

The Story of American Presort, Inc.

How New York Postal Inspectors Toppled an Empire

Story by Postal Inspector Kate Lawrence

Photos by Larry Ghiorso, U.S. Postal Service

Three owners and four managers of American Presort, Inc., New York City's largest presort mailer, were handed down hefty sentences after U.S. Postal Inspectors proved their company had defrauded the Postal Service of millions of dollars in postage.

With more than 200 employees and a 500-plus customer base comprising New York City's largest and most prominent banks, insurance companies, brokerage houses, utilities, and corporations, American Presort, Inc. (API) was the largest presort mailer in the state.

In business since the early 1980s, API eventually grew to process an average of 2.3 million pieces of First-Class mail daily. Eight Bell & Howell optical character readers—high-tech computers—"read" addresses on letters, looked up barcodes, printed the codes, and then sorted letters into one of 160 bins at a rate of 25,000 letters an hour. API occupied the eighth floor of an

industrial facility on West 26th Street, taking up an entire city block in Manhattan. API was thriving—until its owners succumbed to greed.

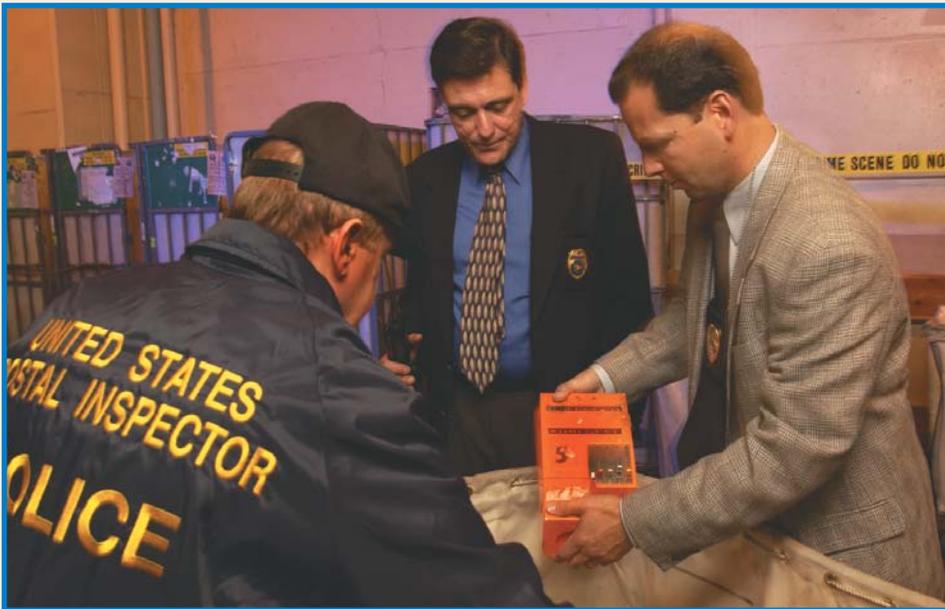
In a climate already rife with big business corruption, a U.S. Postal Inspection Service investigation of API concluded in July 2002 with sentences and restitution for its three owners and four of its managers, who knowingly committed more than \$20 million in fraud against the U.S. Postal Service. While the



API occupied the entire eighth floor of this block-long building on W. 26th Street.

investigation covered only the period of January 1995 through June 1997, U.S. Postal Inspectors later learned that API's fraudulent practices had begun in the early 1980s, only a few years after going into business.

U.S. Postal Inspectors are federal law enforcement officers with jurisdiction over all crime involving postal employees, postal assets, and the U.S. Mail. During its 200-year history, Inspectors have uncovered thousands of schemes in which people



have committed fraud against the U.S. Postal Service, including by stealing or counterfeiting U.S. postage or by manipulating meters to print “free” postage. Postage fraud may involve a few hundred dollars or as much as several million dollars. API was in a class by itself.

Brothers Steven and Philip Fruchter and partner Lawrence Braun owned API, which had grown quickly since its modest beginnings in 1982 as a hand-sorting operation. Their company dispatched mail to the Postal Service’s Morgan Processing and Distribution Center, or Morgan Station as it was known, where postal employees checked it for accuracy against submitted records. The volume of mail API handled was enormous, so hiding portions of it would be a simple matter.

