insurance...."

usually through an insurance agent, and pays the required premium. This practice is known as obtaining coverage through the "voluntary market." However, because some employers are unable to obtain insurance in the open, voluntary market, a program called the "Assigned Risk Plan" (a/k/a the residual market insurance pool) was created by the Illinois General Assembly.

6. The Illinois Assigned Risk Plan utilizes a number of "servicing carriers," which are insurers that are obligated to accept applications and write insurance coverage for employers who were not able to secure workers' compensation insurance coverage in the voluntary market.

7. All registered workers compensation insurance companies must participate in the Illinois assigned risk pool. *See,* 215 ILCS Section 5/468. Insurance carriers that write workers' compensation insurance in the voluntary market in Illinois, must contribute to the assigned risk pool on a pro-rata basis, based upon their market share of the voluntary market. Premiums received by servicing carriers are also ceded to the assigned risk pool. The funds in the assigned risk pool are used to pay injury claims and administrative expenses from assigned risk workers' compensation insurance policies.

8. The Illinois assigned risk plan is administered by the National Council on Compensation Insurance ("NCCI"). Operating as a not-for-profit corporation, NCCI assists in determining proper workers' compensation classifications, calculating experience modification factors, and collecting data used for ratemaking. NCCI also writes the manuals used in many states to calculate workers' compensation premiums. If a small business is unable to find an insurer (having been refused coverage by 2 or more insurers) willing to write workers' compensation for that businesses' employees, coverage may be secured through NCCI's "assigned risk program," which is underwritten on a rotating basis by NCCI approved insurers

called "servicing carriers." NCCI assigns assigned-risk program applicants to participating insurance companies for coverage and sets advisory rates for the calculation of premiums.

9. Premiums for workers compensation insurance are calculated using three factors.

a. Each employee covered under a workers' compensation insurance policy is classified according to the various jobs performed by the insured's employees. NCCI has created a system of classifying different jobs into a system of approximately 600 different codes, each one with a rate commensurate with the risk associated with that type of employment. Each classification code is billed according to a corresponding insurance rate, with the highest rates being charged to the riskiest types of employment. Rates are expressed per $100 of payroll.

b. The second factor in calculating a workers' compensation premium is the amount of payroll in each job classification. Premiums are calculated by determining the applicable payroll classification code premium rate, as described in subparagraph (a), and then multiplying that rate by the total amount of payroll allocated to that particular job classification. This process is repeated for each different classification code for the business.

c. The premium's final element is the experience modifier, which is a multiplier applied to the payroll used to determine the final premium. The experience modifier (a/k/a "the mod") is calculated by NCCI and compares an employer's past claim history to the past claim history of other employers in the same job classification. If a company has a claims history that is average in its field, the experience modifier will be one (1). However, as claims increase, so does the modifier (and by extension, the premium). Because the experience modifier ("mod") is a function of a particular job classification, the misclassification of employment can operate to increase the "mod."

10. Under a PEO model, workers are employees of the PEO rather than the client company for whom they actually perform work. According to Illinois law, Employee Leasing Companies (PEO's) must carry a "master policy" to provide W/C insurance to all employees under one policy. Consequently, all employees – from every client business – are grouped together and insured together under one master policy. Therefore, insurance claims from one

client business adversely impacts the experience modifier ("mod") for the employees leased by a PEO to other client companies.

The Origins of LT Consulting, Inc.:

11. Laura Krpan began working for Nexus Management Solutions in 1999. In June, 2000, Tara Morgan began working at Nexus Management Solutions. Laura Krpan and Tara Morgan (also known as "Tara Jones" and "Tara Prince") have been co-workers or business partners since that time, owning and working in several businesses together, by commingling funds into joint ventures, and by jointly purchasing vehicles and real estate in "LT Properties, L.L.P."

12. On September 25, 2000, Laura Krpan pled guilty to committing mail fraud and to filing a false tax return in the case of *United States of America v. Laura H. Krpan*, Case Number 00-CR-40089-JPG, which was filed in the Southern District of Illinois. Those convictions resulted from a scheme Krpan engaged in to defraud insurance companies in her position as the owner and operator of a PEO. In that case, Laura Krpan misrepresented the true employment classifications and payroll volume in applications for workers' compensation insurance made on behalf of the clients whom Laura Krpan represented through PEOs, which included, but were not limited to, Elite Temporaries, Inc., Elite Employee Leasing, Inc., Southern Illinois Services, Inc., and KV Services, Inc. Laura Krpan and Tara Morgan were working together at the time of Krpan's convictions and Tara Morgan was aware of the subject matter of the prosecution against Krpan. The fraud in that case resulted in substantial loss in unpaid premiums to insurers who provided workers' compensation insurance on assigned risk policies they had been assigned to issue through NCCI.

