



COMMERCE FRAUD BUREAU

Annual Report 2013

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AGENCY MESSAGE

The CFB is Minnesota's primary law enforcement agency responsible for conducting criminal investigations concerning insurance fraud and related crimes. The CFB entered its ninth year of operation in 2013.

The CFB has become a recognized leader in fraud and white collar crime investigations. We have jurisdiction to pursue cases that other local law enforcement agencies simply cannot pursue. One of our core philosophies is a basic obligation to root out fraud. We accomplish this by launching proactive investigations that target individuals and entities who prey upon our most vulnerable and powerless citizens, including seniors and our immigrant populations.

2013 brought about a number of changes at the CFB. Robert J. Hernz, the Director of the CFB since January of 2012 left his position in June of 2013 to accept an opportunity in the private sector. In December, I was brought on board to lead the CFB as its new Director.

During 2013 three veteran Agents left their employment with the Fraud Bureau and three new Agents were hired. These new Agents came from a variety of backgrounds including local, county and state level law enforcement agencies.

The CFB and its personnel continued to evaluate and evolve to meet the changing demands for the services that it provides to our citizens of the State of Minnesota. I feel very fortunate to be a part of this outstanding law enforcement organization that is making a difference.

Respectfully submitted,

Michael W. Marben
Director

I. INTRODUCTION

In 2004, Minnesota became the 41st state to join the fight against insurance fraud by enacting legislation creating what is now known as the Commerce Fraud Bureau. The legislation authorized the Commissioner to establish a law enforcement agency and appoint peace officers to conduct criminal investigations and provide assistance with the criminal prosecution of insurance fraud and related offenses.

The CFB is granted its authority by Minn. Stat. § 45.0135, which provides the CFB shall:

- Review notices and reports of insurance fraud submitted by authorized insurers, their employees, and agents or producers;
- Respond to notifications or complaints of suspected insurance fraud generated by other law enforcement agencies, state or federal governmental units, or any other person;
- Initiate inquiries and conduct investigations when the division has reason to believe that insurance fraud has been or is being committed; and
- Report incidents of alleged insurance fraud disclosed by its investigations to appropriate law enforcement agencies, including, but not limited to, the attorney general, county attorneys, or any other appropriate law enforcement or regulatory agency, and shall assemble evidence, prepare charges, and otherwise assist any law enforcement authority having jurisdiction.

The CFB collaborates with its partners in local, state and federal law enforcement agencies, and prosecutorial offices. Additionally, it continues to bolster its working relationship with the insurance industry, special investigation units and claims adjusters.

II. STAFFING

In order to accomplish its mission, the CFB employs a Director (Chief Law Enforcement Officer), two Supervisory Special Agents, seven Special Agents, five Analysts and a Computer Forensics Specialist. CFB Special Agents are licensed peace officers with extensive law enforcement experience.

III. FUNDING SOURCES

Funding for the CFB comes from three major sources:

- An assessment on insurers.
- An inter-agency agreement with the Minnesota Department of Labor and Industry (DOLI) to conduct investigations concerning workers' compensation fraud.
- An Administrative fee to offset the costs associated with managing the Auto Theft Prevention Grant Program.

Insurance Fraud Assessment

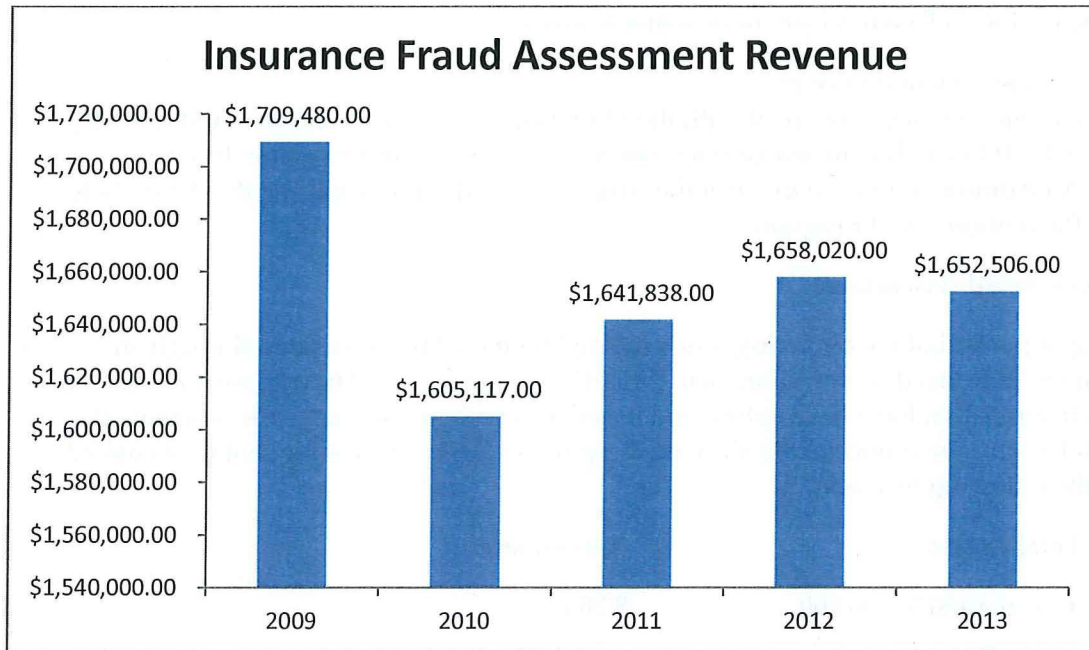
The largest portion of the operating funds utilized by the CFB is generated through an annual assessment authorized under Minn. Stat. § 45.0135, subdivision 7. The assessment is levied against insurers that have been authorized to sell insurance in our state. The assessment formula has remained unchanged since its inception in 2004. The assessment is calculated under the following formula:

