



# Department of Justice

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Western District of Kentucky**

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**UNIVERSITY OF LOUISVILLE DEAN AND ILLINOIS MAN INDICTED  
FOR MONEY LAUNDERING CONSPIRACY,  
MAIL PROGRAM FRAUD, AND TAX EVASION**

*-Felner and Schroeder are alleged to have fraudulently obtained over  
\$1.7 million from the University of Rhode Island*

*-Felner and Schroeder are alleged to have fraudulently obtained approximately \$576,000  
and attempted to embezzle another \$240,000 from the University of Louisville*

*- Felner alleged to have failed to report \$1.6 million in income from 2002 - 2007,  
allegedly owes \$500,000 in federal taxes*

LOUISVILLE, KY - A federal Grand Jury in Louisville returned an Indictment on October 22, 2008, charging **Robert Felner**, age 58, of 2104 Cardinal Harbour Drive, Prospect, Kentucky and **Thomas Schroeder**, age 58, 4 Eagle Pointe Circle, Port Byron, Illinois, with conspiracy to commit money laundering, mail fraud, and conspiracy to defraud the Internal Revenue Service. In addition, Felner was individually charged with 6 counts of federal income tax evasion, David L. Huber, United States Attorney for the Western District of Kentucky, announced today.

U.S. Attorney Huber praised the work of the state and federal law enforcement agencies. He noted that the University of Louisville Police Department's role was essential in discovering this conduct. Huber noted that the University of Louisville detective on the United States Secret

Service Fraud Task Force was able to bring this to the Secret Service's attention. The detective continues to play a vital role in the investigation as an active member of the United States Secret Service Fraud Task Force, which is the lead investigative unit. Likewise, the work of the United States Secret Service, Internal Revenue Service and the United States Postal Inspection Service has been remarkable in bringing this complex case to the Grand Jury within six months.

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The indictment of a person by a Grand Jury is an accusation only and that person is presumed innocent until and unless proven guilty.

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### **A Summary of the Grand Jury Indictment**

According to the Indictment, Robert Felner and Thomas Schroeder, from 2001 through 2008, conspired to embezzle approximately \$1,706,972 from the University of Rhode Island. In addition, they conspired to embezzle approximately \$450,000 from a University of Louisville federal earmark grant. In addition, for the tax years 2002 through 2007 Felner under reported his gross income by \$1.5 million, and, as a consequence, Felner under reported and under paid approximately \$500,000 federal income taxes for those years.

### **The NCPEp**

The indictment alleges that from 2001 through 2008 Felner and Schroeder used a company called NCPEp to steal approximately \$2.1 from the University of Rhode Island (the “URI”) and the University of Louisville (the “UofL”). In addition, Felner attempted to use NCPEp to obtain by fraud another \$180,000 from the University of Louisville.

NCPEp is an organization formerly incorporated in Rock Island, Illinois, by Schroeder. According to Illinois Secretary of State records, NCPEp was incorporated by Schroeder as a not-for-profit corporation on October 17, 2001. The company was involuntarily dissolved on March 1, 2006. From 2002 through 2008, Felner and Schroeder opened and controlled bank accounts of NCPEp in Rhode Island, Illinois, and Kentucky. Some of these accounts remained active through June of 2008.

On July 17, 2001, Schroeder opened a bank account in the name of NCPEp at American Bank & Trust in Rock Island, Illinois (“NCPEp-AB&T”). On June 28, 2002, Thomas Schroeder opened an account in the name of NCPEp at Citizens Bank in Rhode Island (NCPEp-Citizens”). Robert Felner was later added as signatory to this account. Checks from Atlanta, Santa Monica,

and Buffalo were deposited into the three NCPEp bank accounts, NCPEp-AB&T, NCPEp-Citizens, and NCPEp-BB&T. On February 12, 2004, Felner opened a Louisville, Kentucky B.B.&T. commercial account (“NCPEp-BB&T”) in the name of NCPEp. Robert Felner was listed as the sole account holder. The account application stated that Robert Felner was an officer granted official authority by NCPEp on June 1, 1995. Felner routinely transferred funds from the commercial account to the investment account.

According to the indictment, these three accounts were used solely to divert funds from the URI and the UofL. All the funds deposited into the accounts were personally withdrawn by Felner and Schroeder and no “business” use was made of the funds. From 2001 through 2008 Schroeder received nearly \$300,000 from the NPCEp-AB&T account. From 2001 through 2008 Felner received approximately \$2,534,577 from the NCPEp-AB&T, NCPEp-Citizens, and NCPEp-BB&T-accounts.