13. Tara Morgan organized L.T. Consulting, Inc., and incorporated the business with the Illinois Secretary of State on January 17, 2002, while Laura Krpan was incarcerated in Federal Correctional Institution ("FCI") Greenville. The moniker "LT Consulting" refers to "Laura and Tara" Consulting. Laura Krpan began working for LT Consulting, after she was released from the Federal Bureau of Prisons on January 23, 2002. LT Consulting, Inc. ultimately contracted with small businesses to act as an employee leasing company (PEO) to administer the payroll, insurance, and other administrative functions for small businesses. Such responsibilities included obtaining and advancing premium payments for workers compensation insurance for employees that were leased to LT Consulting's client businesses.

14. As of 2002, all of LT Consulting, Inc.'s clients were insured under the same "pool policy" issued by their insurer, Virginia Surety. A single "pool policy" was required because under Illinois law, employee leasing companies must insure all of their leased employees under a single policy. This "pool policy" was issued annually with renewal occurring on July 18th of each year. Premiums were determined based upon the client businesses' actual payroll, classification codes, and experience modifiers applicable to LT Consulting, Inc.

The Scheme to Defraud

15. From on or about January 17, 2002, continuing through on or about May 17, 2006, Tara Morgan participated in a scheme to defraud designed to fraudulently avoid payments for LT Consulting, Inc.'s workers' compensation insurance, as described in the following paragraphs of this information.

Summary of the Scheme to Defraud:

16. LT Consulting, Inc. entered into an employee leasing agreement with MLB Systems Inc. from July 1, 2003 – August 31, 2003. During that time period, LT Consulting, Inc. received $273,988.96 in payments from MLB Systems Inc. in exchange for LT Consulting, Inc.'s agreement to provide workers' compensation insurance for MLB Systems Inc.'s employees on LT Consulting, Inc.'s workers' compensation pool policy. LT Consulting, Inc. concealed the existence of this agreement from auditors and thereby avoided paying premiums for the coverage that was extended. The result of this concealed agreement was that LT Consulting, Inc.'s insurer was exposed to an undisclosed increased risk of loss – which resulted in the payment of claims – without paying the corresponding premiums that would have been charged had the agreement been disclosed. The money received by LT Consulting, Inc. under this agreement was shared between the principals of LT Consulting, Inc. for their personal enrichment.

17. The business of LT Consulting, Inc. was conducted through a series of acts, omissions, and false statements designed to reduce worker's compensation insurance premium costs resulting in the payment of significantly less insurance premiums than should have been paid. LT Consulting, Inc. attempted to fraudulently reduce their workers' compensation insurance premiums by:

a. under reporting their client business' payroll amounts to which the insurance premium rates were indexed thereby resulting in lower premiums;

b. providing incorrect classification codes of workers it leased to various clients, thereby causing the insurance companies to believe that they were insuring lower risk workers (e.g., clerical workers) rather than higher risk workers (e.g., loggers) when LT Consulting, Inc. possessed sufficient

information to correctly classify the workers. This misclassification resulted in LT Consulting, Inc. obtaining workers' compensation insurance at reduced rates based upon the insurer's misapprehension of the true nature of the business engaged in by LT Consulting, Inc.'s clients;

c. providing false or fraudulent documents to their insurer and NCCI for the purpose of evading the applicable experience modifier ("mod"); and

d. collecting state and federal withholding taxes, but failing to forward those earnings to the appropriate taxing authority, thereby depriving the employees of credit for their withholdings from the Social Security Administration.

18. LT Consulting, Inc. operated as an employee leasing company where it invoiced and collected payments for workers compensation insurance for each employee it leased to client companies. However, despite collecting the billing factor from its client businesses, LT Consulting, Inc. retained those funds and did not make payment to Virginia Surety to pay for the coverage that was extended under LT Consulting, Inc.'s second and third pool policies.

19. When it became financially impracticable for LT Consulting, Inc. to continue to provide workers' compensation insurance to its clients under its pool policy, LT Consulting, Inc. attempted to evade the application of the experience modifier by forging their clients' signatures on new workers' compensation insurance applications without their clients' knowledge. LT Consulting, Inc. was ultimately successful in obtaining 17 individual workers compensation insurance policies for 17 of their clients' businesses without their clients' knowledge or consent. This practice resulted in creating a direct contractual relationship between the insurers and the clients through forgery.

