



## 2015 Commerce Fraud Bureau Annual Report

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## **AGENCY MESSAGE**

To the Chairs of the House Commerce Committee and the Senate Commerce and Consumer Protection Committees:

I am pleased to present to you our annual report by the Commerce Fraud Bureau (CFB) for calendar year 2015, pursuant to Minnesota Statute 45.0135, subdivision 5.

The CFB is a law enforcement agency within the Minnesota Department of Commerce, which is under the leadership of Commissioner Michael Rothman. The CFB has been established within the Department's Enforcement Division which is led by Assistant Commissioner Martin Fleischhacker.

The mission of the CFB is "To protect Minnesotans from fraud by conducting aggressive criminal investigations in the pursuit of justice." This is the driving force behind the CFB.

The CFB continues to be the recognized leader in fraud and white collar criminal investigations in the State of Minnesota. We are Minnesota's primary law enforcement agency responsible for conducting criminal investigations concerning insurance fraud and related crimes. The CFB completed its eleventh year of operation in 2015, and I completed my second year as Director of this outstanding law enforcement agency.

The members of our team are able to make a difference in the lives of Minnesotans every single day by working together with other members of the Commerce Department to investigate, prosecute, and hold accountable those who would commit crimes and take advantage of Minnesota's citizens and businesses.

The Fraud Bureau has enjoyed a great deal of success in 2015. This success is not ours alone. If it was not for the outstanding working relationships with the other units and divisions within the Commerce Department our task would be much more difficult. This coupled with the partnerships we have established with prosecutors, the insurance industry and other law enforcement agencies has made the CFB the driving force in holding people accountable for their fraudulent activity.

This is an organization that I am honored to represent as we work together to be a part of the solution in eliminating fraud. I feel fortunate to be able to work alongside these dedicated individuals.

I encourage you to review this report and learn more about what the Fraud Bureau has to offer. If you desire any additional information on the work of the Fraud Bureau, please do not hesitate to contact me at 651-539-1602. Thank you for your continuing support.

Respectfully submitted,

Michael W. Marben

Director

## **I. INTRODUCTION**

In 2004, legislation was passed which created what is now known as the Commerce Fraud Bureau. It 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 Minnesota Statute 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, which includes prosecutorial offices. Additionally, it continues to bolster its working relationships 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, nine Special Agents, and three Analysts. CFB Special Agents are licensed peace officers with extensive law enforcement background, training and 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**

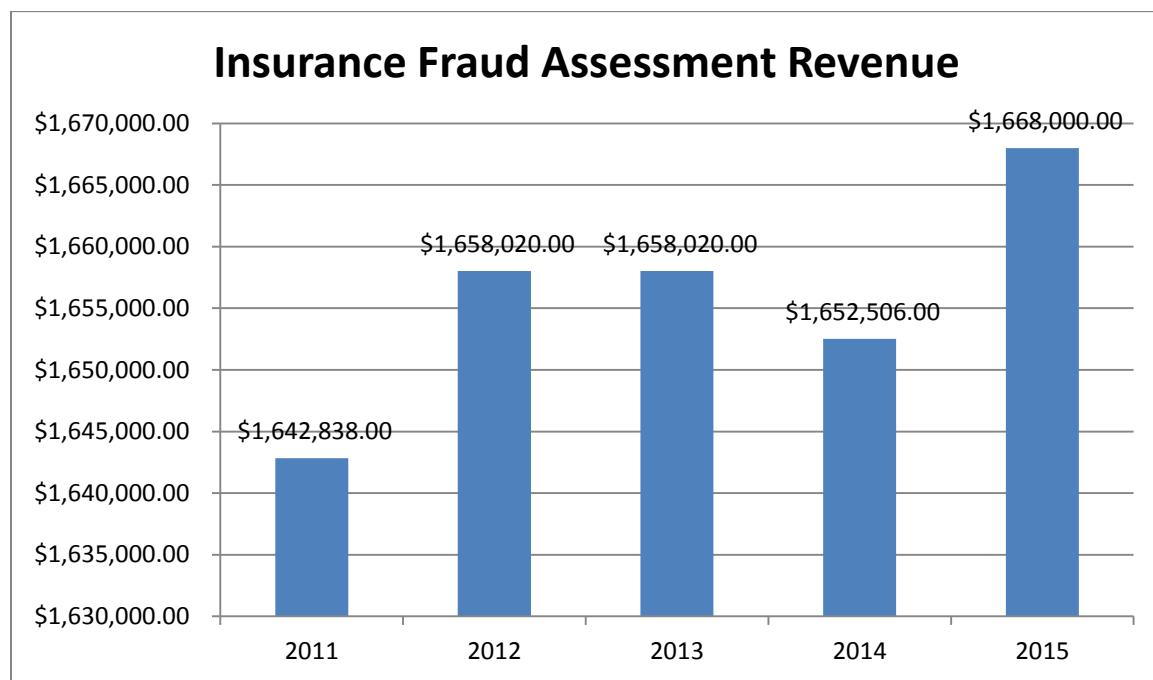
The largest portion of the operating funds utilized by the CFB is generated through an annual assessment authorized under Minnesota Statute 45.0135, subdivision 7. The assessment is levied against insurers that have been authorized to sell insurance in our state. The assessment formula has remained unchanged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