Total Assets	Assessment
Less than \$100,000,000	\$ 200
\$100,000,000 to \$1,000,000,000	\$ 750
Over \$1,000,000,000	\$ 2,000

Minnesota Written Premium	Assessment
Less than \$10,000,000	\$ 200
\$10,000,000 to \$100,000,000	\$ 750
Over \$100,000,000	\$ 2,000

For example, an insurance company that has \$150,000,000 in assets and writes policies that carry \$90,000,000 in premiums would pay a total assessment of \$1,500.00. It is important to note that the assessment is levied against the insurance company, not individual agents.

The following chart depicts the revenue generated by the assessment for the previous five years:



Between 2008 and 2011, legislation was enacted that transferred funds from the CFB assessment account into the State of Minnesota's General Fund. A total of \$3,160,000 was transferred during this time period, which resulted in a reduction of funds available to operate the CFB.

Department of Labor and Industry Contracted Investigations

Workers Compensation is a Division of the Minnesota Department of Labor and Industry (DLI). All employers are required by Minn. Stat. § 176.181, subdivision 2, to either purchase workers' compensation insurance to provide benefits to their employees for work-related injuries or they must obtain approval from the Minnesota Department of Commerce to self-insure if they have the financial ability to do so.

Individuals who collect workers' compensation benefits to which they are not entitled are committing insurance fraud. DLI has an inter-agency agreement with the CFB to conduct criminal investigations into suspected cases of workers compensation fraud. DLI pays \$198,000 annually to the CFB for providing this service.

Automobile Theft Prevention Program Administration

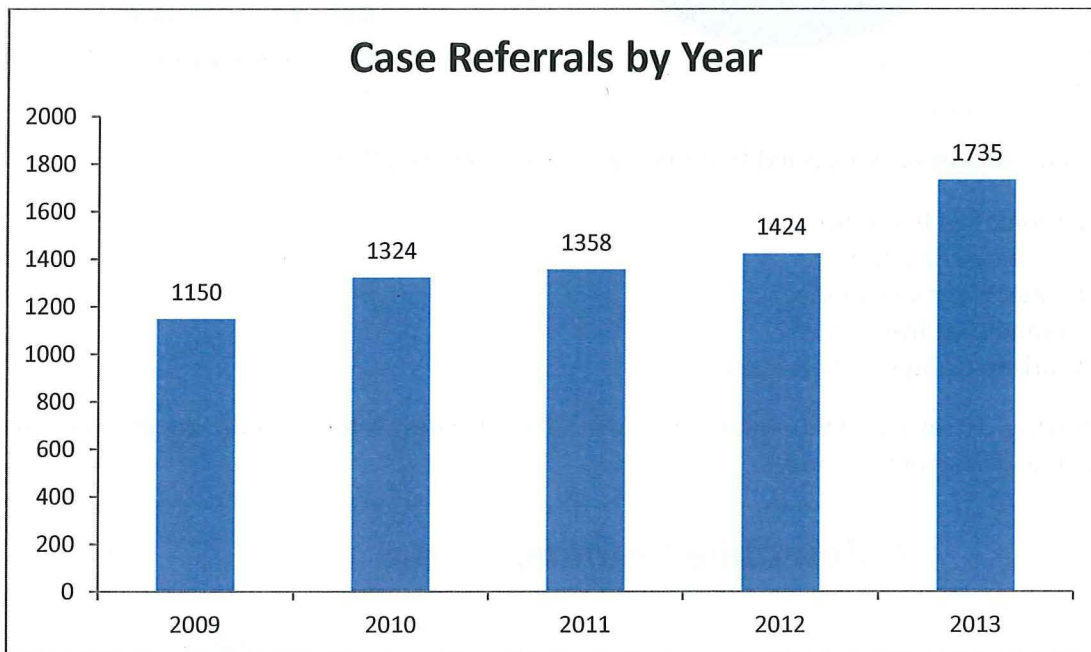
In 1996, the Minnesota Legislature passed legislation under Minn. Stat. § 65B.84 which created the Automobile Theft Prevention Program (ATPP). This program is funded from a surcharge collected from automobile insurance carriers that provide comprehensive insurance coverage issued in our State. The amount of the surcharge is \$.50 cents per vehicle for every six months of coverage. Using this funding, the program makes money available through a competitive grant process for activities that address the problem of auto theft. Since 2009, the CFB has been managing this program.