20. Despite obtaining the individual policies, LT Consulting, Inc. continued to invoice clients for providing their workers' compensation insurance and LT Consulting, Inc. continued to pay quarterly employer taxes as an employee leasing company (PEO). In some

instances, LT Consulting, Inc. accepted workers' compensation insurance payments from their clients, but instead of forwarding these payments to the insurer, LT Consulting, Inc. retained the payments without paying the applicable premium on the individual policy. This practice created arrears where the client was forced to pay the premium twice: first to LT Consulting, Inc., and then a second time to the insurer who sought to collect the arrearage under the terms of the individual contacts.

21. As a result of the failure to pay premiums, as described in paragraph 20, several of the individual policies experienced lapses in coverage. LT Consulting, Inc. continued to bill their clients for workers compensation insurance during time periods when coverage was cancelled due to LT Consulting, Inc.'s failure to pay premiums. Additionally, LT Consulting, Inc. failed to notify their clients, to whom they owed a fiduciary duty, of the fact that their liability policies had lapsed, which exposed the leased employees to the risk of injury without workers' compensation coverage.

7th Street Café:

22. LT Consulting, Inc. entered into an employee leasing agreement with 7th Street Café and accepted payment for providing workers' compensation insurance for employees that LT Consulting, Inc. leased to 7th Street Café. 7th Street Café was a business located in the State of Kentucky and was not covered under LT Consulting, Inc.'s pool policy because the terms of LT Consulting, Inc.'s pool policy specifically limited coverage to employees leased within the State of Illinois. Consequently, LT Consulting, Inc. accepted payment from The 7th Street Café to provide workers' compensation insurance while in fact, LT Consulting, Inc. failed to obtain a Kentucky insurance policy to provide the coverage for which 7th Street Café was paying.

23. An employee that LT Consulting, Inc. leased to the 7th Street Café suffered an injury and filed a claim against a LT Consulting, Inc.'s workers' compensation pool policy. In an attempt to conceal the fact that LT Consulting, Inc. accepted payment from 7th Street Café without providing the agreed coverage, LT Consulting, Inc. provided 7th Street Café and its injured employee a forged Certificate of Insurance purporting to evidence coverage for the claim. The principals of LT Consulting, Inc. furthered the scheme by obfuscating their fraud through a series of false statements and misrepresentations that the 7th Street Café had been issued a valid certificate of insurance prior to the claim when in truth and fact they knew that to be false. The injured employee was ultimately denied coverage because the 7th Street Café was located in the State of Kentucky, which was outside of the scope of coverage for LT Consulting, Inc.'s pool policy.

MLB Systems, Inc.:

24. MLB Systems, Inc. ("MLB") was a Chicago, Illinois business that was incorporated in Illinois on March 17, 1999, as an employee leasing company (PEO). As of approximately June, 2003, MLB served as a PEO for approximately 189 businesses and employed approximately 3,000 employees with an annual payroll of approximately $24.5 million. MLB's workers' compensation insurance policy term ran from July 1, 2002, through July 1, 2003. As of June, 2003, MLB's workers' compensation premium payments were in arrears. In addition, in order to renew its workers' compensation policy, MLB was faced with paying a $510,000 premium deposit due prior to July 1, 2003. MLB was unable to meet either of these financial obligations.

25. MLB entered into an interim agreement with LT Consulting, Inc. whereby LT Consulting, Inc. agreed to provide short-term worker's compensation coverage to MLB's employees in exchange for payments to LT Consulting, Inc. that totaled $273,988.96 to provide coverage from July 1, 2003 – August 31, 2003. This interim agreement was to serve as "bridge-coverage" for the employees MLB leased to its clients until such time as MLB was able to restructure its workers' compensation coverage and resume providing coverage for the employees. LT Consulting, Inc. provided workers' compensation insurance to the employees of MLB under the following policies:

e. Virginia Surety Policy numbered A1200005654 (" Policy 5654"), with a policy period of July 18, 2002, to July 18, 2003; and

f. Virginia Surety Policy numbered 5AA120001381001 (" Policy 13810"), with a policy period of July 18, 2003, to July 18, 2004.

26. During auditing, LT Consulting, Inc. failed to disclose the existence of the MLB agreement from their insurer thereby resulting in coverage being extended without LT Consulting, Inc. paying the corresponding premium deposits and premium payments that would have been charged if LT Consulting, Inc. had disclosed the existence of their agreement. The funds paid by MLB to LT Consulting, Inc. under the agreement were used, in part, for the personal enrichment of the Co-Conspirators and the payment of personal expenses, including: cash payments to Laura Krpan and Tara Morgan, cash transferred to LT Properties, L.L.P. to provide housing for Laura Krpan, cash transferred to pay for remodeling for Tara Morgan's home, and payments for personal vehicles.

