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FEB 17 2011

CLERK, U.S. DISTRICT COURT  
EASTERN DISTRICT OF CALIFORNIA  
BY \_\_\_\_\_  
DEPUTY CLERK

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7  
8 IN THE UNITED STATES DISTRICT COURT  
9 FOR THE EASTERN DISTRICT OF CALIFORNIA

10 2:11-CR-0084 GEB

11 UNITED STATES OF AMERICA ) CASE NO.  
12 )  
13 Plaintiff, ) VIOLATIONS: 18 U.S.C. § 1341 -  
14 v. ) Mail Fraud (10 Counts); 18  
15 GREGORY J. CHMIELEWSKI, ) U.S.C. § 1957 - Monetary  
16 ) Transactions in Property  
17 Defendant. ) Derived from Specified Unlawful  
Activity (14 Counts); 18 U.S.C.  
§ 981(a)(1)(C), 28 U.S.C.  
§ 2461(c), and 18 U.S.C. § 982  
- Criminal Forfeiture

18 **I N D I C T M E N T**

19  
20 **COUNTS ONE THROUGH TEN:** [18 U.S.C. § 1341 - Mail Fraud]

21 The Grand Jury charges:

22 GREGORY J. CHMIELEWSKI,

23 defendant herein, as follows:

24 **I. INTRODUCTION**

25 1. At all times relevant to this Indictment, companies doing  
26 business in California were required by state law to purchase workers  
27 compensation coverage for their employees from an insurer who had been  
28

1 authorized to write workers compensation insurance by the State of  
2 California.

3 2. At all times relevant to this Indictment, companies offering  
4 workers compensation insurance in California were required under state  
5 law to meet certain minimum financial capital and surplus requirements  
6 in order to ensure sufficient coverage for injured workers.

7 3. At all times relevant to this Indictment, one way for  
8 California businesses to purchase workers compensation insurance was  
9 as part of a bundle of services provided by a "professional employer  
10 organization" (hereinafter "PEO"). A PEO provided an off-site  
11 service, often to small and medium-sized businesses, whereby the PEO  
12 handled all administrative and personnel matters for a client's  
13 employees, while the client company managed employees at the work  
14 site. PEOs often provided human resources management, payroll  
15 services, tax filing, and insurance administration to their business  
16 clients, in addition to workers' compensation coverage policies.

17 4. In or about 2003, premium rates for traditional, California-  
18 authorized workers compensation coverage were experiencing a  
19 significant increase compared to earlier years.

20 5. In or about February 2003, defendant GREGORY J. CHMIELEWSKI,  
21 then a resident of Windsor, California, founded a Nevada PEO company  
22 called Management Resources Group California, LLC (hereinafter "MRG").  
23 In or about December, 2003, defendant GREGORY J. CHMIELEWSKI founded a  
24 second Nevada PEO company called Independent Management Resources  
25 (hereinafter "IMR"), which then took over the business of MRG.  
26 Defendant GREGORY J. CHMIELEWSKI was the registered Manager of both  
27 MRG and IMR.

28 6. From in or about 2003 to in or about May 2006, MRG/IMR

1 operated out of Healdsburg, California. In or about May 2006, IMR  
2 moved its offices to Roseville, in the State and Eastern District of  
3 California.

4 7. At all times relevant to this Indictment, a large portion of  
5 ISS's business clients were companies in the construction industry in  
6 California, whose employees were working as roofers, general laborers,  
7 and in other high-risk occupations.

8 II. THE SCHEME TO DEFRAUD

9 8. Beginning on a date unknown to the Grand Jury, but not later  
10 than on or about September 3, 2003, and continuing to and including in  
11 or about September 2007, in the State and Eastern District of  
12 California and elsewhere, defendant GREGORY J. CHMIELEWSKI knowingly  
13 and with intent to defraud, devised, participated in, and executed a  
14 scheme to defraud the clients of ISS and their employees, and the  
15 Tribe (as defined in paragraph 10 below), and to obtain money and  
16 property from them by means of materially false and fraudulent  
17 pretenses, representations, and promises.