This statute allows the CFB to retain up to 10% of the funds collected under the ATPP to pay for the costs of administrating the program. In 2013, the CFB received \$220,000 under the ATPP for program administration.

IV. INVESTIGATIVE REQUESTS

The primary responsibility of the CFB is to conduct criminal investigations into insurance fraud. Cases for investigation are referred to the CFB from four major sources: the general public, insurance companies, law enforcement agencies and other governmental regulatory agencies. The subject of the referrals varies from individuals to businesses suspected of committing insurance fraud.

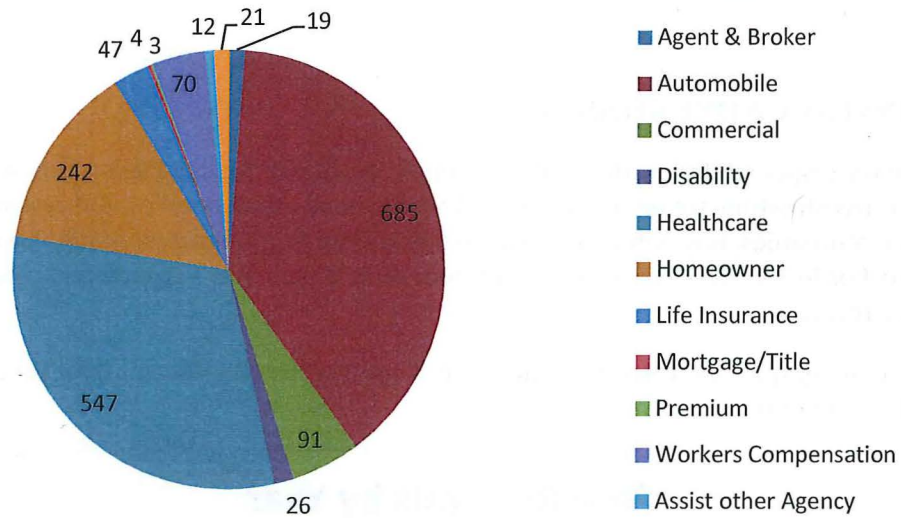
The following graphic represents the number of cases referred to the CFB for investigation during the previous five years.



2007 was the first year the CFB began tracking the total number of cases that were referred for investigation. In that year a total of 909 cases were referred. By 2013 that number had increased to 1735 cases, representing an increase of 91%.

Not every case that is referred to the CFB is investigated. Each incoming case is carefully reviewed to determine if the information submitted articulates a sufficient basis for the Bureau to initiate a criminal investigation into the fraud allegation.

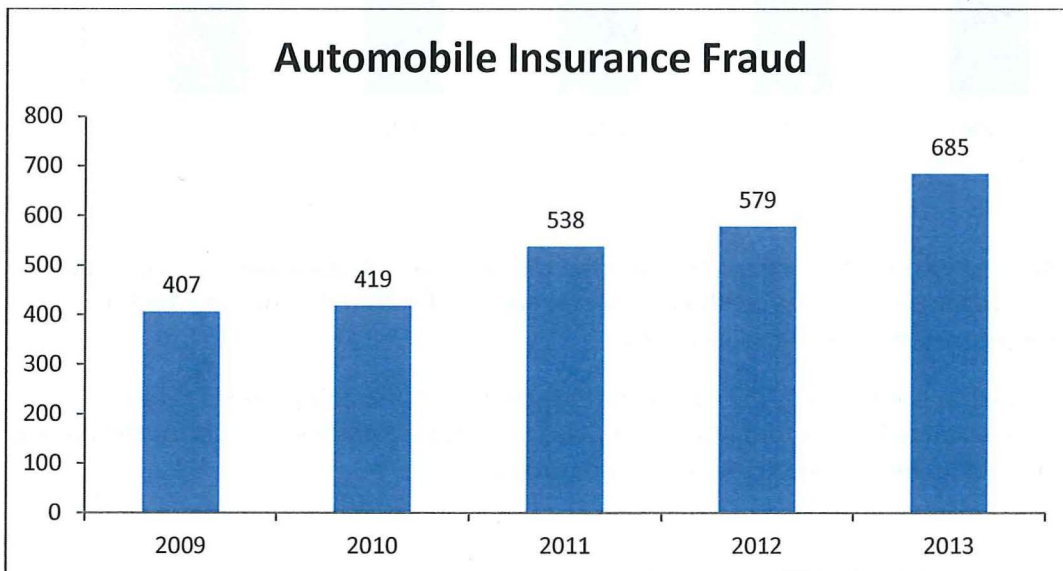
2013 Incoming Referrals By Type of Fraud



