



The United States Attorney's Office

## Central District of California



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### **55 Indicted in Massive Federal Income Tax Fraud Scheme that Illegally Sought More Than a Quarter Billion Dollars in Tax Refunds**

*SANTA ANA, California* – A federal grand jury has indicted 55 people in relation to a huge tax fraud scheme involving hundreds of false income tax returns that sought more than \$250 million in tax refunds.

"Operation Stolen Treasures," which was conducted by Special Agents with IRS - Criminal Investigation, revolves around two Southland companies – Old Quest Foundation, Inc. in Fontana, and De la Fuente and Ramirez and Associates in Rancho Cucamonga – that were used to file fraudulent federal income tax returns containing bogus claims for refunds.

Operation Stolen Treasures has resulted in 32 federal indictments that name a total of 55 defendants, many of whom reside in the Inland Empire. In a takedown that began on Friday, special agents arrested 18 defendants. Additionally, 27 defendants will receive summons to appear in United States District Court for arraignments in the coming weeks. A total of 10 defendants are either fugitives or have agreed to surrender today.

A 19-defendant indictment related to Old Quest alleges that members of a conspiracy filed false Forms 1099-OID that collectively reported that more than \$1 billion in federal income tax had been withheld. The indictment alleges a scheme that resulted in more than 400 fraudulent federal income tax returns being filed with the IRS, and those tax returns cumulatively sought more than \$250 million in fraudulent refunds. As a result of those false claims to the government, the IRS erroneously issued millions of dollars worth of tax refunds, including one tax refund check for \$1,192,653.

Old Quest – which did business in Fontana under the names Old Quest Foundation and Old Quest Services – promoted the fraudulent scheme by telling customers they could receive tax refunds of hundreds of thousands of dollars from a "secret government account." During presentations made

across the Southland, members of the conspiracy promoted the supposedly secret government account and made other "tax defier" arguments, such as the United States was bankrupt and the United States was actually owned by England. The potential customers heard presentations from people falsely claiming to be attorneys, accountants, CPAs and former IRS employees. Those who chose to sign up were required to make "donations" as high as \$10,000 to Old Quest and were required to pay Old Quest a percentage of any refund they fraudulently received.

The 88-count indictment alleges that, in exchange for the payments from the customers, Old Quest prepared and filed false income tax returns that routinely sought hundreds of thousands of dollars – and sometimes millions of dollars – in income tax refunds. One of the tax returns allegedly sought a refund of \$4,656,566. According to the indictment, when Old Quest customers received IRS letters warning that their tax returns were frivolous, members of the conspiracy prepared responses and assured customers the IRS sent letters only to "intimidate" them because the "IRS did not want to pay."

During a search warrant executed at Old Quest's offices two years ago, IRS agents seized several false tax returns before they could be filed, including one signed tax return that fraudulently reported \$10,500,106 in federal income tax withheld and would have sought a \$6,868,675 refund.

The indictment alleges Old Quest received approximately \$1 million in payments from customers of its fraudulent scheme.

All but one of the 19 people named in the Old Quest indictment are charged with conspiracy to defraud the United States in a count that alleges 421 overt acts. The indictment charges three people who are identified as co-owners of Old Quest – Arturo S. Ruiz, the CEO of Old Quest; Francisco J. Mendoza, the president of Old Quest; and Francisco Medoza's wife, Maria de Jesus Mendoza, the vice president of Old Quest. Francisco Mendoza was arrested on Friday, while authorities are seeking to arrest Ruiz and Maria de Jesus Mendoza.

Among the other defendants charged in the Old Quest indictment are Robert E. Meyer Jr., an attorney who signed most of Old Quest's false tax returns; Eugene H. Marzette Sr., who prepared and signed false tax returns; Adel Alsibydes Cotton, a tax return preparer in Whittier; Suemy L. Gongora, a tax return preparer who formerly worked for a national tax preparation firm; and Linda B. Wilson, who gave a seminar in Costa Mesa at which she discussed the "secret account."

In addition to the indictment that outlines the Old Quest scheme, a federal grand jury also issued indictments naming Old Quest customers, including Jose Hernandez Tavares Jr., who is charged with fraudulently obtaining a \$767,963 income tax refund; James L. Tolbert, a California attorney who had previously been ordered by a federal judge to permanently stop preparing tax returns; and Silvia Vilchez, a tax return preparer for a national tax preparation firm who is charged with filing a false tax return that led to a refund of \$279,846.

In the scheme related to De la Fuente and Ramirez and Associates (DLFRA), four people were named in an indictment that alleges a conspiracy to defraud the United States by filing more than 35 false income tax returns that claimed more than \$80 million in fictitious federal income tax withholding and sought more than \$19 million in income tax refunds. DLFRA used seminars and one-on-one consultations to recruit people, who were charged \$2,500 to become customers. According to the indictment, DLFRA operated the same type of fraudulent tax scheme as Old Quest. (A Justice Department press release discussing the DLFRA cases can be viewed at: <http://www.justice.gov/opa/pr/2011/September/11-tax-1298.html>.)

Most of those arrested on Friday were arraigned in United States District Court in Santa Ana, and

most of those were ordered detained without bond.

*An indictment contains allegations that a defendant has committed a crime. Every defendant is presumed to be innocent until proven guilty in court.*

Most of the defendants charged in Operation Stolen Treasures face charges of conspiracy and/or making false claims against the United States (a complete list of the defendants is in a separate document). Those convicted of conspiracy to defraud the United States face a statutory maximum sentence of 10 years in federal prison, and those convicted of false, fictitious or fraudulent claims against the United States face a statutory maximum sentence of five years in federal prison for each false claim charge.

Original Issue Discount (OID) reported on IRS Forms 1099-OID is a form of interest income typically realized on debt instruments that were issued at a discount to, or purchased for less than, the ultimate redemption value of the debt instrument, such as Treasury bills (but not U.S. savings bonds), zero-coupon bonds, and other debt instruments that pay no stated interest until maturity. The defendants in Operation Stolen Treasures allegedly utilized 1099-OID forms in a fraudulent manner. The IRS website provides updated information about frivolous arguments made by individuals and groups who oppose compliance with the federal tax laws, including Form 1099-OID schemes at <http://www.irs.gov/taxpros/article/0,,id=159932,00.html>.

Operation Stolen Treasures is the result of an investigation by the Los Angeles Field Office of IRS - Criminal Investigation. The 27 indictments related to the Old Quest scheme are being prosecuted by the United States Attorney's Office, while the five indictments related to DLFRA are being jointly prosecuted by the United States Attorney's Office and the Justice Department's Tax Division.

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