Postal Inspectors first learned of possible fraud in 1996, when an anonymous tip led the New York Division’s Revenue Investigations Team to believe that someone at API was tampering with postage meters and lying about discounts it earned. Inspectors suspected the allegations were true—that more of API’s mail was being hidden than was being paid for. Proving it, however, would be a challenge.

Attempts by Inspectors to round up all of API’s mail on a given day and then count it according to rate categories left them feeling as if they were trying to put Humpty Dumpty back together again. Aside from the sheer volume of the task, any one of 2 million pieces of mail could fall within a wide range of postage rates: 23.8 cents, 25.4 cents, 26.4 cents, 27.4

cents, 29.5 cents, or 32 cents.

Worse, API followed a practice of metering the mail at the lowest rate possible and then (supposedly) paying the difference later, resulting in unreported pieces and incremental amounts of postage owed. To prove fraud was committed, Inspectors needed to verify how much mail was being tendered to the Postal Service and which discounts had been earned in each rate category.

The investigation came to a standstill, until New York Division Postal Inspectors Joe McGinley and Tom Van de Merlen, newly assigned to the case, found a focus: meter fraud.

McGinley and Van de Merlen knew that U.S. Postal Service statisticians could create reports that would identify postage meter losses. The statisticians routinely sampled mail on a daily basis. Because every postage meter imprints a unique number, statisticians can estimate volume per meter. They compare volume estimates to postal databases that track individual meter payments and use computer programs to “flag” dramatic mismatches between usage (the volume of mail in the mailstream) and meter payments (how much money the customer set the meter for).

Postal Inspectors ran a report comparing one of API’s meters and found that, in the spring of 1997, meter no. 2504688 had generated enough meter strips for roughly 120,000 pieces of mail a day over a three-month period—about \$30,000 worth of postage a day. Records for meter no. 2504688, however, revealed it was last set

on January 30, 1997, for \$9,000. No additional postage had been set on the meter since then, despite huge amounts of mail bearing the meter’s number appearing in the mailstream for months afterward.

Inspectors McGinley and Van de Merlen shifted their attention to API’s activities. Working with other Inspectors from the Revenue Investigations Team, they found large volumes of mail generated by API with the meter imprint they were looking for—no. 2504688.

A second break came when Inspector Van de Merlen called a representative of Ascom Hasler, the meter manufacturer that leased equipment to API. He wanted information on meter no. 2504688, but first heard some interesting news: Another meter leased by API had just been returned for repairs because one of the denomination wheels had broken. That meant someone at API had tampered with the meter.

Meter tampering is illegal. It occurs when someone attempts to manipulate a meter so it will imprint postage without recording usage. This was the kind of evidence Postal Inspectors had been waiting for. On June 27, 1997, 40 Inspectors from the New York Division arrived at API with a search warrant.

Inspector Joe McGinley quickly located the area where mail was being metered. He found tens of thousands of letters imprinted by meter no. 2504688. But he couldn’t find the meter.

McGinley considered the API employees who had access to the metered mail. An hour later he had narrowed down the list to two: Lenny Taylor, the general manager at API, and Deo Narraine, the daytime meter room supervisor. He and Van de Merlen confronted the supervisor first.

“You’re either with us or against us,” Inspector McGinley warned, “and if you’re against us, you’re going down.”

Deo Narraine led them to a nearby hamper of mail. He lifted out two trays of mail and withdrew a plastic tub from the bottom of the hamper. Underneath another half-foot worth of mail was meter no. 2504688. He later told the men, “When I saw all the Inspectors way off from the other end of the building, moving out across the floor, I knew this was the meter they had come for.” He hid it at once.

Inspector McGinley had reason to believe there was a second “hot” meter somewhere in the plant, and the team found it in Lenny Taylor’s office, hidden in the knee-well of his desk. It came to be known as the “dollar meter” after Inspectors discovered it would print a dollar meter strip when set at zero, meaning it didn’t rack up any postage due.

Meanwhile, Inspectors seized other worthwhile evidence, such as logs showing all the details of the “free” postage generated by the meter. In the weeks that followed, they convinced Lenny and Deo to cooperate with the investigation, and other employees soon stepped forward.