27. As a result of LT Consulting, Inc.'s incomplete disclosure and ensuing concealment of information, Virginia Surety was bound to provide coverage to all of MLB's

employees without the benefit of receiving the corresponding premium deposits and premium payments commensurate with the risk of loss presented by the MLB employees. Therefore, LT Consulting, Inc. enjoyed lower premium costs than would have been charged had the agreement been disclosed.

Consequences of the MLB Agreement:

28. The interim "bridge-coverage" began on July 1, 2003, and was terminated on or about August 31, 2003. During that time period, employees of certain MLB clients experienced injuries and filed claims against LT Consulting, Inc.'s workers' compensation policy that were paid by Virginia Surety. Investigation performed by Virginia Surety revealed that LT Consulting, Inc. had been covering previously-undisclosed clients, however, Virginia Surety was never provided with details of the agreement that would have permitted them to assess premium for the coverage that they provided.

29. LT Consulting, Inc.'s experience modifier ("mod") was adversely affected due to increased claims activity resulting from the MLB agreement. Because LT Consulting, Inc. was acting as a PEO, the increased claims activity from the MLB agreement increased the risk modifier ("mod") for all of LT Consulting, Inc.'s clients. The increased risk modifier ("mod") is a multiplier that operated to increase the rate applicable to all of LT Consulting, Inc.'s employees, thereby elevating the premiums that were due on the workers' compensation policy that covered them.

30. Thus, the result of the MLB Agreement was personal enrichment for the principals of LT Consulting, Inc.; while every client of LT Consulting, Inc. faced increased workers' compensation insurance rates because of the increased "mod."

Refusal to Pay Premium after Promulgation of the Experience Modifier:

31. LT Consulting, Inc.'s first pool policy was provided by Virginia Surety Policy A1200005654 (" Policy 5654"), with a policy period of July 18, 2002, to July 18, 2003. On the original application, LT Consulting, Inc. estimated that its annual payroll would be $135,275, resulting in an estimated premium of $10,554.00. In fact, LT Consulting, Inc. had a total $836,000 of payroll that was discovered during audit. On November 11, 2003, LT Consulting, Inc. was billed an additional $54,494 based upon the additional payroll that was discovered on final audit. LT Consulting, Inc. was able to pay the additional premium because those charges were assessed on actual payroll that LT Consulting, Inc. had collected during the course of the previous year.

32. LT Consulting, Inc.'s second pool policy was provided by Virginia Surety Policy 5AA120001381001 (" Policy 13810"), with a policy period of July 18, 2003, to July 18, 2004. Based on the final audit from the first policy year, on November 17, 2003, the annual premium was adjusted on the second policy to anticipate annual payroll of $836,000. This resulted in a mid-year "endorsement premium" requiring an additional payment of $62,028.00, which LT Consulting, Inc. paid. LT Consulting, Inc. was able to pay the additional premium because those charges were assessed on actual payroll that LT Consulting, Inc. had collected.

33. LT Consulting, Inc. provided auditor Bill MacDonald with "amended" IRS form 941's as evidence of their payroll. In fact, these "amended" IRS form 941's were never filed with the IRS and were provided to the auditor in order to provide false documentation to underreport payroll and thereby reduce workers' compensation insurance premiums because the

premium rates charged to LT Consulting, Inc. were indexed to the amount of payroll paid by the client.

34. All premiums and workers compensation insurance bills were paid prior to the promulgation of the experience modifier. However, during the second policy year, on March 12, 2004, NCCI promulgated the experience modifier ("mod") applicable to LT Consulting, Inc.'s workers' compensation policy which was scheduled to become effective as of July 18, 2004, when the third policy term commenced. The experience modifier was promulgated at 1.98. Once that modifier was applied, it would serve to double LT Consulting, Inc.'s workers' compensation insurance costs beginning in the third year. LT Consulting, Inc. stopped paying for the insurance coverage that they were receiving from Virginia Surety in the second policy year after the modifier was promulgated by NCCI. While LT Consulting, Inc. ceased paying premiums, they continued collecting workers' compensation premium during the same time. The refusal to pay premium resulted in LT Consulting, Inc. retaining monies that were collected from their clients and should have been used to pay for coverage that was extended during that second policy year.

35. Final auditing of the second policy year revealed that the actual payroll had grown to approximately $2.4 million dollars, creating an additional $438,685 in premium due and owing. Despite the fact that LT Consulting, Inc. collected the workers' compensation billing factor on $2.4 million dollars, they retained those funds and failed to pay the $438,685 premium after final audit.