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

<b>Minnesota Written Premium</b>	<b>Assessment</b>
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:



The five year average amount of revenue obtained through this assessment was \$1,655,876.80. It should be noted that the personnel costs for the Fraud Bureau during FY 2015 was \$1,454,650 which was 87% of the total revenue derived from the assessment.

## **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 Minnesota Statute 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 Commerce Department to self-insure if they have the financial ability to do so.

Individuals who collect workers' compensation benefits they are not entitled to 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 managed this program.

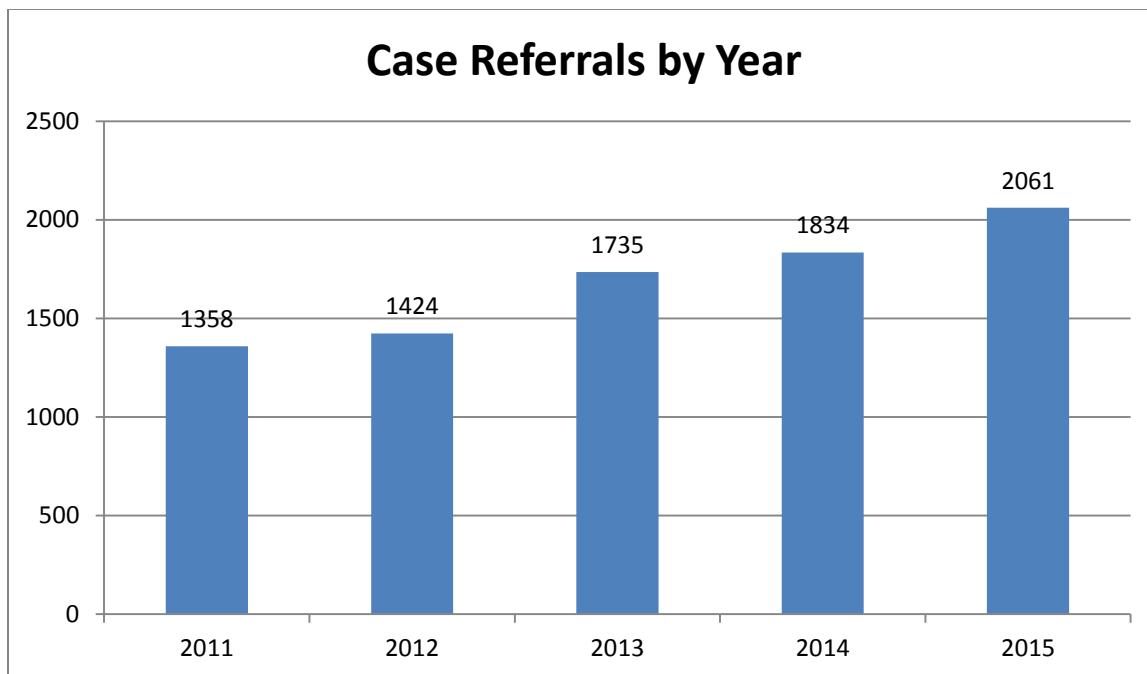
This statute allows the CFB to retain up to 10% of the funds collected under the ATPP to pay for the costs of administrating the program. In 2015, the CFB received \$220,000 under the ATPP for program administration.

During the state fiscal year 2015 (July 1, 2014 – June 30, 2015), the ATPP provided grant funds totaling \$1,784,000 to 25 entities in Minnesota: 20 state or local law enforcement agencies; three county attorney offices; and two neighborhood, community, or business organizations.