18 III. WAYS AND MEANS

19 The scheme to defraud was carried out, in substance, in the  
20 following manner:

21 9. In or about 2003, defendant GREGORY J. CHMIELEWSKI,  
22 operating under the name of MRG, solicited Indian tribes to partner  
23 with him in creating a company that would provide employee insurance  
24 coverage and other employee services at a reduced cost, by availing  
25 itself of its Indian sovereign-nation status. Indian tribes were told  
26 that their revenue from the program would come from a percentage of  
27 workers' compensation premiums.

28 ///

1           10. In or about the Summer of 2003, defendant GREGORY J.  
2 CHMIELEWSKI approached an Indian tribe known to the Grand Jury  
3 (hereinafter "the Tribe") in the State and Eastern District of  
4 California, and proposed a business venture whereby the Tribe would  
5 establish an Indian-owned PEO, to be operated by MRG, that would offer  
6 an alternative to California-licensed workers compensation coverage to  
7 California businesses at a discounted rate.

8           11. On or about June 2, 2003, defendant GREGORY J. CHMIELEWSKI  
9 wrote to the Tribe regarding the tribal PEO program he was proposing,  
10 and provided draft versions of a Management Agreement and tribal  
11 ordinance, as well as a document setting forth the terms and  
12 conditions of the alternative workers compensation product the tribe  
13 could offer.

14           12. On or about September 3, 2003, the Tribe established a PEO  
15 doing business under the name of "ISS." Workers compensation coverage  
16 offered by ISS was governed by a tribal ordinance that was established  
17 in or about August 2003 (hereinafter "Ordinance"), rather than by  
18 established California workers compensation guidelines.

19           13. On or about September 24, 2003, ISS entered into a  
20 "Management Agreement" with MRG, authorizing MRG to conduct and manage  
21 all aspects of ISS's business activities. Under the management  
22 agreement, MRG, and later IMR, were responsible for the administration  
23 and funding of the tribal workers compensation program, which was  
24 referred to as "Occupational Injury Indemnity Medical Benefits  
25 Coverage" (hereinafter "OIIMBC"), and which was the workers  
26 compensation coverage that applied to all of ISS's clients' employees.  
27 Pursuant to the management agreement, IMR was to be paid a weekly  
28 management fee, based on a percentage of the funds paid by ISS's

1 clients for OIIMBC coverage.

2 14. In order to make it appear that ISS was an "Indian"-run  
3 operation, defendant CHMIELEWSKI set up a call-forwarding system so  
4 that callers who dialed ISS's phone number were automatically  
5 connected to MRG (later IMR) employees outside of tribal lands. ISS  
6 employees were instructed, in speaking to callers, to act as if they  
7 were located on the Tribe's reservation, or, at least, to not disabuse  
8 callers of their assumption that ISS was operating from tribal lands.  
9 Defendant GREGORY J. CHMIELEWSKI also hired Tribe members to receive  
10 ISS mail on the reservation and to forward that mail to MRG/IMR  
11 offices, first in Healdsburg, California, and later in Roseville,  
12 California.

13 15. Defendant GREGORY J. CHMIELEWSKI developed marketing  
14 materials aimed at California employers with high workers compensation  
15 liabilities, promoting "Tribal" insurance coverage as providing  
16 significant savings over traditional California workers compensation  
17 coverage.

18 16. Defendant GREGORY J. CHMIELEWSKI, through MRG, and later  
19 IMR, hired individuals and companies to market ISS's PEO services to  
20 employers within California. These marketers were paid a commission  
21 based on the volume of the payroll of the companies that became  
22 clients of ISS.

23 17. The fees paid by ISS's clients to ISS for PEO services were  
24 based on a formula that was tied to the cost of the OIIMBC coverage  
25 being purchased.

26 18. ISS had a "Standard Customer Agreement," which provided,  
27 among other things, that its OIIMBC coverage was "generally, but not  
28 exactly, modeled after the California workers' compensation statutes,

1 except claims were made and adjudicated under the Tribe's sovereign  
2 system and not the State's rules."

3 19. Defendant GREGORY J. CHMIELEWSKI, and others known and  
4 unknown to the Grand Jury caused "Evidence of Coverage" certificates  
5 to be issued to ISS's client companies, each of which contained an  
6 artificial policy number and effective date, knowing that such  
7 certificates would be submitted to state agencies, other companies,  
8 and to workers as evidence of compliance with California workers  
9 compensation insurance requirements.

