

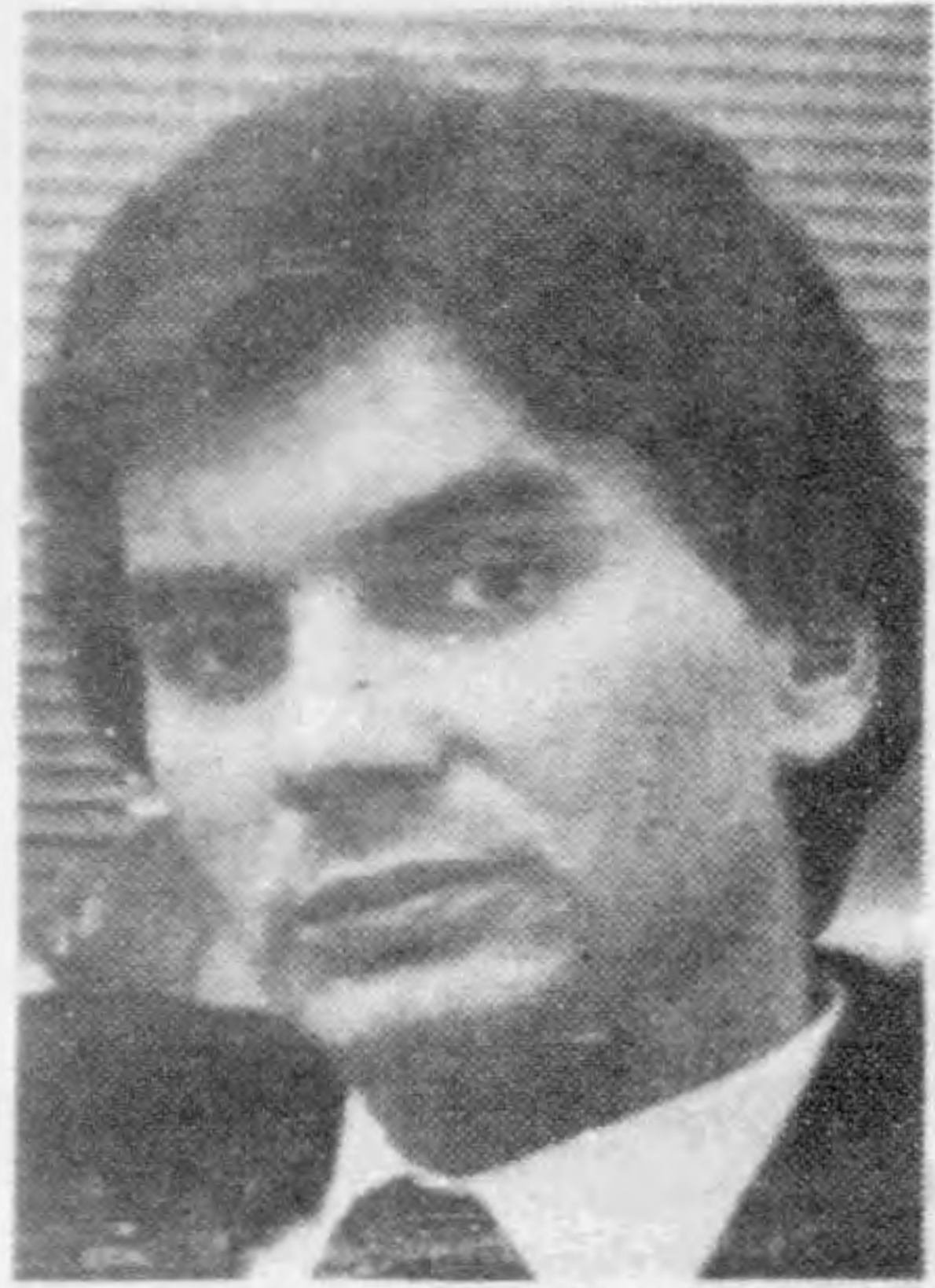
Massive Fraud String Charged

Firms, 2 States Scam Targets

By Tom Renner

Authorities in two states yesterday accused Michael Franzese of Brookville, L.I., of operating multimillion-dollar schemes that defrauded banks, oil companies, car manufacturers and state governments.

