



State of Ohio

Office of the Inspector General

THOMAS P. CHARLES, Inspector General

REPORT OF INVESTIGATION

FILE ID NUMBER:	2007100-A
AGENCY:	Ohio Department of Transportation
BASIS FOR INVESTIGATION:	IG Initiative
ALLEGATIONS:	Collusion, Inappropriate Relationships with Vendors, Improper Bidding and Purchasing Practices
INITIATED:	October 16, 2008
DATE OF REPORT:	May 12, 2009

EXECUTIVE SUMMARY

File ID No. 2007100-A

On October 16, 2008, the Office of the Inspector General (“OIG”) reported the results of an 18-month investigation of fraud and corruption in the Facilities and Equipment divisions of District 12 of the Ohio Department of Transportation (“ODOT”) in Garfield Heights. The joint investigation by the OIG and the Ohio State Highway Patrol (“Patrol”) resulted in the firings or resignations of seven ODOT employees and referrals for criminal charges against eight former ODOT employees and 20 ODOT vendors and their associates to the Cuyahoga County Prosecutor’s Office.

Following the publication of that report, new information came to our attention pertaining to the vast array of contract-steering and bid-rigging schemes that former Facilities Manager Dennis L. Kratochvil operated out of his office in the District 12 garage before he was removed in August 2007. The new information, which we confirmed through interviews and records obtained under subpoena, revealed that Kratochvil steered hundreds of thousands of dollars in ODOT business to Nozzle New Inc. and Marek Land Company, two companies owned by Solon businessman Philip C. Marek.

Kratochvil and Marek pulled off this fraud with the cooperation and assistance of officials and employees at five other companies, most of which were Nozzle New subcontractors. At Marek’s behest, principals at the five firms willingly participated in a sham bidding and kickback scheme that primarily benefitted Nozzle New and Marek Land Company. Officials at three of the companies went so far as to accede to Marek’s request for copies of blank company letterhead, allowing Marek to draft and submit quotes to Kratochvil on behalf of their companies. We determined that Marek’s companies collected a total of \$210,933.10 in ODOT funds via these schemes.

The investigation confirmed that Kratochvil's son, Dennis B. Kratochvil, employed a similar "front" company scheme to steer \$37,481.30 in ODOT business through his father to DeBord Plumbing and Heating Company, a Chardon firm owned by Dennis B. Kratochvil. Precluded by conflict-of-interest statutes from receiving ODOT contracts overseen by his father, the younger Kratochvil persuaded Pete Camarato, the owner of Maintenance Masters Inc., a general contractor in Kirtland, to submit quotes to ODOT on behalf of DeBord. DeBord would then perform the work and Camarato would forward 90 percent of the ODOT payment to DeBord, keeping 10 percent for agreeing to participate in the scam.

A third beneficiary of Dennis L. Kratochvil's scheming was James P. Hartory II, a Chardon businessman who used his close personal friendship with Kratochvil to cash in on hundreds of thousands of dollars in heating, ventilation and air conditioning contracts at ODOT District 12. Supplementing our earlier report on bid-rigging involving businesses owned by Hartory, we confirmed that Kratochvil steered an additional \$49,975 in business to Hartory's Knight Mechanical Inc. in 2002. Kratochvil pulled off this fraud by utilizing phony quotes from Maintenance Masters and collusive bids from a Hartory subcontractor as his competitive quotes.

Much of the evidence of these schemes came from a box of records that was seized by the Patrol and our office during a search of Dennis L. Kratochvil's home in December 2007. Our previous report also was based, in part, on records found in this box, which Kratochvil kept in the attic of his garage. As we mentioned in that report, Kratochvil was able to manufacture quotes, steer contracts and then store the evidence of his crimes at his home due in large part to ODOT's historical failure to segregate purchasing duties. Although ODOT has since changed this process, Kratochvil had unilateral authority to make and approve requisitions and then attest that the products had been delivered. With few exceptions, the bogus quotes Kratochvil generated year after year sailed through District 12's finance office with no questions asked.