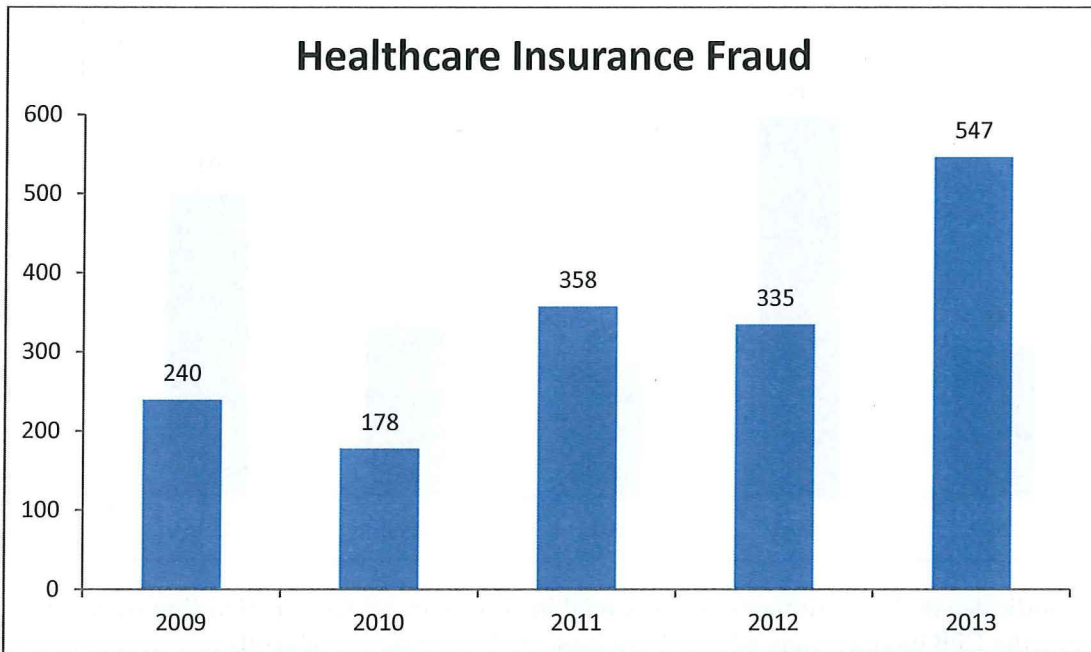
The five largest areas of suspected fraud being referred to the CFB are:

- Automobile Insurance
- Healthcare Insurance
- Homeowner's Insurance
- Commercial Insurance
- Workers Compensation Insurance

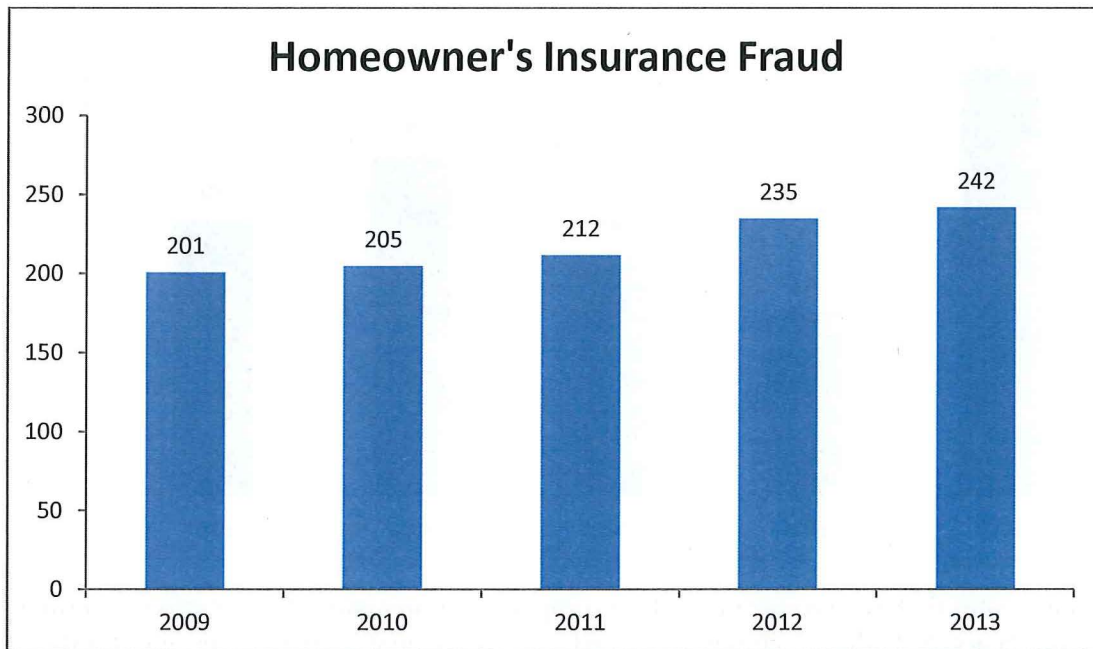
The following charts depict the changes in the number of referrals received during the previous 5 years for each one of these areas:



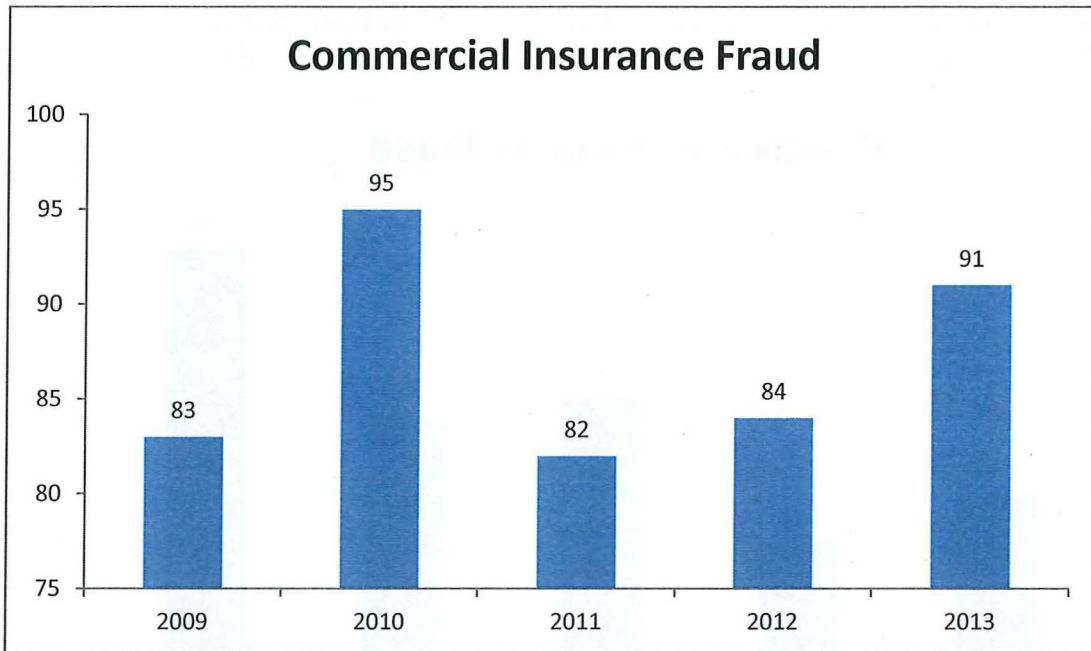
The data indicates that the number of automobile insurance fraud cases is trending upwards. Since 2009, the CFB has experienced a 68% increase in these types of referrals



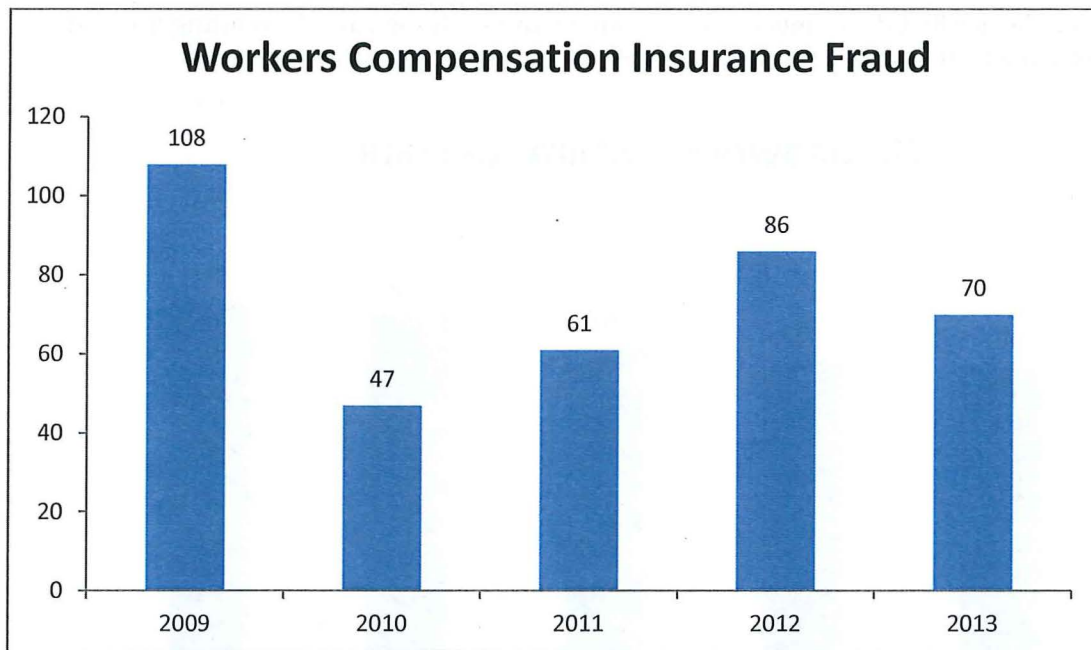
The data indicates that the number of healthcare insurance fraud cases is trending upwards. Since 2009, the CFB has experienced a 143% increase in these types of referrals



The data indicates that the number of homeowner insurance fraud cases is trending upwards. Since 2009, the CFB has experienced a 20% increase in these types of referrals.