Federal prosecutors said that their investigation also established that Franzese, 34, the stepson of a once-prominent organized crime figure, has become a major racketeer in his own right.



Newsday / Jim Cummins

Michael Franzese

The first set of charges, a 28-count indictment, was handed up by a federal grand jury in Brooklyn against Franzese and eight other persons identified as the "Franzese group." The indictment charged that the group skimmed millions of dollars in sometimes violent, often complicated plots against such corporations as Mobil Oil, Citicorp, Beneficial Finance, the Chevrolet Division of General Motors, Mazda Motors of America and Chemical Bank.

Four hours later, state prosecutors in Florida accused Franzese of operating a scheme that cheated that state of at least \$40 million in taxes on retail gasoline sales. Florida prosecutors charged 25 persons, many of them Long Islanders, with helping Franzese set up phony wholesale oil companies to avoid paying taxes.

If convicted in the Florida case, they could be liable to repay the state triple damages or \$120 million.

Those charges for the first time linked Franzese to a scheme that has cost New York State an estimated \$250 million in sales tax revenue. Charged along with Franzese yesterday was Lawrence Iorizzo, the former head of Vantage Petroleum Corp., who has been convicted of federal charges of tax, mail and wire fraud and is now a government witness.

Federal authorities in Brooklyn were not working with Florida prosecutors, but the two were aware of the other's investigations, sources said.

The 99-page federal indictment contains a sweeping series of allegations that culminated a three-year investigation by the U.S. attorney's office for the Eastern District with the help of state and local investigators. The indictment accused Franzese of masterminding a racketeering conspiracy that bankrupted two Long Island car dealer-

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Defendant Walter Doner, right, arrives with lawyer Roy Kulcser at U.S. District Court in Uniondale, L.I.

Shultz on Lie Detectors: Either Trust Me or I Quit

The Washington Post

Washington — Secretary of State George P. Shultz, in a highly unusual and emotional dissent from administration policy, said yesterday that he would resign if required to submit to a polygraph examination as thousands of government officials must under a directive signed recently by President Ronald Reagan.

"The minute in this government I am told that I'm not trusted is the day that I leave," Shultz declared in discussing what he called his "grave reservations about so-called lie detector tests."

In answer to questions, he said that he would submit to such a test if ordered to do so but only "once," and that he would then resign because of the lack of trust implied by such a requirement.

Shultz was reported to have expressed strong opposition within administration councils to Reagan's Nov. 1 order that polygraph examinations be administered to U.S. officials having access to "sensitive compartmented information" of a secret nature.

At least 4,550 State Department employees and contractors and 122,000 Defense Department employees and contractors are in this category, according to the General Accounting Office.

Shultz's decision to go public with his objections and with his personal refusal to accept polygraph tests added a serious new element to the extensive controversy about Reagan's directive.

Shultz has never suggested publicly that he

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Soviet Style? At the behest of Newsday, five students at the Fashion Institute of Technology took a turn at designing for Soviet citizens.

Weather: Becoming cloudy with light snow developing by late day, upper 20s. Mixed sun and clouds, windy and cold high upper 20s.

Weekend



The Emperor. Akira Kurosawa is 75. His latest film, "Ran," is an adaptation of "King Lear." Voted best foreign film, "Ran" is the culmination of the director's work.

Lottery: Yesterday's winning New York number was 106. The Win Four number was 5870.

SUNDAY

The Reluctant Prince Charming

Robert Redford - has pursued ideals more than women in movies. But his latest films have him playing romantic leads again.

Part II.

New York Newsday

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Florida Link to NY Gas Tax Scam



Three defendants in racketeering trial, from left, Frank Castagnaro, Louis Fenza and Frank Cestaro, are taken from federal court after arraignment.

By Robert E. Kessler

Newsday Staff Correspondent

Fort Lauderdale, Fla. — A scheme that officials said has cost New York State \$250 million in gasoline sales taxes was imported by Michael Franzese to Florida, where more than \$40 million was stolen from that state, according to charges filed here yesterday.