36. LT Consulting, Inc.'s third pool policy was provided by Virginia Surety Policy A1200025388 (" Policy 25388"), with a policy period of July 18, 2004, to July 18, 2005. This

policy renewed automatically prior to final audit on the second policy year. LT Consulting, Inc. failed to make their renewal deposit by July 18, 2004.

July 14, 2004 Individual Policy Applications to NCCI:

37. LT Consulting, Inc. began attempting to arrange for alternative insurance coverage for their clients after the promulgation of the experience modifier. In an attempt to evade the experience modifier ("mod") that was required by law to be applied, and by extension, to fraudulently reduce the premium rates it owed to the insurers, LT Consulting, Inc. attempted to obtain replacement insurance policies for its clients under false pretenses.

38. Illinois is a "master policy" state that requires employee leasing companies (PEO's) to maintain a single workers' compensation insurance pool policy to cover its leased employees. Under Illinois law, PEO clients are not eligible for individual policies.

39. On or about July 14, 2004, LT Consulting, Inc., along with its insurance agent, Raymond "Bo" Linzee, III, submitted individual insurance applications on behalf of LT Consulting, Inc.'s clients directly to NCCI. Those applications asserted that each client was seeking an individual policy and was no longer in an employee leasing (PEO) arrangement with LT Consulting, when in truth and in fact, the parties knew that to be false. The parties attempted to convince NCCI that LT Consulting, Inc. had ceased operating as an employee leasing company (PEO) and had become an Administrative Services Organization (ASO) that merely provided payroll or bookkeeping services and did not lease employees back to its client companies. In substance, and in practice, however, LT Consulting, Inc. had not altered the substance of its relationship with its client companies and it continued to function as a PEO rather than an ASO. However, in an attempt to deceive NCCI into believing that the individual

clients were independently seeking insurance coverage, LT Consulting, Inc. submitted correspondence containing false information, submitted forged insurance applications, and submitted fraudulently altered client agreement contracts.

40. The July 14, 2004, applications were all reviewed by NCCI and were rejected on or about August 13, 2004 because NCCI and the Illinois Department of Insurance determined that the parties continued to be in a leasing arrangement.

Deposit Premium is Paid to VA Surety Only After Individual Applications are Rejected:

41. On August 24, 2004, eleven days after the individual policy applications were rejected by NCCI, LT Consulting, Inc. returned to Virginia Surety and paid a $46,101 deposit premium on their third pool policy, Virginia Surety Policy A1200025388 (" Policy 25388"), with a policy period of July 18, 2004, to July 18, 2005. This deposit, which was paid on August 24, 2004, was delinquent as it was due to be paid by July 18, 2004. LT Consulting, Inc. paid only one installment for coverage during the third policy year, with that payment being made on September 10, 2004. LT Consulting, Inc. failed to pay the full premium for the coverage that they received during the third policy year.

42. LT Consulting, Inc.'s relationship with Virginia Surety ended on November 23, 2004, when their third and current policy was cancelled due to LT's failure to pay outstanding premiums owed on its second pool policy (Policy 13810) subsequent to final audit.

Individual Policies - AIG:

43. Two weeks before Virginia Surety terminated the third policy, on or about November 9, 2004, insurance agent Ray Linzee secured individual policies for 11 of LT Consulting, Inc.'s client companies through the voluntary market with AIG. AIG refused to accept applications on six (6) of LT Consulting, Inc.'s clients because those clients were engaged in extremely risky types of work. Because the AIG policies were issued in the voluntary market, they were not processed by NCCI. These policies were accepted by AIG because the applications asserted that each client was seeking an individual policy and was not in an employee leasing (PEO) arrangement, when in truth and in fact, the parties knew that to be false. In substance, and in practice, however, LT Consulting, Inc. had not altered the substance of its relationship with its client companies and it continued to function as an employee leasing company (PEO). These policies were obtained under false pretenses.

44. During the life of these policies, LT Consulting, Inc. failed to make premium payments as required thereby resulting in interruptions in coverage due to non-payment. The client companies were billed for premium by LT Consulting, Inc. during the periods of cancellation and were not advised when their employees were at risk during the periods that the policies had lapsed due to LT Consulting, Inc.'s failure to pay.

45. The AIG Insurance policies went into effect on various dates in November and December, 2004. After an initial audit, each of these policies was cancelled in February, 2005 because auditing determined that the clients were ineligible for individual polices because those clients continued to be in a PEO relationship with LT Consulting, Inc.