In our prior report, we made 12 recommendations, which ODOT has instituted or is in the process of instituting. They include revamping credit card-use policies and procedures, development of a standardized Request for Quote form and synchronizing ODOT's purchasing and inventory databases. Consequently, we are making no new recommendations.

We have made three findings of wrongdoing and are forwarding copies of this report to the Cuyahoga County Prosecutor's Office and the Ohio Ethics Commission.

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I. BASIS FOR INVESTIGATION

On October 16, 2008, the Office of the Inspector General (“OIG”) reported the results of an 18-month investigation of fraud and corruption in the Facilities and Equipment divisions of District 12 of the Ohio Department of Transportation (“ODOT”) in Garfield Heights. That investigation, which was initiated in April 2007 on the basis of an anonymous complaint alleging that then-Facilities Manager Dennis L. Kratochvil had accepted gratuities from an ODOT vendor, resulted in the terminations of Kratochvil and six other ODOT employees, referrals for criminal charges against eight ODOT employees and 20 vendors and their associates, and the implementation by ODOT of significant reforms in its purchasing, contract administration, inventory control and credit card-use policies and procedures.

Following the publication of our report, new information came to our attention pertaining to additional schemes that principally involved Kratochvil; his son, Dennis B. Kratochvil, owner of DeBord Plumbing and Heating Company in Chardon; Philip C. Marek, the owner of Nozzle New Inc. and Marek Land Company in Solon; and James P. Hartory II, the chief executive officer of Traditional Building Systems, Knight Mechanical Inc. and All Controls Corporation in Mentor. Consequently, we began a companion investigation of the relationship between the senior Kratochvil and all of these firms.

II. ACTION TAKEN IN FURTHERANCE OF INVESTIGATION

We reviewed ODOT bid records, contract files, invoices, payment records, emails and other documents, including ODOT records that were seized during a search of the senior Kratochvil’s home in Chagrin Falls in December 2007. We also interviewed numerous vendors in Northeast Ohio, including representatives of companies that did business with ODOT and companies that had unsuccessfully bid on ODOT jobs. We also relied heavily on the assistance and expertise of the audit staff in ODOT’s Division of Finance and Forecasting.

III. DISCUSSION

All of the purchases made by Kratochvil that are addressed in this report were non-contract purchases made under what ODOT refers to as its “direct-purchasing authority.” Under direct-purchasing procedures, Kratochvil had leeway to choose the vendors from whom he intended to buy supplies and services as long as he obtained competitive quotes for purchases that exceeded \$1,000. ODOT’s parameters for obtaining quotes are described in the following chart:

DOLLAR AMOUNT	QUOTES	PAYMENT TYPE
\$0 to \$500	One quote	Debit voucher, credit card or EDI ¹
\$500.01 to \$1,000	One quote	Purchase order, credit card or EDI
\$1,000.01 to \$2,500	Two quotes	Purchase order, credit card or EDI
\$2,500.01 to \$33,500	Three quotes	Purchase order or EDI
\$33,500.01 and above	Contact Office of Contracts	

ODOT’s direct-purchasing regulations prohibit buyers from obtaining quotes from family members or friends, from obtaining verbal or after-the-fact quotes, and from guiding purchases “in any way that may be viewed” as improper, such as the sharing of quotes.²

Allegation 1: ODOT vendor Philip C. Marek conspired with other vendors to rig bids, alter documents and steer ODOT business to Marek’s two companies through former ODOT Facilities Manager Dennis L. Kratochvil.

¹ “EDI” stands for Electronic Data Interchange.

² For a more comprehensive discussion of ODOT purchasing and inventory policies and procedures, see the “Discussion” section in File ID Number 2007100 at <http://watchdog.ohio.gov/investigations/2007100.pdf>

In December 2007, investigators from the Ohio State Highway Patrol (“Patrol”) and our office searched Kratochvil’s home in Chagrin Falls. Among the records seized was a banker’s box filled with ODOT quotes, invoices and other records that Kratochvil had stored in the attic of his garage. A review of the records showed that many of them had been altered or revealed other evidence of tampering. In addition, numerous bid documents in the box contained signatures that were obvious forgeries, including misspelled names and both printed and longhand “signatures” from the same individuals.