The data indicates that the number of commercial insurance fraud cases is trending upwards. Since 2009, the CFB has experienced a 10% increase in these types of referrals



The data indicates that the number of workers compensation insurance fraud cases is trending downwards. Since 2009, the CFB has experienced a 35% reduction in these types of referrals.

V. PROSECUTION

Under Minnesota law, the Bureau routinely investigates violations of:

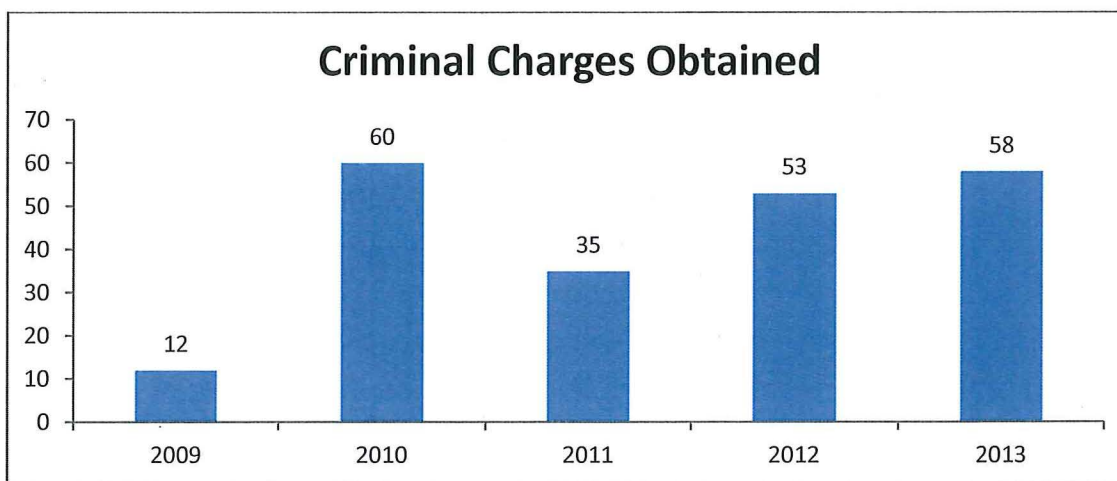
- Minnesota Statute § 609.45 (Perjury),
- Minnesota Statute § 609.52 (Theft),
- Minnesota Statute § 609.527 (Identity Theft),
- Minnesota Statute § 609.563 (Arson),
- Minnesota Statute § 609.611 (Insurance Fraud),
- Minnesota Statute § 609.612 (Employment of Runners),
- Minnesota Statute § 609.63 (Forgery),
- Minnesota Statute § 609.822 (Residential Mortgage Fraud), and
- Minnesota Statute § 609.903 (Racketeering).

Under federal law, the Bureau investigates violations of:

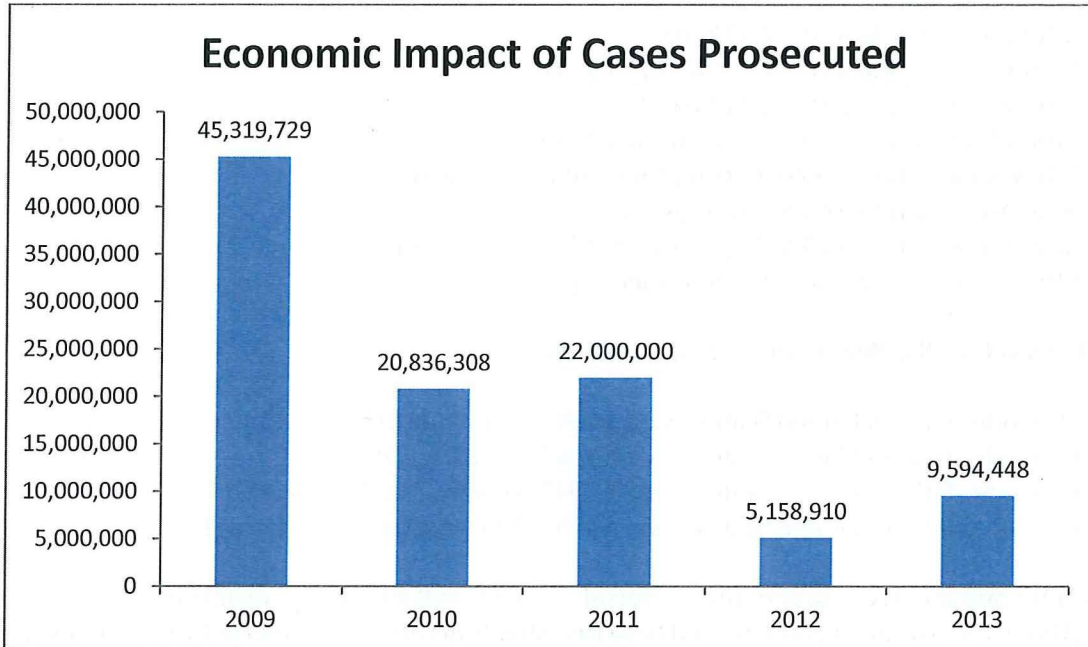
- US Code, Title 18 United States Code § 1341 (Mail Fraud),
- US Code, Title 18 United States Code § 1343 (Wire Fraud),
- US Code, Title 18 United States Code § 1347 (Health Care Fraud), and
- US Code, Title 18 United States Code § 1956/1957 (Money Laundering).

