

What New Calif. Strike Force Means For White Collar Crimes

By **Brian Michael, William Frentzen and Emani Oakley** (February 8, 2024, 3:48 PM EST)

U.S. Attorney for the Central District of California Martin Estrada announced the formation of the Corporate and Securities Fraud Strike Force, a new section designed to "expand and prioritize complex corporate and securities fraud investigations" on Oct. 4, 2023.[1]

The strike force will prioritize criminal abuses by company insiders, corporate executives and traders, and matters that affect the U.S. financial system and trading markets.

More specifically, strike force members will address accounting fraud, insider trading and criminal violations of the Bank Secrecy Act, which is designed to combat money laundering and tax evasion.

Estrada noted that the strike force will focus its efforts on "uncovering and punishing corporate malfeasance" and send a signal to corporate criminals that their crimes will not be tolerated by his office.

The new section appears to be modeled on the Northern District of California Strike Force formed in 2019.

Much like the Northern District of California Strike Force, the new Central District Strike Force appears likely to implement additional tools like wiretaps, search warrants, criminal complaints, and undercover and source operations that can produce inculpatory evidence more quickly than a grand jury investigation, accelerate arrests and the commencement of court proceedings, and help the strike force prosecute white collar crimes more swiftly and aggressively.

This could result in an uptick in the cases brought in the Central District as well as cause the cases to move much faster through pretrial proceedings and to resolution or trial.

If the strike force follows the path of its Northern District counterpart, then it is likely to utilize the resources frequently used in organized crime and drug prosecutions, which is not surprising given Estrada's past success in prosecuting these types of cases when he was a line federal prosecutor in the Central District.

The Northern District of California Strike Force's formation has led to a higher rate and number of white collar prosecutions compared to prior years.



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The defendants ranged from directors and chief executives to hackers and doctors, and many of the investigations were conducted with the assistance of the U.S. Securities and Exchange Commission.

These cases have included charges of wire fraud,[2] bank fraud,[3] securities fraud,[4] theft of trade secrets,[5] lying to investigators,[6] tampering with witnesses,[7] bribery,[8] money laundering and unlicensed wholesale distribution of prescription drugs.[9]

The Northern District Strike Force has successfully secured multiple convictions with prison sentences from 12 months up to as long as 12 years.[10]

Notably, the Northern District Strike Force prosecuted 30 defendants for participating in a scheme in which Amity Home Health paid kickbacks to marketers and medical professionals in exchange for patient certification or referral for home health or hospice services involving \$115 million in Medicare billings.[11]

This case was the largest cash-for-patients criminal scheme in the Northern District.[12] Five defendants have already been sentenced, and defendant Henry Geoffrey Watson is currently awaiting a sentencing hearing on Feb. 28.[13]

Given its similarities to its Northern District counterpart, the district's financial opportunities, diverse types of industry and location in the second-highest populated metro area in the country,[14] the new Central District Strike Force would be well suited, and appears poised, to pursue similar cases.

Brett A. Sagel, the longtime Central District Assistant U.S. attorney who sits in the Santa Ana office in Orange County, will lead the new strike force. Prior to joining the U.S. Attorney's Office, Sagel also served in the U.S. Department of Justice's Criminal Tax Division.

With extensive experience handling white collar cases during his long government career, Sagel has prosecuted numerous embezzlement, tax fraud and federal wire fraud cases.

One of Sagel's notable prior cases, *United States v. Avenatti* in the U.S. Court of Appeals for the Second Circuit in August 2023, was the successful prosecution of former plaintiffs lawyer — and short-lived presidential candidate — Michael Avenatti, who was convicted of wire and tax fraud related to his embezzlement of \$7.6 million from his clients and sentenced to 14 years in federal prison.[15] The case received extensive media coverage.

More recently, Sagel is leading the prosecution of Jorge Armando Contreras, the former senior director of fiscal services at an Orange County public school district.[16]

The criminal complaint alleges that Contreras embezzled more than \$14 million from the district for seven years by making unauthorized payments and using the illicitly obtained funds for personal expenses, ranging from financing a house to buying luxury items. Contreras has pled not guilty to all charges.[17]

Sagel also recently secured a guilty plea in a case against Chung Ku Sin, the owner of three auto-repair businesses, for criminal tax fraud for failing to report nearly \$3 million in income to the Internal Revenue Service over a seven-year period.[18]