#### **University of Rhode Island - NCPE**

The indictment charges that from 2001 through 2008, Felner and Schroeder conspired to launder money they fraudulently obtained from the University of Rhode Island (“URI”) and the University of Louisville (“UofL”). More particularly, they conspired to embezzle approximately \$1,706,972 from the National Center on Public Education and Social Policy (“NCPE”). From 1996 through 2003 Felner served as the Director of the School of Education at the University of Rhode Island. In addition, in 1997 he helped establish NCPE which is a division of University of Rhode Island. NCPE was a self-funded entity that generated income by surveying and assessing high schools, grade schools, and middle schools. NCPE generally charged each school about \$4,500.

As part of his duties as director of NCPE, Felner solicited businesses from across the nation. NCPE's largest contract was with the Rhode Island Department of Education. In addition, NCPE had contracts with other school districts across the nation, including the Atlanta Board of Education, the Buffalo Board of Education, and the Santa Monica Unified School District. From 2001 through 2007, NCPE surveyed and assessed each of these three districts. Felner negotiated the contracts and arranged payments from these districts.

Felner and Schroeder, however, diverted payments from Atlanta, Santa Monica, and Buffalo school districts into bank accounts in the name of the National Center on Public Education and Prevention ("NCPEp). From 2001 to 2007, they caused payments from Atlanta totaling \$1,005,972, from Buffalo totaling \$326,000, and from Santa Monica totaling \$375,000 to be deposited into NCPEp bank accounts controlled by one or both of them. The NCPE, a division of the University of Rhode Island, performed the work for the Atlanta, Buffalo, and Santa Monica school districts but Felner diverted the payments due the NCPE to the NCPEp bank accounts. NCPEp performed services for these school districts.

### **University of Louisville**

The indictment also charges that Felner and Schroeder used NCPEp and accounts in the name of NCPEp to fraudulently obtain funds received by UofL under a September 1, 2005, \$694,000 federal earmark grant. The principal investigator on the grant was Dr. Robert Felner. As the principal investigator, Felner was the lead University of Louisville faculty member for the project and was directly responsible for the project. The stated goal of the grant was to establish the *Center for Research-Based Educational Improvement and Assessment: Support and Continuous Improvements of No Child Left Behind in Kentucky* at the University of Louisville

and to conduct research on Kentucky students relative to the federal No Child Left Behind Program. The *Center for Research-Based Educational Improvement and Assessment: Support and Continuous Improvements of No Child Left Behind in Kentucky* was never established.

As part of the grant, Felner entered the University of Louisville into a subcontract with the National Center on Public Education and Social Policy (NCPE) at the University of Rhode Island. The original grant identified NCPE as a subcontractor with a \$60,000 subcontract allocation. In addition, after the grant was awarded, Felner entered into a personal services contract and a subcontract with the National Center on Public Education and Public Education (NCPEp) in Rock Island, Illinois.

On January 5, 2007, the University of Louisville Research Foundation, at Felner's request, entered into a Personal Services Contract with NCPEp for a sum not to exceed \$250,000 for the period January 5, 2007, through July 21, 2007. The personal services contract stated that the purpose of the contract was for "NCPEp to provide training and survey products and deliverables as follows: the use of High Performance Learning Community Assessments and the processed and scored data derived therefrom."

On March 15, 2007, NCPEp submitted an invoice, also approved by Felner, to the University of Louisville for \$150,000 for work completed on the grant. On March 15, 2007, NCPEp submitted a second invoice, again later approved by Felner, for \$50,000 for additional work completed on the grant. The University of Louisville issued a \$200,000 check to pay these two invoices. These two checks were deposited into the Felner controlled NCPEp-BB&T account.

On June 29, 2007, NCPEp submitted a third invoice, also approved by Felner, for

\$50,000. The University of Louisville issued a check payable to the National Center on Public Policy and Education & Prevention. This check was also deposited into the NCPEp-BB&T account.

On December 3, 2007, the UofL Research Foundation, at Felner's request, entered into a subcontract with NCPEp for a sum not to exceed \$200,000 for the period September 1, 2007, through August 31, 2008. The subcontract stated that NCPEp will collect and provide data in electronic format from the High Performance Learning Community Assessments. The subcontract also stated that the subcontractor's work involved human subjects and that the subcontractor must provide the UofL Research Foundation documentation that an Institutional Review Board has reviewed and approved the proceeds. The subcontract was signed by Schroeder on November 21, 2007. On November 20, 2007, NCPEp submitted an invoice, later approved by Felner, for \$200,000 for "data collection and assessment with regard to the No Child Left Behind Initiative as agreed in the subcontract..." This check was deposited into the NCPEp-BB&T account.

The three checks issued by the UofL, totaling \$450,000, were deposited into the NCPEp-BB&T account in Louisville, Kentucky. The checks were deposited on April 9, 2007 (\$200,000), July 30, 2007 (\$50,000), and December 31, 2007 (\$200,000). This account was ultimately used by Felner to pay his personal expenses and for his personal investment purposes. The account was not used for any business purposes.