## **III. 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.

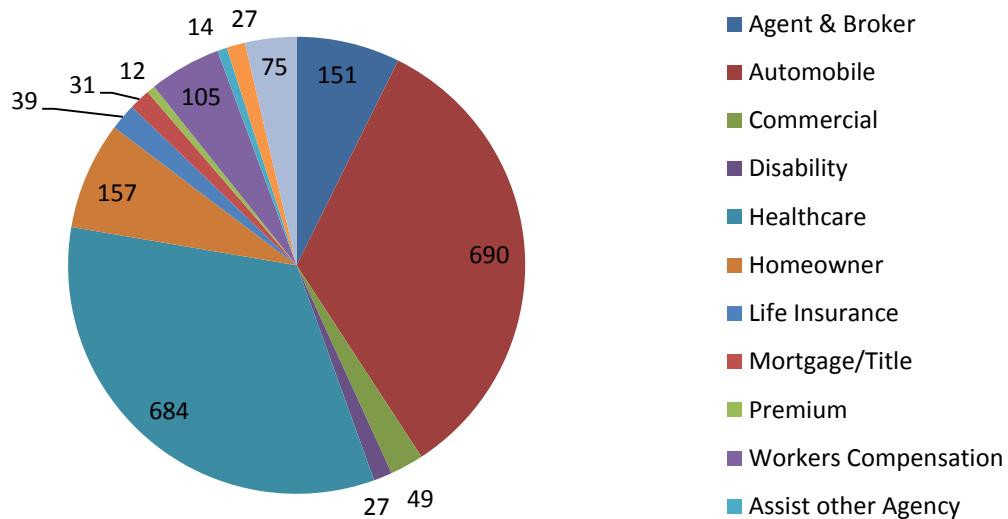


2007 was the first year the CFB began tracking the total number of cases that were referred for investigation. In that year a total of 909 cases were referred. By 2015 that number had increased to 2061 cases, representing an increase of 127% during that 8 year time frame.

The increase in case referrals from 2014 to 2015 was 12%. The five year average for the number of case referrals received annually was 1,682.

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.

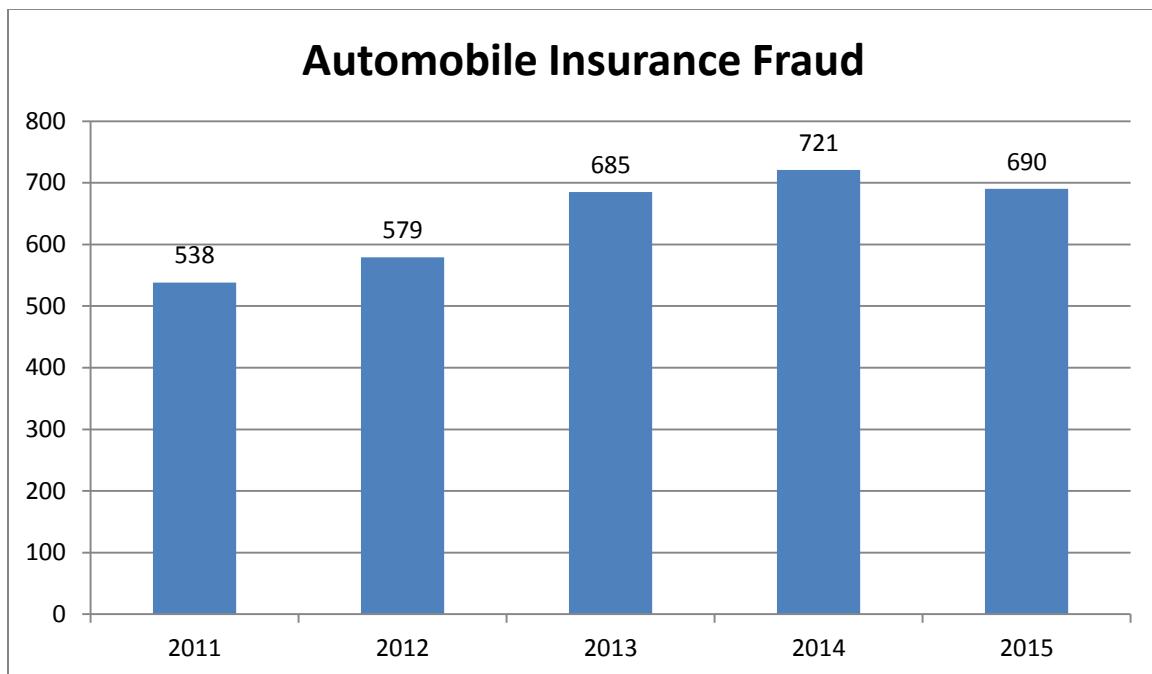
## 2015 Incoming Referrals By Type of Fraud