The picture that began to emerge was a scheme of grand proportions: meter fraud, underreported mail, fake postage reports, manipulation of the software on the Bell & Howell sorters, bribery of a postal supervisor, and kickbacks to customer representatives so they would ignore overcharges to their companies.

Inspectors continued to develop evidence as the summer progressed. Then Lenny Taylor’s lawyer called Inspector Van de Merlen with an urgent message: “They’re destroying records.”

API president Steven Fruchter had told one of his technicians to erase computer hard drives subpoenaed by the government. Per the terms of the subpoena, Inspectors were supposed to download data

from API computers in the next few days, but Van de Merlen now realized he couldn’t afford to wait. They needed another search warrant for API, this time for all of its business records, and they needed it right away. He filled out the paperwork for an emergency search warrant.

The June search scene was about to repeat itself, as 40 Postal Inspectors stayed at their posts the afternoon of August 1, 1997, waiting for the emergency warrant to come through.

By 8:00 that evening, an advance copy of the warrant had been prepared and was sent to the duty magistrate at the Southern District of New York. But the magistrate had to recuse herself: her husband, a defense attorney, had been hired to represent one of the owners. “You’ll have to find someone else to sign off on this,” she told the men.

Assistant U.S. Attorney Brad Ockene jumped in the car with Van de Merlen to track down another magistrate. By the time they interrupted Magistrate Michael Dolinger’s dinner with his wife in a Chinese restaurant and got the needed signature, it was 10:30 p.m.

Inspector Van de Merlen made it to New York Division Headquarters by 11. “I parked in the first spot I could find and ran up the stairs. There were a lot of impatient faces in the conference room. These guys had been on hold since around 5 o’clock,

waiting for me to get back. It was like being greeted by an army that had been kept waiting for battle.”

Postal Inspectors descended on the company a second time. Two postal trucks were ferried up in API’s oversized freight elevator to the 8th floor, where Inspectors loaded them to the hilt with thousands of boxes of seized business records.

It was four hours and tons of paper later before they finished the job. Someone hit the elevator switch to go down, but they were met with silence. The freight elevator operator had gone home, and his replacement wouldn’t arrive until 7 a.m. Van de Merlen and another team member elected to stay behind and settled down for a three-hour wait while they guarded the evidence.

When the last of the trucks was lowered to the street, driven to Morgan Station, and secured in the garage, Van de Merlen grabbed his jacket to head home. “It had been a long day and an even longer night,” he recalled, “I couldn’t wait to get home. I went to get my car, but it was gone. Then I realized the city had towed it. In my haste, I had parked my personal car in a ‘government vehicles only’ spot outside of the Post Office.”

Inspectors now began the task of calculating the extent of the fraud by cross-checking postal records with API client billings—much easier said than done. Inspector Ralph Nardo joined the team and was assigned the unenviable job of compiling and analyzing data from 65,000 invoices and 32,000 mailing statements.

Nardo created a computer application that would capture information from client invoices. He then organized a team of Inspectors to input it. The task would entail months of painstaking work.

“Originally we focused on the first half of 1997, but we identified so much unreported mail, we knew we had to expand the time frame,” said Inspector Nardo. “We finally decided to go back two and a half years, to the beginning of 1995.”

It seemed the deeper they dug, the higher the losses rose. Their final tallies amazed them: API had submitted to the Postal Service 208 million pieces of mail, an average of 278,000 pieces a day, with improper postage.





Inspectors were reasonably sure most of the mail had some postage on it; they just didn't know how much additional postage was due. And calculating losses was tricky, as rate computations varied from piece to piece, depending on how API sorted and packaged the mail. Most of API's unreported mail probably didn't qualify for the highest discounts. The question was, did they qualify for any? And just how much extra postage was due?

After months of intensive data collection and analysis, the Revenue Investigations Team submitted their conclusions: API owed the Postal Service more than \$20 million as the result of underreporting mail volume, \$3.5 million of which was from meter fraud.

That was when Postal Inspectors discovered, among the seized records, another scheme by API: bribery.

Internal records kept by Lenny Taylor, API's general manager, showed petty cash disbursements had been made to a Postal Service bulk mail supervisor. They located the man and called in a special agent from the Postal Service's Office of the Inspector General to assist with an interview, as dictated by protocol.

The supervisor confessed quickly. He'd agreed to "look the other way" when API underpaid postage—in exchange for a \$2,000 payment. He was removed from the Postal Service and later pled guilty to accepting bribes.