The Indictment also alleges that Felner attempted to cause the UofL to make another \$180,000 in payments to NCPEp in May of 2008. Felner in requesting these payments represented that NCPEp completed additional work related to the NCLB Grant.

The indictment also alleges that Felner attempted to cause the UofL to make nearly \$100,000 in payments to NCPE for work which Felner represented had been done for UofL by NCPE, when in fact no such work had been done. However, these payments were not made. The indictment alleges that the work was actually intended as payment to NCPE for work it performed for the Atlanta, Buffalo, and Santa Monica school districts and that it completed no work related to the UofL. In addition, in April of 2008 Felner attempted to send another \$60,000 from the UofL for additional work he represented to the UofL that NCPE completed for the Grant. This was also not paid.

### **Tax evasion and tax conspiracy**

The Indictment also charges that Felner evaded the assessment of his federal income taxes for the 2002 through 2007 tax years. For these periods Felner under reported his gross income by \$1.6 million. As a consequence, he under reported and under paid approximately \$499,000 in federal income taxes.

From 2002 through 2007, Felner made 18 deposits of funds totaling \$1,572,000 into NCPEp bank accounts that he controlled. He used these funds solely for his personal benefit, including to pay his personal expenses and to trade stocks. The deposits into these bank accounts included money stolen from the UofL and the URI.

The indictment also alleges that Felner and Schroeder conspired to use NCPEp to defraud the Internal Revenue Service. More particularly, it alleges that created several false I.R.S. Form 1099's in order to conceal income from the I.R.S. In addition to the nearly \$1.6 million in unreported NCPEp by Felner, the indictment also alleges that Felner failed to report approximately \$51,000 in income that he received from NCPEp.

Felner if convicted, the maximum potential penalties are 75 years imprisonment, a \$2,750,000 fine, an supervised release for a period of up to 3 years. Schroeder if convicted, the maximum potential penalties are 45 years imprisonment, a \$1,000,000 fine, an supervised release for a period of up to 3 years.

The initial UofL embezzlement was discovered and investigated by a detective with the University of Louisville Police Department who is a member of the United States Secret Service Financial Frauds Task Force. The case is being prosecuted by Assistant United States Attorney Bryan Calhoun, and it was investigated by the University of Louisville Police Department as a part of the U.S. Secret Service Fraud Task Force, United States Secret Service, United States Postal Inspection Service, and Internal Revenue Service, Criminal Investigations.

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### **Tax Addendum**

Specifically, the Grand Jury Indictment charges the following:

Felner evaded payment of his 2002 federal income taxes by failing to pay approximately \$161,644.77 in taxes. For 2002, Felner's federal income tax return reported owing taxes of approximately \$34,032. Felner failed to report approximately \$488,116 in income in 2002 that he diverted into NCPEp bank accounts for 2002. He used these funds to pay for his personal living expenses.

Felner evaded payment of his 2003 federal income taxes by failing to pay approximately \$54,142.50 in taxes. For 2003, Felner's federal income tax return reported owing taxes of approximately \$33,407. Felner failed to report approximately \$172,000 in income in 2003 that he diverted into NCPEp bank accounts for 2003. He used these funds to pay for his personal living expenses.

Felner evaded payment of his 2004 federal income taxes by failing to pay approximately \$108,606.80 in taxes. For 2004, Felner's federal income tax return reported owing taxes of approximately \$24,610. Felner failed to report approximately \$323,434 in income in 2004 that he diverted into NCPEp bank accounts for 2004. He used these funds to pay for his personal living expenses.

Felner evaded payment of his 2005 federal income taxes by failing to pay approximately \$13,566.81 in taxes. For 2005, Felner's federal income tax return reported owing taxes of approximately \$34,695. Felner failed to report approximately \$54,065 in income in 2005 that he diverted into NCPEp bank accounts for 2005. He used these funds to pay for his personal living expenses.

Felner evaded payment of his 2006 federal income taxes by failing to pay approximately \$9,770.05 in taxes. For 2006, Felner's federal income tax return reported owing taxes of approximately \$29,468. Felner failed to report approximately in \$39,741 in income in 2006 that he diverted into NCPEp bank accounts for 2006. He used these funds to pay for his personal living expenses.

Felner evaded payment of his 2007 federal income taxes by failing to pay approximately \$152,036.32 in taxes. For 2007, Felner's federal income tax return reported owing taxes of approximately \$41,193. Felner failed to report approximately in \$478,376 in income in 2007 that he diverted into NCPEp bank accounts for 2007. He used these funds to pay for his personal living expenses.