December 22, 2004 Individual Policy Applications to NCCI Assigned to St. Paul Travelers:

46. LT Consulting, Inc.'s remaining six (6) clients who were ineligible to be insured by AIG experienced a gap in coverage from the cancellation of the third Virginia Surety pool policy on November 23, 2004 until insurance agent Ray Linzee and LT Consulting, Inc. again sought individual policies from NCCI on December 22, 2004. The client businesses were not informed of the lapse in coverage thereby exposing the leased employees to the risk of injury without liability coverage. The clients were also billed for insurance coverage during this period of time when no coverage was in place.

47. LT Consulting, Inc. again sought to obtain replacement insurance policies through NCCI for its clients under false pretenses in order to evade the experience modifier that was required by law to be applied. The parties submitted these six applications for individual insurance policies in an attempt to deceive NCCI into believing that the individual clients were independently seeking insurance coverage. LT Consulting, Inc. submitted correspondence containing false information and submitted forged insurance applications in order to obtain the individual policies under false pretenses. NCCI accepted the fraudulent applications and assigned the policies in the assigned risk market to St. Paul Traveler's Insurance.

48. St. Paul Traveler's conducted a new-account audit shortly after the policies were assigned by NCCI and through that audit determined that the insured clients of LT Consulting, Inc. were required to be assessed the 1.98 experience modification factor by virtue of their association with LT Consulting, Inc. The audit also determined that worker classification codes were misapplied, which determination resulted in deposit premiums and monthly premiums being reassessed and increased. These policies were in effect for approximately 6 months prior to cancellation. Certain policies were cancelled for non-payment, while others were cancelled

because auditing ultimately determined that the clients were ineligible for individual policies because those clients continued to be in a PEO relationship with LT Consulting, Inc.

Factual Basis Pertaining to the Count of Conviction – M & H Millworks:

49. Prior to March 18, 2004, DAL Enterprises was an employee leasing client of LT Consulting, Inc., located in Dongola, Illinois. On March 18, 2004, Barry Hughes purchased DAL Enterprises and renamed the business M & H Millworks. Hughes chose to retain LT Consulting, Inc. to provide employee leasing services.

50. On or about March 18, 2004 Barry Hughes executed an employee leasing agreement with LT Consulting, Inc. memorializing the terms of their employee leasing arrangement. At no point did Barry Hughes agree to modify, alter, amend or otherwise change the terms of that original employee leasing contract.

51. On March 12, 2004, NCCI promulgated the experience modifier ("mod") applicable to LT Consulting, Inc.'s workers' compensation policy which was scheduled to become effective as of July 18, 2004 when the third policy term commenced. Once the "mod" was promulgated by NCCI, LT Consulting, Inc. quit paying premiums to their insurer, Virginia Surety. LT Consulting, Inc. attempted to obtain individual replacement insurance policies for its clients under false pretenses in order to evade the experience modifier ("mod") that was required by law to be applied, and by extension, to fraudulently reduce the premium rates it owed to its insurer. In an attempt to deceive NCCI into believing that the individual clients were independently seeking insurance coverage, LT Consulting, Inc. submitted correspondence containing false information, submitted forged insurance applications, and submitted fraudulently altered client agreement contracts.

52. On or about July 14, 2004, LT Consulting, Inc. and insurance agent Ray Linzee prepared an application for an individual insurance policy for M & H Millworks without the knowledge or consent of Barry Hughes, or any employee of M & H Millworks. The application directed all mail correspondence and telephone communication to be directed to M & H Millworks in care of Tara Jones (aka, Tara Morgan, Tara Prince), at LT Consulting, Inc.'s place of business. This practice ensured that all communication and correspondence relevant to the application for individual coverage would be received by LT Consulting, Inc. and would not be discovered by Barry Hughes, or anyone else at M & H Millworks. Barry Hughes' signature was forged on that application for an individual workers compensation insurance policy that was submitted to NCCI, in Boca Raton, Florida by US Mail or interstate commercial carrier.

53. While processing the July 14, 2004, application for an individual policy for M & H Millworks, NCCI reviewed the original client services agreement executed by Barry Hughes on March 18, 2004. NCCI contacted insurance agent Ray Linzee and informed him that M & H Millworks was not eligible for an individual workers' compensation insurance policy because they were in an employee leasing agreement with LT Consulting, Inc.