The U.S. Attorney's Office in the Southern District of New York was closely monitoring the case. It conducted multiple proffers with API employees and initiated discussions with attorneys representing the owners, managers, and supervisors who were implicated in the fraud. A racketeering indictment encompassed the multitude of frauds committed by API and named the 10 employees who had yet to admit their guilt. Five others had already signed cooperative agreements with the Southern District of New York, including the former general manager, one of the first to "turn."

Before the indictment was rendered, owners Steven and Philip Fruchter and Lawrence Braun sold API to another company for \$25 million in cash and stock, but remained as API employees. The Chief of Criminal Investigations at the Southern

District of New York was outraged, fearing the proceeds from API would disappear.

"If you don't agree at once to place that money in escrow," he warned the defendants, "the weight of the entire Southern District will be brought to bear." Accordingly, \$15 million was placed in a voluntary escrow account, and the three were formally charged. API's new owners fired the men.

Five mail processing managers were indicted next and then two technicians who had worked the company's automated sorting machines and had falsified postage calculations reported to the Postal Service.

The case went to trial after more than two years of plea negotiations. Nine defendants were tried. The trial lasted 13 weeks and was prosecuted by three Assistant U.S. Attorneys from the Southern District of New York. Testimony came from four New York Division Inspectors, two postal managers, Inspection Service forensic specialists, three Ascom Hasler employees, an employee who worked with mail sortation equipment, and a forensic accountant hired by the Postal Service. Lenny Taylor was the chief government witness. He was called to the stand on 11 days to provide testimony.

The defense attorney's strategy was to overwhelm the jury. It wouldn't have been hard to do—the huge volume of data combined with myriad postal regulations was confusing. He inferred the Postal Service was to blame for the lost revenue.

"It was a tough trial," Inspector McGinley later remarked. "We had to educate the prosecutors, the jury, the judge, *and* the defense attorneys about postal regulations. By the end of the trial, everyone in the courtroom knew how to verify a pre-sorted, discounted-rate mailing. As to who was really to blame [for the fraud], the tampered-with meters and the evidence of the bribes made that clear. The jury knew who to hold accountable."

Steven Fruchter entered a guilty plea after the third week of trial, and six of the eight remaining defendants, including Philip Fruchter and Lawrence Braun, were convicted for racketeering and mail fraud after six days of deliberations. U.S. Attorney Mary Jo White praised the efforts of Postal Inspectors assigned to the case.

"It's ironic," noted Inspector Nardo, "that in this case the Postal Service was the victim. Usually when we conduct a fraud investigation, some other business is the victim. This time we were the victim. And Postal Inspectors, the Postal Service's own employees, tracked down the perpetrators. There's poetic justice in that."

Steven Fruchter was sentenced one year later to 42 months in prison with a forfeiture agreement of \$5 million. His brother Philip was sentenced to 51 months in prison and another \$5 million forfeiture. Braun received 60 months in prison, but when he refused to sign a forfeiture agreement, the judge showed his displeasure by making him liable for the entire judgment of \$20.7 million. The four convicted API managers received sentences ranging from 30 to 37 months in prison, with restitution of \$17 million each. Five cooperating witnesses were sentenced to community service and probation. Lenny Taylor, a cooperating witness, was ordered to pay \$1 million in restitution.

"Protecting the Postal Service is one of our primary missions, but postage fraud investigations like the API case help to protect not just the Postal Service, but all mailers," remarked Chief Postal Inspector Lee R. Heath. "API was driving out legitimate businesses. Its competitors couldn't keep up. During the two-and-a-half years we documented the scheme, the three owners pocketed \$15 million in salary and bonuses. Plus, they got \$25 million for the sale of the company. They got that money because they cheated us, not because they ran a highly efficient operation. When we go after crooks like this, it keeps the playing field level, and when the Postal Service gets the money it's due, rates are kept stable."

Already, \$4.25 million has been repaid to the Postal Service, and an additional \$7 million has been restrained by court order and is expected to be recovered. Judgments for the balance of the losses will be in effect throughout the remainder of the convicted defendants' lives.

"This case should never have gone to trial," said Postal Inspector Tom Van de Merlen. "We had so much evidence against them. They just thought they could get away with it."