A closer examination of the records revealed a suspicious pattern of bidding between 2000 and 2004 in which Kratochvil had consistently awarded competitively bid jobs to Nozzle New and Marek Land Company. With few exceptions, the same five companies had submitted losing quotes – Har-Tal Service Inc. (“Har-Tal”) of Twinsburg; Trenching Unlimited (“TU”) of Chagrin Falls; SSECO³ and Montalvo Inc., both of Cleveland; and FTD Inc.⁴ of Solon. Most of the ODOT jobs on which the firms had bid involved demolition, installation of trench drains and work on underground storage tanks.

The losing quotes from the five companies all showed signs of tampering, including misspelled names, varying signatures and altered letterheads. So consistent was this pattern that even the companies’ winning quotes showed the same evidence of tampering. One company official acknowledged that his name was misspelled on one of his winning quotes, saying he was unaware that his company had been the successful bidder.

Further investigation confirmed that Kratochvil and Marek had orchestrated a scheme in which officers or salesmen at Har-Tal, TU, SSECO, Montalvo and FTD had allowed their firms to be used as “front” companies, enabling Kratochvil and Marek to steer business to Nozzle New and Marek Land Company in the following ways:

- After consulting with Marek or Kratochvil, the vendors intentionally submitted high quotes to Kratochvil so that Nozzle New or Marek Land Company would be the low bidder and be awarded the contract.

³ SSECO is a division of the Service Station Equipment Company Inc.

⁴ “FTD” is an acronym for Frank T. Destro.

- At Marek’s request, the vendors gave him blank company letterhead, allowing Marek to draft and submit “competitive” quotes to Kratochvil on behalf of their companies to fulfill ODOT’s quote requirements.
- At Marek’s instruction, the vendors submitted “winning” quotes to Kratochvil and then allowed Nozzle New to do the work.⁵ Under this scheme, the winning vendor would forward the majority of the payment to Nozzle New.

Our investigation revealed that the company representatives who colluded with Marek and Kratochvil were Har-Tal owner James S. Talarico; TU co-owner Bruce M. Haas; SSECO salesman Richard L. Goldizen Jr.; Montalvo salesman Joseph C. Cicero; and FTD President Daniel D. Destro. For TU and FTD, Nozzle New subcontractors who “won” six of the 18 fraudulent contracts we identified, the inducement to participate in this scheme was the promise of performing part of an ODOT job that the small family businesses would never have landed. For Har-Tal and SSECO, which also did extensive non-ODOT business with Nozzle New, the inducement was keeping a good customer happy. As for Montalvo, Cicero simply submitted a quote that had been dictated to him by Kratochvil, who had given the firm business in the past.

Kratochvil later paid Montalvo to do remodeling at his home. Kratochvil also hired Nozzle New to do a wall reconstruction. Although we were unable to determine whether he paid fair-market value for these jobs, Kratochvil had purchasing authority over both companies and the arrangements clearly were improper.

We found that Kratochvil also used quotes from companies whose principals were unaware of this scheme. In those instances, company officials informed us that their “losing” quotes were fictitious and that their signatures had been forged.