54. On or about August 3, 2004 a "new" client services agreement was submitted to NCCI as evidence that M & H Millworks was no longer in an employee leasing (PEO) arrangement with LT Consulting, when in truth and in fact, the LT Consulting, Inc. knew that to be false. Insurance agent Ray Linzee and LT Consulting, Inc. attempted to convince NCCI that M & H Millworks was eligible for an individual workers' compensation insurance policy because LT Consulting, Inc. had ceased operating as an employee leasing company (PEO) and had become an Administrative Services Organization (ASO) that merely provided payroll or

bookkeeping services and did not lease employees back to its client companies. In substance, and in practice, however, LT Consulting, Inc. had not altered the substance of its relationship with its client companies and it continued to function as a PEO rather than an ASO. A photocopy of Barry Hughes' actual signature was pasted onto the August 3, 2004, "new" client services agreement and photocopied so as to appear that Barry Hughes had actually signed the August 3, 2004, "new" client services agreement when in truth and in fact, he was unaware that such a document had been created. This forged document was created in an attempt to evade the application of the experience modification factor that was required by law to be applied to clients of an employee leasing company and thereby fraudulently reduce workers' compensation premiums.

55. The July 14, 2004 application for an individual workers' compensation insurance policy was ultimately rejected by NCCI and M & H Millworks continued to be covered under the terms of LT Consulting, Inc.'s pool policy until November 23, 2004, when LT Consulting, Inc.'s third pool policy was cancelled due to LT Consulting, Inc.'s failure to pay premiums. LT Consulting, Inc. continued to invoice and receive payments from M & H Millworks for workers' compensation insurance after November 23, 2004, despite the fact that LT Consulting, Inc. was not providing workers' compensation insurance coverage.

56. On or about December 22, 2004, LT Consulting, Inc. and insurance agent Ray Linzee prepared and submitted a second application for an individual insurance policy for M & H Millworks to NCCI without the knowledge or consent of Barry Hughes, or any employee of M & H Millworks. This second application also directed all mail correspondence and telephone communication to be directed to M & H Millworks in care of Tara Jones (aka, Tara Morgan,

Tara Prince), at LT Consulting, Inc.'s place of business. This practice ensured that all communication and correspondence relevant to the application for individual coverage would be received by LT Consulting, Inc. and would not be discovered by Barry Hughes, or anyone else at M & H Millworks. Barry Hughes' signature was forged on that application for an individual workers compensation insurance policy that was submitted to NCCI, in Boca Raton, Florida by US Mail or interstate commercial carrier.

57. LT Consulting, Inc. provided a letter dated December 22, 2004, that purported to terminate the employee leasing agreement between LT Consulting, Inc. and M & H Millworks as further evidence that LT Consulting, Inc. no longer provided employee leasing services to M & H Millworks. In substance, and in practice, however, LT Consulting, Inc. had not altered the substance of its relationship with its client companies and it continued to function as a PEO rather than an ASO. This "termination letter" dated December 22, 2004, was not provided to Barry Hughes, or any other employee of M & H Millworks. Rather, it was created solely to mislead NCCI into believing that M & H Millworks was no longer involved in an employee leasing arrangement with LT Consulting, Inc., in an effort to evade the application of the experience modifier that was required by law to be applied by the insurer, and thereby fraudulently reduce their workers' compensation insurance premiums.

58. The December 22, 2004, application for an individual insurance policy was accepted by NCCI and assigned to St. Paul Travelers in the assigned risk market because NCCI was deceived into believing that M & H Millworks was eligible for an individual policy, when in truth and in fact, M & H Millworks was unaware that an individual policy was sought on their

behalf and M & H Millworks was ineligible for an individual policy by virtue of their employee leasing agreement.

59. The second application for an individual insurance policy on behalf of M & H Millworks underreported payroll for the purpose of fraudulently reducing the amount of workers' compensation premium that would be charged on the policy. The December 22, 2004, application of an individual workers compensation insurance policy asserted that M & H Millworks employed four millwork employees, when in truth and in fact, the mill employed 30 employees at that time. LT Consulting, Inc. knew how many employees worked at the mill because they processed every paycheck for every employee of M & H Millworks. LT Consulting, Inc. collected workers compensation payments to insure more than 20 employees from M & H Millworks while having only paid deposit premium on 4 employees to St. Paul Travelers.

60. On or about May 2, 2005, the LT Consulting, Inc. caused to be mailed to St. Paul Travelers Insurance a letter purporting to have been sent by M & H Millworks. That letter claimed to be M & H Millworks' official notice to St. Paul Travelers insurance company disputing the terms of the initial audit, in particular, the workers' compensation classification code that had been assigned to M & H Millworks. That letter bore the forged signature of an actual M & H Millworks employee.

61. In June, 2005, Tara Morgan contacted David Stone, the Vice-President of M & H Millworks. Morgan informed Stone that a workers' compensation audit had resulted in a premium bill of $23,866. M & H Millworks refused to pay additional fees to LT Consulting, Inc., because they had paid workers' compensation insurance premiums to LT Consulting, Inc.

for all of the leased employees under the terms of the original employee leasing agreement. That original agreement required LT Consulting, Inc. to provide coverage for the leased employees on their pool policy.