The strike force is also comprised of other experienced prosecutors, including Special Assistant U.S. Attorney Ryan G. Adams and Assistant U.S. Attorney Alexander B. Schwab. Adams recently obtained a conviction against Jacques Poujade, the owner of a real estate finance business, for one count of securities fraud related to fraudulently obtaining nearly \$6.2 million raised from investors.[19]

Last year, Schwab secured a conviction for securities fraud and a statutory maximum 20-year sentence against Zachary Horwitz for orchestrating the largest-ever Hollywood Ponzi scheme, fraudulently raising more than \$650 million over more than five years from investors with bogus claims that investor money would be used to acquire licensing rights to films that HBO and Netflix purportedly had agreed to distribute abroad.[20]

Schwab recently secured an indictment of three counts of engaging in monetary transactions in property derived from specified unlawful activity, one count of tax evasion and one count of obstruction of justice against Paulinus Iheanacho Okoronkwo, a lawyer who allegedly received a \$2.1 million bribe for favorable drilling rights while working as an officer for Nigerian National Petroleum Corp., a state-owned oil company.[21]

The strike force will supplement the existing Major Frauds Section in the Central District of California, which is tasked with prosecuting various forms of fraud, embezzlement, stock manipulation, and insider trading. The strike force will include the IRS Criminal Investigation team and the FBI and, given the strike force's mission to combat securities fraud, there is a high likelihood of future partnership with the SEC as well.

It is typical for U.S. attorney's offices and the SEC to engage in parallel proceedings in appropriate cases. Centralizing securities fraud into a specific unit may lead to a closer bond between that unit and the SEC in working together.

With the creation of the strike force, Estrada is sending a clear message that there will be an increase in criminal investigations and stringent enforcement in the future against fraud and corporate crime in the Central District of California.

This is consistent with other actions taken by Estrada signaling his interest in pushing for more aggressive investigations and prosecutions in the Central District, including his naming of Mack Jenkins as criminal chief. Jenkins is a former narcotics prosecutor with significant success bringing racketeering cases.

More recently, Jenkins was named as the chief of the Public Corruption and Civil Rights Section, the lead prosecutor in the highly successful and wide-ranging corruption prosecution of former Los Angeles City Councilmember José Huizar and numerous other public officials.

It will be interesting to observe in the coming year if the new strike force delivers similar success in a broad array of white-collar matters.

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[1] <https://www.justice.gov/usao-cdca/pr/united-states-attorney-martin-estrada-launches-corporate-and-securities-fraud-strike>.

[2] 18 U.S.C. § 1343.

[3] 18 U.S.C. § 1344.

[4] 15 U.S.C. § 78j(b).

[5] 18 U.S.C. § 1832.

[6] 18 U.S.C. § 1001.

[7] 18 U.S.C. § 1512(b)(3).

[8] 18 U.S.C. § 666(a)(2).

[9] 21 U.S.C. §§ 331(t), 333(b)(1)(D), 353(e)(1).

[10] <https://www.justice.gov/usao-ndca/united-states-v-lewis-wallach>.

[11] <https://www.justice.gov/usao-ndca/pr/bay-area-s-largest-home-health-care-agency-and-28-health-care-industry-workers-charged>.

[12] *Id.*

[13] <https://www.justice.gov/usao-ndca/pr/bay-area-doctor-convicted-health-care-fraud-and-kickback-scheme-referrals-medicare>.

[14] <https://www.census.gov/data/tables/time-series/demo/pepsect/2020s-total-cities-and-towns.html>.

[15] <https://www.justice.gov/usao-cdca/pr/lawyer-michael-avenatti-sentenced-14-years-federal-prison-stealing-millions-dollars>.

[16] <https://www.justice.gov/usao-cdca/pr/former-orange-county-education-official-arrested-complaint-alleging-he-embezzled-more>.

[17] *USA v. Contreras*, No. 8:23-cr-00154-FWS-1 (C.D. Cal Nov. 7, 2023) (ECF No. 23).

[18] <https://www.justice.gov/usao-cdca/pr/owner-orange-county-auto-repair-businesses-pleads-guilty-filing-false-tax-returns>.

[19] <https://www.justice.gov/usao-cdca/pr/orange-county-businessman-sentenced-more-5-years-federal-prison-scamming-investors-out>.

[20] <https://www.justice.gov/usao-cdca/pr/la-man-sentenced-20-years-federal-prison-650-million-ponzi-scheme-falsely-claimed>.

[21] <https://www.justice.gov/usao-cdca/pr/koreatown-lawyer-charged-money-laundering-tax-evasion-and-obstructing-probe-21-million>.