10 20. IMR caused ISS to require that employees covered by its  
11 workers' compensation policy sign and agree to a "Disclosure & Waiver"  
12 form, informing the employee that:

13 a. ISS was the employees' "legal" employer;

14 b. ISS was a sovereign, tribally owned staffing company, to  
15 which not all federal and state laws regarding employment were  
16 applicable;

17 c. Job-related injuries would be managed pursuant to ISS's  
18 OIIMBC program, for which the benefits were paid from a "self-funded  
19 'loss' fund" managed by ISS, and not from a traditional workers'  
20 compensation policy; and

21 d. The employee was required to submit any claims for injury  
22 exclusively to the OIIMBC program, and to waive any right the employee  
23 had to sue their day-to-day employer.

24 21. Pursuant to the Ordinance, injured workers were entitled to  
25 appeal a denial of their claim by ISS to a tribal appeals board, which  
26 the defendant GREGORY J. CHMIELEWSKI never formed.

27 22. In or about October 2003, defendant GREGORY J. CHMIELEWSKI  
28 hired company G.B. as a third party administrator (hereinafter "TPA"),

1 to administer and process claims submitted to ISS by injured employees  
2 covered by ISS's workers compensation policy. Defendant CHMIELEWSKI  
3 instructed G.B. to process claims submitted in accordance with the  
4 Ordinance, rather than pursuant to California workers compensation  
5 rules.

6 23. In or about March 2005, company G.B. notified defendant  
7 GREGORY J. CHMIELEWSKI of its intent to terminate its contract with  
8 MRG because ISS was not handling its workers compensation claims in  
9 accordance with California state regulations, and ISS did not have  
10 sufficient "excess insurance." In or about March 2005, defendant  
11 CHMIELEWSKI retained company A. as a substitute TPA to administer  
12 claims by injured workers. Company A. administered OIIMBC claims in  
13 accordance with the Ordinance and, as a matter of practice, mailed out  
14 benefit checks to recipients from its offices in Texas.

15 24. Beginning on a date unknown to the Grand Jury, but no later  
16 than in or about May 2004, and continuing through 2007, defendant  
17 GREGORY J. CHMIELEWSKI began diverting and misappropriating funds from  
18 IMR's bank account into other accounts he controlled in the names of  
19 unrelated businesses. Defendant CHMIELEWSKI used these funds,  
20 totaling millions of dollars over the course of the period of 2004  
21 through 2007, for personal real estate investment projects. The funds  
22 he transferred from IMR's accounts reduced the availability of funds  
23 to ISS to pay OIIMBC claims.

24 25. While diverting funds for his own purposes, defendant  
25 GREGORY J. CHMIELEWSKI continued to sell OIIMBC policies through ISS,  
26 knowing that funds that should have remained in ISS bank accounts in  
27 reserve for the payment of valid employee claims were being  
28 dissipated.

1 26. On or about July 18, 2007, after finding that IMR was not  
 2 paying approved claims to doctors and injured workers, company A.  
 3 advised defendant GREGORY J. CHMIELEWSKI that it would no longer  
 4 administer ISS's OIIMBC claims.

5 27. In or about September 2007, ISS stopped doing business,  
 6 leaving numerous employees of client companies in California who had  
 7 been "covered" by OIIMBC with unpaid claims for injuries sustained on  
 8 the job and without funds for necessary medical treatment.

9 IV. THE MAILINGS

10 28. On or about the dates set forth below, in the State and  
 11 Eastern District of California and elsewhere, for the purpose of  
 12 executing and attempting to execute the aforementioned scheme and  
 13 artifice to defraud, defendant GREGORY J. CHMIELEWSKI did knowingly  
 14 cause to be sent or delivered by the Postal Service, or delivered by  
 15 common carrier, to the locations set forth below, the documents and  
 16 items specified below:

<u>COUNT</u>	<u>DATE</u>	<u>FROM</u>	<u>TO</u>	<u>CONTENTS OF MAILING</u>
1	2/21/2006	Company A.	Rideout Memorial Hospital Marysville, CA	\$1,412.50 OIIMBC benefit check
2	2/27/2006	Company A.	N. S. Tracy, CA	\$1,093.42 OIIMBC benefit check
3	2/27/2006	Company A.	Fremont Rideout Medical Group, Inc. Stockton, CA	\$1,280.00 OIIMBC benefit check
4	3/13/2006	Company A.	N. S. Tracy, CA	\$1,093.42 OIIMBC benefit check
5	3/20/2006	Company A.	C. A. Stockton, CA	\$2,640.00 OIIMBC benefit check
6	3/27/2006	Company A.	N. S. Tracy, CA	\$1,093.42 OIIMBC benefit check



7	3/28/2006	Company A.	D. L. Redding, CA	\$12,269.00 OIIMBC benefit check
8	4/03/2006	Company A.	K. M. Roseville, CA	\$1,289.00 OIIMBC benefit check
9	4/10/2006	Company A.	N. S. Tracy, CA	\$1,093.42 OIIMBC benefit check
10	5/08/2006	Company A.	N. S. Tracy, CA	\$1,093.42 OIIMBC benefit check

All in violation of Title 18, United States Code, Section 1341.

COUNTS ELEVEN THROUGH TWENTY-FOUR: [18 U.S.C. § 1957 - Monetary Transactions in Property Derived from Specified Unlawful Activity]

The Grand Jury further charges: T H A T

GREGORY J. CHMIELEWSKI,

defendant herein, on or about the dates set forth below, in the State and Eastern District of California and elsewhere, did knowingly engage and attempt to engage in the following monetary transactions in and affecting interstate and foreign commerce, by, through, and to a financial institution, in criminally derived property of a value greater than \$10,000, to wit:

<u>Count</u>	<u>Date</u>	<u>Amount</u>	<u>Description</u>
11	3/21/2006	\$13,000	Transfer from IMR Bank of the West account XXX-XX2998 to Bullseye Construction Bank of the West account XXX-XX5124
12	4/7/2006	\$20,000	Transfer from IMR Bank of the West account XXX-XX2998 to United Construction Group Bank of America account XXXXX-X5101
13	4/10/2006	\$30,000	Transfer from IMR Bank of the West account XXX-XX2998 to Empyrean Holdings Chase account XXXXXXXX2765

1	14	4/14/2006	\$40,000	Transfer from IMR Bank of the West account XXX-XX2998 to Bullseye Construction Bank of the West account XXX-XX5124
2				
3	15	5/18/2006	\$30,000	Transfer from IMR Bank of the West account XXX-XX2998 to United Construction Group Bank of America account XXXXX-X5101
4				
5	16	6/16/2006	\$45,000	Transfer from IMR Bank of the West account XXX-XX2998 to Bullseye Construction Bank of the West account XXX-XX5124
6				
7	17	7/3/2006	\$25,000	Transfer from IMR Bank of the West account XXX-XX2998 to United Construction Group Bank of America account XXXXX-X5101
8				
9	18	8/11/2006	\$31,000	Transfer from IMR Bank of the West account XXX-XX2998 to United Construction Group Bank of America account XXXXX-X5101
10				
11	19	9/18/2006	\$23,000	Transfer from IMR Bank of the West account XXX-XX2998 to United Construction Group Bank of America account XXXXX-X5101
12				
13	20	9/28/2006	\$17,000	Transfer from IMR Bank of the West account XXX-XX2998 to Bullseye Construction Bank of the West account XXX-XX5124
14				
15	21	10/6/2006	\$40,000	Transfer from IMR Bank of the West account XXX-XX2998 to United Construction Group Bank of America account XXXXX-X5101
16				
17	22	11/3/2006	\$40,000	Transfer from IMR Bank of the West account XXX-XX2998 to Bullseye Construction Bank of the West account XXX-XX5124
18				
19	23	12/20/2006	\$35,000	Transfer from IMR Bank of the West account XXX-XX2998 to United Construction Group Bank of America account XXXXX-X5101
20				
21	24	12/22/2006	\$14,500	Transfer from IMR Bank of the West account XXX-XX2998 to Bullseye Construction Bank of the West account XXX-XX5124
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1 such property having been derived from specified unlawful activity,  
2 that is, mail fraud in violation of Title 18, United States Code,  
3 Section 1341, all in violation of Title 18, United States Code,  
4 Sections 2 and 1957.