62. On or about June 16, 2005, Barry Hughes directly contacted St. Paul Travelers to further investigate the outstanding bill. It was at this time that he learned for the first time that his company was not actually insured under the terms of the original leasing agreement but that an individual insurance policy had been issued for M & H Millworks. Hughes was told that because the policy was issued to M & H Millworks, and not LT Consulting, Inc., that M & H Millworks would be responsible to pay the $23,866 outstanding balance on the policy. This bill was created due to the underreporting of payroll on the December 22, 2004, application and because of the application of the experience modifier to the policy.

63. While speaking to St. Paul Travelers on or about June 16, 2005, Hughes learned that his signature had been forged on the December 22, 2004, application for an individual insurance policy and his signature had been forged on the August 3, 2004, "new" client services agreement. After learning of the existence of the forged application and forged client services agreement, Barry Hughes telephoned Tara Morgan and asked her to confirm the employee leasing agreement between LT Consulting, Inc. and M & H Millworks. On June 22, 2005, Tara Morgan faxed the original employee leasing agreement (dated March 18, 2004) to Barry Hughes to confirm the existence of the leasing arrangement. Tara Morgan confirmed the original leasing agreement to Hughes despite the fact that LT Consulting, Inc. had previously sent by FedEx package on August 4, 2004, the forged August 3, 2004, "new" client services agreement addressed to the insurance analyst at NCCI who was reviewing the M & H Millworks application

and again sent by FedEx package on April 27, 2005, the same forged document addressed to the underwriter at St. Paul Travelers who was managing the M & H Millworks workers' compensation policy, as evidence in support of her false assertion that M & H Millworks was no longer in an employee leasing agreement with LT Consulting, Inc.

64. After Barry Hughes learned that Tara Morgan had told the insurers that there was no leasing agreement while simultaneously confirming the existence of the employee leasing relationship to him, he appealed his workers compensation charges to the Illinois Workers' Compensation Appeals Board and he filed a complaint against LT Consulting, Inc. with the Illinois Department of Insurance.

65. Tara Morgan provided false information to the Illinois Workers Compensation Appeals Board, including false information presented at a hearing of the Illinois Workers Compensation Appeals Board held via teleconference on May 17, 2006, and including wire communications in interstate commerce. Tara Morgan, Laura Zoller (a/k/a Laura Krpan), and Ray Linzee participated by teleconference from Illinois in a hearing with the Illinois Workers Compensation Appeals Board. Barry Hughes of M & H Millworks participated by teleconference from Kentucky. Laurie Arnold of St. Paul Travelers Insurance participated by teleconference from Connecticut. During the hearing, Barry Hughes challenged the premium assessed upon his company by St. Paul Travelers Insurance for a policy that had been issued in his company's name. During the teleconference, Barry Hughes told the Workers Compensation Appeals Board that the August 3, 2004, "new" client services agreement provided by LT Consulting, Inc. that purported to show that M & H Millworks was responsible for obtaining its own workers compensation coverage was a forgery. Tara Morgan falsely claimed to the

Workers Compensation Appeals Board that she had made M&H Millworks aware that a policy that had been issued in its name and further falsely claimed that the client services agreement was not a forgery.

66. The Workers' Compensation Appeals Board determined that they lacked the authority to determine fraud, but they granted M & H Millworks the only relief within their authority - which was to remove the application of the experience modifier from their policy. Nonetheless, the Appeals Board required M & H Millworks to pay the outstanding balance owed on the policy. St. Paul Travel Travelers voluntarily forgave the balance owed on the policy because they recognized that the debt had been created by LT Consulting, Inc.'s fraud.

COUNT 1

MAIL FRAUD

On or about April 27, 2005, in Perry County, within the Southern District of Illinois, and elsewhere,

TARA MORGAN,
a/k/a "Tara Prince,"
a/k/a "Tara Jones"

defendant herein, acting in concert with other persons, while participating in the scheme to defraud described in paragraphs 1 through 66 and in furtherance of the scheme, did knowingly and intentionally caused to be sent and delivered by private commercial interstate carrier, namely Federal Express Corporation, a fraudulent 10 page document titled "Service Agreement," which falsely purported to be an executed and effective contract between LT Consulting, Inc. and M & H Millworks, Inc., from the office of LT Consulting, Inc., in DuQuoin, Illinois, to the office of St. Paul Travelers in Hazelwood, Missouri; all in violation of Title 18, United States Code, Sections 2 and 1341.

A. COURTNEY COX
United States Attorney

STEVEN D. WEINHOEFT
Assistant United States Attorney

MICHAEL J. QUINLEY
Assistant United States Attorney