



Department of Justice

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Western District of North Carolina

FOR IMMEDIATE RELEASE
THURSDAY, JUNE 7, 2018
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COMPANY OWNER AND BOOKKEEPER INDICTED ON WIRE FRAUD
CONSPIRACY CHARGES IN CONNECTION WITH UNEMPLOYMENT INSURANCE
BENEFITS SCHEME

ASHEVILLE, N.C. – A grand jury sitting in Asheville returned a federal criminal indictment today, charging Marion Kent Covington, 63, and Diane Mary McKinny, 65, both of Rutherfordton, N.C., with a conspiracy to commit wire fraud in connection with an unemployment insurance benefits scheme, announced R. Andrew Murray, U.S. Attorney for the Western District of North Carolina.

Nick S. Annan, Special Agent in Charge of ICE/Homeland Security Investigations (HSI) in Georgia and the Carolinas; Robert Schurmeier, Director of the North Carolina State Bureau of Investigation; and Rafiq Ahmad, Special Agent in Charge of the Department of Labor-Office of the Inspector General, join U.S. Attorney Murray in making today's announcement.

According to allegations contained in the indictment, at all relevant times, Covington was the president, owner, and registered agent of Diverse Corporate Technologies, ("DCT"), a plastics manufacturing company located in Rutherford County, N.C. McKinny worked for Covington at DCT. The indictment alleges that, in late 2008, DCT was struggling financially, so the co-defendants developed and implemented a scheme to defraud the State of North Carolina by placing DCT employees on Unemployment Insurance Benefits ("UI Benefits"), while those employees continued to work at the business in excess of what was permitted by the program eligibility requirements. The indictment alleges that the scheme allowed DCT to reduce the cost-of-labor component of its cost-of-goods-sold, thereby increasing its net profitability.

The indictment alleges that in November or December 2008, in order to accomplish the scheme, the co-defendants "laid off" nearly all of the employees at DCT. The co-defendants provided some employees with separation notices and instructed them as to how to file their own claims for UI Benefits. Those employees received UI Benefits based on their asserted "totally unemployed" status. Next, the indictment alleges, Covington called a business meeting at DCT and informed the remaining DCT employees that the company could no longer afford to pay their wages, and that they therefore would be placed on UI Benefits, but that Covington expected the employees to continue to work at DCT, just as they had before they were laid off, in order to help the business survive. The indictment alleges that Covington used his position of authority within his church community, which included most, if not all, of the employees at DCT, to coerce the

employees to comply. Around the same time, McKinny filed claims for UI Benefits on behalf of the employees whom Covington had required to continue working at DCT while they received UI Benefits. In filing the necessary information for UI Benefits, McKinny certified the claimants' initial and continuing eligibility to receive those benefits.

The indictment alleges that, at Covington's direction, at least five of the employees for whom McKinny made claims for UI Benefits then continued to work at DCT on a full-time or near-full-time basis while collecting UI Benefits every week. Through the operation of the scheme outlined above, the co-defendants obtained more than six months of free labor for DCT, paid for by the government, instead of by the business itself.

The indictment further alleges that by September 2009, several other businesses run by members of the same church community to which Covington and McKinny belonged, and employing many members of that same church community, were facing their own financial struggles related to the economic downturn. According to the indictment, the co-defendants then began to promote the fraud that they had devised at DCT to other members of the church community.

In addition to promoting the scheme to other business owners, Covington implemented the scheme a second time, with McKinny's help, at Integrity Marble, Inc., d/b/a Integrity Marble & Granite, another for-profit company that Covington owned and managed, in or about March of 2010. Covington then implemented a variation of the scheme a third time at Sky Catcher Communications, Inc., a company he managed, in or about May of 2011.

In total, between November 2008 and March 2013, the scheme resulted in over \$250,000 in fraudulent claims for UI Benefits by employees who continued to work full-time or near-full-time at businesses owned or managed by co-conspirators, and who were therefore ineligible to claim those UI Benefits.

Covington and McKinny are charged with conspiracy to commit wire fraud affecting a financial institution, which carries a maximum prison term of 30 years and a maximum fine of \$1,000,000. They have been ordered to appear on a summons in federal court.

The charges contained in the indictment are allegations. The defendants are presumed innocent unless and until proven guilty beyond reasonable doubt in a court of law.

In making today's announcement U.S. Attorney Murray commended HSI, SBI, and the Department of Labor for their investigation of the case. U.S. Attorney Murray also thanked District Attorney Ted Bell, of the Rutherford County District Attorney's Office, for his assistance and support throughout the investigation.

Assistant U.S. Attorney Daniel Bradley of the U.S. Attorney's Office in Asheville is in charge of the prosecution.

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