After conducting an investigation into a referral, the CFB will submit the results of those investigations for criminal prosecution. These investigations are either referred to a Minnesota County Attorney's Office or the United States Attorney's Office - District of Minnesota, depending on the jurisdiction and criminal violations applicable to the investigation. Once a case is submitted for prosecution, the case is reviewed by the prosecutor. The prosecutor makes a final determination of what violations of criminal law the defendant should be charged with violating. Prosecutors have a broad discretion in determining whether to prosecute a criminal defendant.

In 2013, CFB investigations resulted in the filing of 58 state and federal criminal charges against defendants. The following graphic represents the previous five years of data concerning the number of criminal charges obtained against defendants.



The following chart represents the economic impact of the cases that were prosecuted as a result of the investigative efforts of the CFB.



VI. 2013 HIGHLIGHTED INVESTIGATIONS

Stephen Marrone & Robert Hertz - Fraud and Theft-by Swindle On May 30, 2013, 61-year-old Stephen A. Marrone of Saint Paul pleaded guilty to three counts of Theft by Swindle in connection with multiple incidents of annuities fraud. Marrone and his co-defendant Robert S. Hertz were charged by the Ramsey County Attorney's on August 31, 2012, after an extensive investigation, conducted by the Commerce Fraud Bureau uncovered an annuity conversion scheme that replaced over \$4.2 million of annuities.

In his plea, Marrone admitted that both he and Hertz, working on behalf of Marrone and Associates, talked clients into replacing \$4.2 million in annuities with new and better products that would yield a 15-20 percent bonus for investors. Replacement policies are not subject to commission, therefore, Marrone and Hertz made false claims to Allianz Life Insurance Company of North America that the policies were new when, in fact, they were replacement policies. As a result of their misrepresentations, the pair received commission payments from Allianz totaling approximately \$350,000.

For his crimes and guilty plea, Marrone agreed to 20 years of probation, no more than 240 days in custody, and \$360,847.93 in restitution.

Auto Insurance - Policy Mills Byron Joseph Davis of New Hope, Minnesota, was charged with one count of felony theft and a felony count of forgery, he allegedly using the name, "Julian King" when posing as a Progressive Insurance agent, promising clients policies at a discount with an up-front cash payment. After collecting money for the policy premiums, Davis, who has an extensive criminal history, would keep the cash for himself, using fictitious credit card information to pay for the policies. In most of the incidents, the victims received cancellation notices in the mail indicating they did not have insurance coverage, but when asked, Davis allegedly assured them that they had insurance and everything would be okay.

Marlon Anton Moore, known as "Ace Boogie" to his victims, was charged with five counts of felony forgery for allegedly acting as an independent insurance agent scamming unsuspecting victims through a policy mill scheme. This complaint was similar to the Davis case in that Moore would accept cash up front for insurance policies he either fraudulently obtained or manufactured, deceiving clients who believed they were purchasing legitimate auto insurance. Moore passed himself off as an agent for both Geico and Progressive auto insurance had a lucrative scam leading Agents into an investigation of over 250 fraudulent applications for insurance policies purchased online.

Maurice Culpepper - Insurance Fraud Maurice Culpepper was criminally charged for allegedly engaging in an elaborate fraud scheme he devised in an attempt to exploit an insurance company. The criminal complaint charged him with one count of Insurance Fraud, which carries a maximum sentence of 20 years and \$100,000 fine.

Culpepper had been involved in a minor traffic accident in Lakeville, Minnesota in June 2011. During the summer of 2012, Culpepper contacted representatives from GEICO Insurance Company claiming he had been receiving physical and massage therapy treatments during the previous year as a result of injuries sustained in the June 2011 accident. The criminal complaint states that, in 2012, Culpepper told GEICO that the medical provider, U4A-FIT, was demanding payment for the 12-months of treatment. Utilizing Minnesota's Personal Injury Protection (PIP)

law, Culpepper claimed that GEICO was required to pay his medical bills. Culpepper submitted billing documentation indicating that he had received 199 treatments over the 12-month period totaling \$44,376.00.