In a 177-count prosecutorial information, 26 persons — most of them New Yorkers or former New Yorkers — were charged with setting up a series of dummy corporations to trade gasoline back and forth and make it impossible to trace who owed the taxes on the gasoline to the state.

Franzese was charged with 51 felony counts of theft and failure to report taxes. He and the other defendants also were charged with running a racketeering enterprise and conspiracy. Upon conviction they could be liable to repay the state triple damages or \$120-million.

"It was a complex and sophisticated operation," said Kent Neal, head of the white collar crime section of the state's attorneys office here.

"The scheme was getting off the ground as it has done in other states, but I think we nipped it in the bud in Florida," said Harry Solowsky, head of the Broward County office of the Florida Department of Law Enforcement. Solowsky is a retired New York City police detective from Queens.

Franzese headed the group, according to the Florida prosecutor's information. But also involved was Lawrence Iorizzo, former president of Vantage Petroleum Corp., who earlier this year was sentenced to five years in prison and ordered to repay \$1.7 million, the amount of gasoline sales tax it is estimated he failed to pay to New York State. Iorizzo has since become a federal witness and is expected to be the chief prosecution witness in this case.

According to investigators, the scheme was aimed at taking advantage of a change in Florida law — similar to one that was similarly enacted in New York — designed to cut down on tax cheating by individual gasoline stations. Under the laws, sales taxes were the responsibility of the wholesaler. The theory of the laws was that it would be more difficult for wholesalers, who deal in large volumes of gasoline, to misrepresent sales figures in reports to the states.

But, according to investigators, Franzese and his associates found

ways around the new laws so they could collect the sales tax from retail stations and pocket the money.

This was done, investigators charge, by setting up a chain of dummy wholesale gasoline distributorships that on paper, wholesalers were legally trading untaxed gasoline back and forth. The last wholesaler in the chain, the firm that is supposed to collect the taxes from retailers, is often little more than a small office rented under a false name. When the state comes to collect taxes, only an empty office remains.

The investigation was triggered by complaints from longtime wholesalers that they were losing much of their business to newcomers, who — because they were not paying taxes — were undercutting the market prices.

According to the prosecutor's information, in June, 1983, Franzese, Iorizzo, Michael Markovitz, George Kryssing and several of the other defendants met in the office of Lesez Gas in Commack, L.I., a firm owned by David Bogatin.

It was agreed, the information charged, that associates would be sent to Florida to establish a chain of wholesalers by forming new corporations or using ones already in existence. Franzese was to get 40 percent of the profit and the rest was to be split among the others.

Franzese, who has homes in Old Brookville, L.I., and Delray Beach, Fla., also was indicted yesterday by federal prosecutors in the Eastern District in Brooklyn. In addition, he is the subject of another investigation by federal prosecutors in the Eastern District of New York.

In a recent interview, Franzese said that the main source of accusations against him in the gasoline-tax situation has been Iorizzo. And John Jacobs, Franzese's attorney, said yesterday that Iorizzo's account was "a lot of bull . . . Larry's making it up."

"The guy's just insane," said Franzese, who says he had few dealings with Iorizzo. "Anything he did wrong, he blames on me."

Lawyers for those of Franzese's co-defendants who could be reached yesterday said either that their clients were not guilty or that they could not comment because they had not read the charges. Many of the defendants were said to be enroute to Florida to surrender to authorities today.

Major Firms, States Hit by Fraud Plots

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ships and defrauded banks, finance companies, oil firms and car manufacturers.

The scheme described in the federal indictment "is another example of the movement of significant racketeers into sophisticated and complicated business crimes through which they reaped millions of dollars in illegal profits," said Edward McDonald, chief of the Eastern District's Organized Crime Strike Force.

McDonald declined to identify Franzese with any major organized crime group, although federal probation, FBI and customs agents from McDonald's own strike force last year identified Franzese as a Colombo family crime captain.

Franzese, who had not been taken into custody last night, has denied membership in organized crime and has said agents have tried to label him as a mobster because of his stepfather, John (Sonny) Franzese. His stepfather has had a variety of convictions, has served time for bank robbery and has been described in U.S. Senate testimony as a crime captain.