5 FORFEITURE ALLEGATION: [18 U.S.C. § 981(a)(1)(C), 28 U.S.C. § 2461  
6 (c), 18 U.S.C. § 982 - Criminal Forfeiture]

7 29. As a result of the mail fraud offenses alleged in Counts One  
8 through Ten of this Indictment, defendant GREGORY J. CHMIELEWSKI shall  
9 forfeit to the United States, pursuant to Title 18 U.S.C.  
10 § 981(a)(1)(C), and Title 28 U.S.C. § 2461(c), all property, real and  
11 personal, which constitutes or is derived from proceeds traceable to  
12 said offense.

13 30. As a result of the money laundering offenses alleged in  
14 Counts Eleven through Twenty-Four of this Indictment, defendant  
15 GREGORY J. CHMIELEWSKI shall forfeit to the United States, pursuant to  
16 Title 18 U.S.C. § 982(a)(1), any property, real or personal, involved  
17 in such offense, or any property traceable to such property.

18 31. The United States intends to forfeit property, including but  
19 not limited to the sum of the money equal to the property that  
20 constitutes, or is derived from, the proceeds from the offenses  
21 alleged in Counts One through Twenty-Four.

22 32. Pursuant to Title 21 U.S.C. § 853(p), as incorporated by  
23 Title 18 U.S.C. § 982(b) and 28 U.S.C. § 2461(c), if any property  
24 described above, as a result of any act or omission of the defendants,  
25 cannot be located upon the exercise of due diligence; has been  
26 transferred, sold to or deposited with a third party; has been placed  
27 beyond the jurisdiction of the court; has been substantially  
28 diminished in value; or has been commingled with other property which

1 cannot be divided without difficulty, it is the intent of the United  
2 States to seek to forfeit substitute assets.

3 All in violation of Title 18, United States Code, Sections  
4 981(a) (1) (C) and 982; and Title 28, United States Code, Section  
5 2461(c).

6  
7  
8 A TRUE BILL.

9 **/s/ Signature on file w/AUSA**  
FOREPERSON

10   
11 BENJAMIN B. WAGNER  
United States Attorney

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PENALTY SLIP

DEFENDANT: GREGORY J. CHMIELEWSKI

COUNTS ONE THROUGH TEN:

VIOLATIONS: 18 U.S.C. § 1341 - Mail Fraud

PENALTY: Not More Than 20 years imprisonment  
Not More Than \$250,000 fine, or both;  
3-years supervised release.

COUNTS ELEVEN THROUGH TWENTY-FOUR:

VIOLATIONS: 18 U.S.C. § 1957 - Monetary Transactions in  
Property Derived from Specified Unlawful Activity

PENALTY: Not More Than 10 years imprisonment  
Fine of Not More Than \$250,000 or twice the value  
of the funds laundered, or both;  
3-years supervised release.

ASSESSMENT: Mandatory \$100 special assessment each count.

FORFEITURE ALLEGATION:

VIOLATION: 18 U.S.C. 981(a)(1)(C), 28 U.S.C. 2461(c), and 18  
U.S.C. § 982 - Criminal Forfeiture

PENALTY: As indicated in the Indictment.

**UNITED STATES DISTRICT COURT**

*Eastern District of California*

*Criminal Division*

**THE UNITED STATES OF AMERICA**

vs.

**GREGORY J. CHMIELEWSKI**

**INDICTMENT**

**VIOLATION(S): 18 U.S.C. § 1341 - Mail Fraud (10 Counts);  
18 U.S.C. § 1957 - Monetary Transactions in Property Derived  
from Specified Unlawful Activity; 18 U.S.C. § 981(a)(1)(C),  
28 U.S.C. § 2461(c), and 18 U.S.C. § 982 - Criminal Forfeiture**

*A true bill,*

*151*

*Foreman.*

Filed in open court this *17<sup>th</sup>* day

of *February*, A.D. 20 *11*

*M. Cogan*

*Clerk.*

Bail, \$

**NO BAIL WARRANT**

*- pending hrg.*

*[Signature]*