ODOT paid a total of \$237,706.10 for the 18 contracts. Of that amount, \$210,933.10, or 89 percent, went to Nozzle New or Marek Land Company – either via direct payment

⁵ Marek utilized this sham process to circumvent state bidding statutes, which impose a ceiling of \$50,000 per vendor per fiscal year on non-contract and non-State Controlling Board-approved purchases.

from ODOT or through a “front” company.⁶ Following is a breakdown of the 18 contracts:

WINNING VENDOR	AMOUNT PAID BY ODOT	AMOUNT WINNING VENDOR PAID TO NOZZLE NEW	AMOUNT RECEIVED BY NOZZLE NEW OR MAREK LAND CO.
Nozzle New	\$3,393.10		\$3,393.10
Nozzle New	\$14,900		\$14,900
Marek Land Company	\$9,850		\$9,850
Marek Land Company	\$4,950		\$4,950
Marek Land Company	\$4,950		\$4,950
Nozzle New	\$3,300		\$3,300
Trenching Unlimited	\$3,870		
Trenching Unlimited	\$25,000	\$14,627.20*	\$14,627.20*
Marek Land Company	\$27,000		\$27,000
Marek Land Company	\$15,870		\$15,870
FTD Inc.	\$23,400	\$19,400	\$19,400
Trenching Unlimited	\$14,330	\$11,300	\$11,300
FTD Inc.	\$17,950	\$15,950	\$15,950
FTD Inc.	\$28,600	\$25,100	\$25,100
Marek Land Company	\$11,105		\$11,105
Nozzle New	\$24,923		\$24,923
Marek Land Company	\$2,350		\$2,350
Nozzle New	\$1,965		\$1,965
TOTAL	\$237,706.10	\$86,377.20	\$210,933.30

*Nozzle New deducted this amount from invoices submitted by TU for non-ODOT work as an offset for TU’s ODOT jobs that were performed by Nozzle New.

⁶ Since 2005, all but two of the purchases that ODOT District 12 has made from Nozzle New or Marek Land Company have been on contract, obviating the need to obtain competitive quotes.

Our earlier report on ODOT District 12 identified a similar and widespread pattern of collusive bidding practices involving Kratochvil and several ODOT vendors. We were aware that Nozzle New had performed work at Kratochvil's home, and we also noted that Marek had attended at least one of Kratochvil's annual ODOT/vendor Christmas parties at the Cleveland's PM strip club. Subsequent investigation revealed that Marek's involvement in illegal activities at ODOT District 12 was far more pervasive and that Marek was deeply involved in sham bidding practices at the district for more than a decade.

Accordingly, we find reasonable cause to believe that wrongful acts and omissions occurred in these instances.

Allegation 2: Dennis B. Kratochvil, the owner of DeBord Plumbing and Heating Company, conspired with an ODOT vendor to steer ODOT business to his company through his father, former ODOT Facilities Manager Dennis L. Kratochvil.

Among the records we found in Dennis L. Kratochvil's garage were a series of suspicious quotes from Maintenance Masters Inc., a general contractor based in Lake County. As was noted in the bid packages for the Nozzle New and Marek Land Company contracts, the Maintenance Masters quotes had varying formats and appeared to have been altered. Also notable was the fact that some of the competing quotes had come from firms that we had identified as being involved in collusion in our previous report. We further noted that on two jobs that Kratochvil had awarded to Maintenance Masters as the low bidder, Kratochvil had obtained "losing" competitive quotes from his nephew, Chet Pogonowski of Pogonowski Plumbing. And on one of those two jobs, Kratochvil had obtained the second "losing" quote from DeBord Plumbing and Heating Company ("DeBord"), a business owned by his son, Dennis B. Kratochvil. Soliciting or accepting quotes from family members is a clear violation of state competitive bid regulations.

Further investigation revealed that on five occasions between 2001 and 2003, the senior Kratochvil had awarded contracts totaling \$42,101 to Maintenance Masters for work that

was actually performed by DeBord. In those five instances, Maintenance Masters merely served as a “front” company for DeBord, submitting the “winning” bid but performing none of the work.

In exchange for his willingness to participate in this scheme, Dennis B. Kratochvil allowed Maintenance Masters owner Pete Camarato to keep 10 percent of the ODOT payment. Camarato would then forward the other 90 percent of the payment to DeBord. We found that out of a total of \$42,101 that ODOT paid to Maintenance Masters, Camarato remitted \$37,481.30 to DeBord, keeping \$4,619.70 as his fee for allowing the younger Kratochvil to use his company as a front.