Attempts to locate Michael Franzese yesterday at homes on Long Island and in California and Florida were unsuccessful.

His attorney, John Jacobs, said that Franzese would " . . . make every effort to surrender to authorities" today and that he would plead innocent. "He has cooperated with the grand jury . . . supplied records, testified [and] spoken to the prosecutors. The only surprise is that the indictment does not contain the words 'Mafia' or 'organized crime.' Perhaps they're now conceding he's not a member of the Mafia."

All but Franzese were arraigned before U.S. District Court Judge Jacob Mishler in Uniondale, L.I., who held them on varying amounts of bail.

Authorities said it took various government agencies three years to track down the necessary evidence and focus that evidence on the schemes.

Violence and threats of murder against at least two individuals, one a federal probation officer, the other, a

federal witness, were also reported as part of the conspiracy but not part of the indictment. Federal authorities plan to detail those threats in court today in Uniondale at the bail hearing of a codefendant, Frank Cestaro.

One of the schemes, the indictment charged, was the "floor plan loan," a standard method for car dealers to obtain loans for new cars from manufacturers, but which in this case, the indictment charged, cost Beneficial Commercial Corp. \$580,000.

According to Suffolk County Assistant District Attorney Ray Jermyn, if a car dealer sells five cars, the lending institution he deals with provides him with money to buy the cars from the manufacturer or distributor. The lender, a company such as Beneficial Commercial Corp., holds documents the dealer needs to sell the car, including the dealer's title to the vehicle. When the dealer gets his money from the car buyer, he then has two days to send the money to the finance company, less his profit, and the interest charged by the finance company.

One floor plan scheme, the indictment charged, involved Lynn Mazda Imports of Hempstead, L.I., and was devised by Franzese, Louis Fenza, the manager of Lynn Mazda, and Gerard Nocera, vice president of Beneficial Commercial.

Their plan was to sell the floor plan cars and take the money, a source close to the investigation said. When Beneficial auditors asked where the cars were, Franzese and his associates would give various excuses. At times the stalls escalated to threats against finance company officials and car dealers who were being used in the scheme.

The scheme was carried a step further to get additional money from Beneficial when, the indictment charged, Franzese and Fenza induced Iorizzo, then president of Vantage Petroleum and Page Motors Inc. of Bohemia, L.I., to provide documents showing Page Motors was ordering 25 new cars from Lynn. They then allegedly destroyed the records.

John Cummings and Richard C. Firstman contributed to this story.

Castellano Denied Rites of the Church

—Continued from Page 3

church, including Albert Anastasia, shot dead in a barber's chair in 1957, and Carmine Galante, who was killed in 1979 while eating in the courtyard of a Brooklyn restaurant.

But other reputed mob leaders who have died of natural causes have been accorded full religious burials. Those include Castellano's predecessor, Carlo Gambino, who died in 1976 at the age of 74.

More recently, Aniello Dellacroce, reputed to be second in command to Castellano, died after a long illness and was accorded a funeral mass at the old St. Patrick Cathedral in Little Italy, a few blocks from the Ravenite social club where police said Dellacroce based his illegal activities.

Services for Castellano were hardly noticed. A motorcade formed shortly after 8 a.m. outside the Cusimano and Russo Funeral Home in Brooklyn for the 25-minute drive to Moravian Cemetery, a few miles from the large

home Castellano maintained in the Todt Hill section of Staten Island.

The Rev. Vincent Clyne, of Castellano's home parish of St. Ann's, recited several prayers and blessed the gravesite, according to staff who answered calls at the parish rectory yesterday.

Zwilling said that funeral masses are rarely denied. Church Canon Law provides such denials in the cases involving "notorious apostates, heretics, schismatics, those who for anti-Christian motives choose to be cremated and other manifest sinners to whom a church funeral could not be granted without public scandal to the faithful."

"He is not calling Castellano a manifest sinner," Zwilling said. "The cardinal was merely prohibiting a public funeral mass because he did not want it to appear that the church was condoning organized crime or was sympathetic to it." The archdiocese did not say whether the cardinal had denied Castellano under Canon Law.