Commerce Fraud Bureau agents uncovered evidence that, although Culpepper claimed to have received treatment by U4A-FIT, in reality, U4A-FIT was a fictitious company that he created in his efforts to defraud the insurer. Information and documents obtained by the Commerce Fraud Bureau through the execution of multiple search warrants revealed that the U4A-FIT website and telephone number were directly linked to Culpepper, even though he had claimed to have no association with the company.

As part of the scheme to defraud GEICO, Culpepper using an alias of Ken Robinson, entered into a contractual agreement with a St. Paul-based collection agency. The collection agreement identified Culpepper as the debtor; however, it was completed in such a way to indicate GEICO was the entity responsible for the debt. This act of fraud was allegedly done in an effort to legitimize Culpepper's claim against GEICO.

Susan Stemarie - Worker's Compensation While employed by the Minneapolis Public Schools as a janitorial engineer at Washburn High School, Mr. Stemarie submitted a worker's compensation claim on January 23, 2012 claiming she had been injured in a slip and fall incident that occurred at work.

During the investigation into the claim, surveillance video was obtained for the date, time, and location of the fall incident. The surveillance video revealed that Ms. Stemarie did not slip and fall. When Ms. Stemarie was confronted with the video she stated, "I guess I'm screwed".

Due to Ms. Stemarie's false claim, the Minneapolis School District had suffered a financial loss of over \$3,700. Ms. Stemarie was charged with insurance fraud by the Hennepin County Attorney's Office.

Arie Ford - Insurance Fraud Ms. Ford obtained a disability insurance policy from CUNA Mutual through the Retail Employees Credit Union. The terms of the policy indicated that in the event Ms. Ford became disabled, CUNA would pay her loans during her convalescence.

On June 23, 2009, Ms. Ford reported that she had fallen while employed at the Phyllis Weatley Community Center in Minneapolis. On June 24th, she filed a disability insurance claim under her policy. From the time of her injury through July 18, 2011, Ms. Ford filed various claim statements indicating that she was still unable to work.

An investigation into this situation revealed that Ms. Ford had obtained employment on August 23, 2010 with Parent's in Community Action, in Brooklyn Park, MN, which was contrary to her assertion that she was disabled and unable to work. She confronted, Ms. Ford admitted she had accepted benefits to which she was not entitled. CUNA's financial loss was over \$5,800. Ms. Ford was charged with a felony.

Alberto Marzan - Insurance Fraud and Theft-by-Swindle The Washington County Attorney's Office charged Alberto Jose Marzan of Woodbury with two counts of Insurance Fraud and Theft-by-Swindle, each count carrying a maximum sentence of 10 years and \$20,000, for attempting to defraud Liberty Mutual Insurance.

In October of 2012, Mr. Marzan contacted his insurance agent to obtain a jewelry insurance rider for his renters' insurance to insure a \$31,000 diamond engagement ring. To do this, he supplied Liberty Mutual with an appraisal as proof of purchase. In March 2013, Marzan reported the engagement ring stolen or lost and received a payment from his insurance company for \$25,942.25.

On a cruise in April 2013, Marzan proposed to his fiancé with a diamond engagement ring similar to the stolen gem. At the same time, back in Minnesota, Liberty Mutual received an anonymous tip indicating that Marzan had filed a fraudulent claim on a \$31,000 ring that he had never possessed. Additionally, the caller also stated that the appraisal used to gain the insurance was false and the entire claim was a scam adding that Marzan used the insurance money to actually purchase the ring in the days leading up to the April cruise. The anonymous tipoff spurred the investigation by the Commerce Fraud Bureau.

The Commerce Fraud Bureau (CFB) conducted an investigation that uncovered documentation indicating Marzan actually paid \$5,000 less for the ring than what he received from the Liberty Mutual claim, and surveillance found Marzan's fiancé was wearing the engagement ring. The CFB with the assistance of the Woodbury Police Department obtained and executed search warrants on Marzan's Woodbury home. While the search was occurring, law enforcement interviewed Marzan's fiancé at her place of employment and she revealed that they had recently broken up and she had already returned the ring. Commerce Fraud Bureau Special Agents located the ring in the glove compartment of his silver BMW in the garage along with an offer from a nearby jewelry store to buy the ring from Marzan for \$5,500.

After the evidence was gathered at the end of October, Marzan made multiple arrangements leading the CFB to believe he was a flight risk. He terminated his apartment lease, purchased a plane ticket, and scheduled to turn off the power in his home on December 2. With the help of the Airport Police, Marzan was arrested by Commerce Fraud Bureau Special Agents at the Minneapolis/Saint Paul International Airport on the busiest travel day of the year, the night before Thanksgiving.

VII. CONCLUSION

This report is a brief glimpse into the work that the dedicated men and women of the Commerce Fraud Bureau do for the citizens of Minnesota. Insurance fraud costs everyone in our state money through the increased costs in goods and services as a result of insurance fraud. The Commerce Fraud Bureau in partnership with insurance industry special investigation units work to make certain the individuals responsible for committing these fraudulent acts are brought to justice.