Following is a breakdown of the five contracts:

WINNING VENDOR	MAINTENANCE MASTERS PAYMENT TO DeBORD PLUMBING	TOTAL RECEIVED BY DeBORD PLUMBING
Maintenance Masters	\$9,937	\$8,943.30
Maintenance Masters	\$9,635	\$8,672
Maintenance Masters	\$13,950	
Maintenance Masters	\$5,335	\$17,250*
Maintenance Masters	\$3,244	\$2,616
TOTAL	\$42,101	\$37,481.30

*This \$17,250 payment amounts to 90% of the \$5,335 payment and the preceding \$13,950 job.

In our earlier report on District 12, we noted that Dennis L. Kratochvil consistently involved his friends, relatives and family members in the various schemes he devised to defraud ODOT. Our subsequent investigation confirmed that Kratochvil’s son, Dennis B. Kratochvil, and the younger Kratochvil’s plumbing company were beneficiaries of this illegal conduct and that they conspired with the senior Kratochvil to corrupt ODOT’s competitive-bidding process.

Accordingly, we find reasonable cause to believe that wrongful acts and omissions occurred in these instances.

Allegation 3: ODOT vendor James P. Hartory II conspired with ODOT vendors to rig bids, alter documents and steer ODOT business to one of Hartory's companies through former ODOT Facilities Manager Dennis L. Kratochvil.

Although we found that Maintenance Masters never actually performed work for ODOT, the bid files that Kratochvil kept in his garage showed that the company submitted quotes to Kratochvil 15 times between 2000 and 2004. With the exception of the five jobs that Maintenance Masters “won” while serving as a front company for DeBord, Kratochvil’s records showed that Maintenance Masters was a losing bidder in every other instance.

We found that in three of those cases – all occurring in 2002 – the “losing” Maintenance Masters quote was phony and had never been submitted or authorized by Camarato. All three jobs had been awarded by Kratochvil to Knight Mechanical Inc. in Mentor, a company owned by Kratochvil’s close friend, James P. Hartory II. The second losing bid in all three instances had come from Great Lakes Mechanical Corporation (“Great Lakes”), which then employed Hartory’s friend, Jeffrey G. Bauer, as an estimator.

As we reported previously, Hartory and Bauer were frequent strip club companions of Kratochvil, and Kratochvil and Hartory were instrumental in helping Bauer launch his own business, Bauer Mechanical Inc., after Bauer left Great Lakes. We also reported that Bauer later “repaid” the men by participating in a scheme in which he intentionally submitted bogus high quotes on 22 ODOT jobs won between 2003 and 2007 by Traditional Building Systems, another of Hartory’s companies.

ODOT paid Knight Mechanical a total of \$49,975 for the three jobs. The evidence revealed that the Maintenance Masters quotes are fictitious, and that Hartory and Bauer shared bid information and had extensive business ties at the time that they were submitting quotes to Kratochvil.

Accordingly, we find reasonable cause to believe that wrongful acts and omissions occurred in these instances.

IV. CONCLUSION

Kratochvil inadvertently provided investigators with a blueprint of his scheming by holding onto the ODOT records that were found at his home. This box of records, unmissed for years by District 12's finance staff, is an encyclopedia of fraud. Color-coded and meticulously organized, the files document the extraordinary lengths to which Kratochvil went to alter and manufacture records in order to steer business to favored contractors and dupe ODOT auditors.

In doing so, Kratochvil and his co-conspirators circumvented ODOT's competitive-bid regulations, which exist to provide taxpayers with the best products and services at the lowest possible price, and to provide a fair and open bidding process for vendors who desire to do business with ODOT. As we have documented in this and our previous report, Kratochvil, his son, Marek, Hartory and dozens of other vendors thoroughly corrupted this process for well over a decade at a cost to the state of millions of dollars.

V. REFERRALS

Copies of this report are being referred to the Cuyahoga County Prosecutor's Office and the Ohio Ethics Commission.