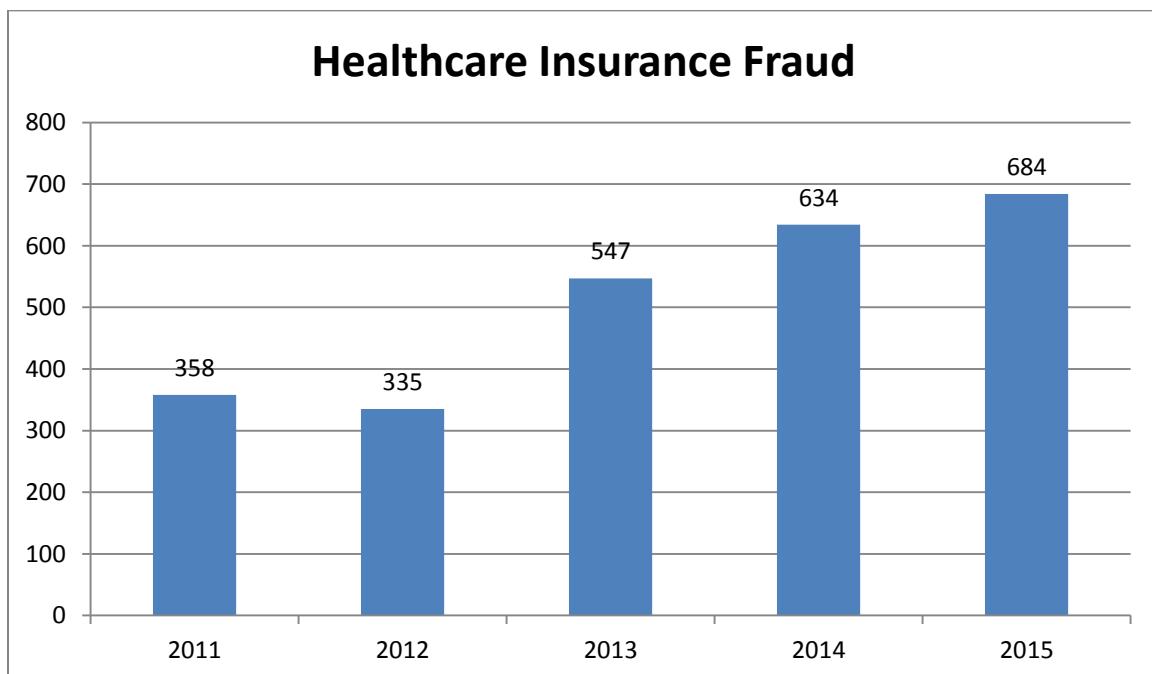
The five largest areas of suspected fraud being referred to the CFB during 2015 were:

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

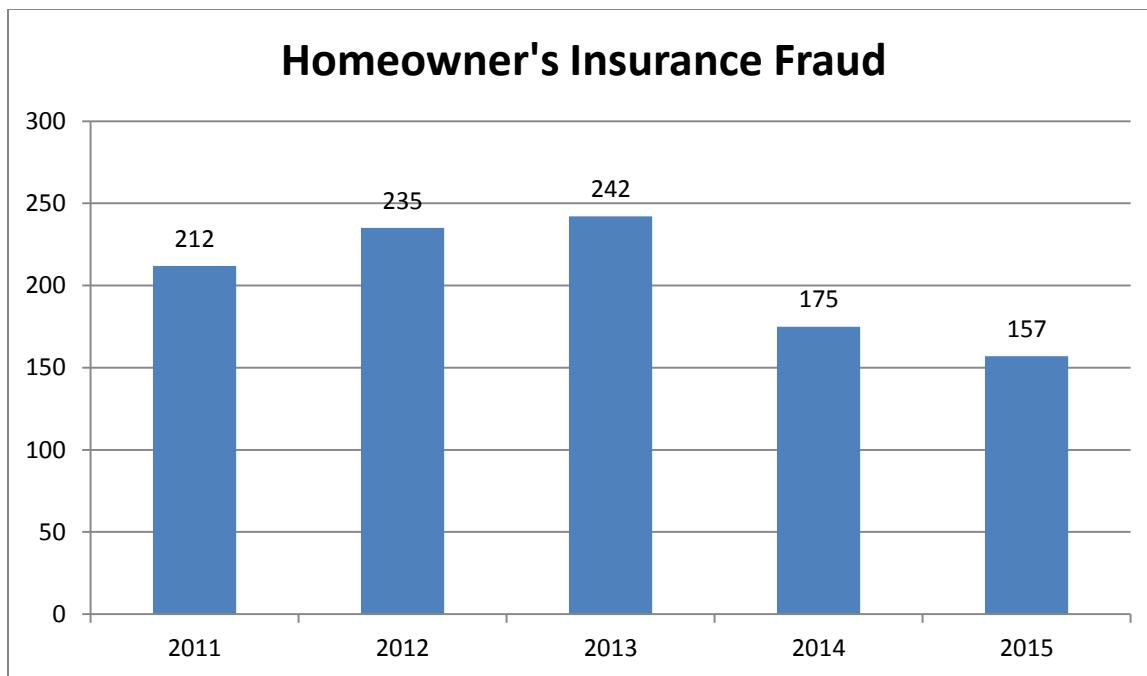
The following charts depict the changes in the number of referrals received during the previous five years for each of these areas:



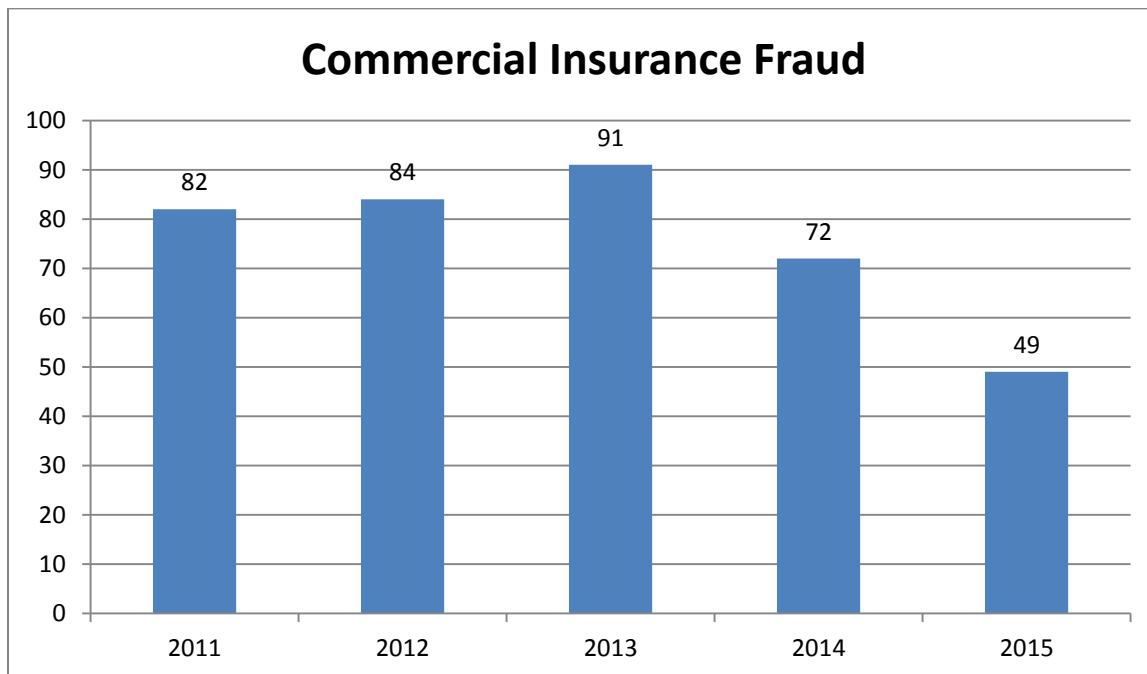
The data indicates that the number of automobile insurance fraud cases is stabilizing after many years of growth. The five year average for these types of referrals is 643.



The data indicates that the number of healthcare insurance fraud cases is continuing its upward trend. The five year average for these types of referrals is 512.

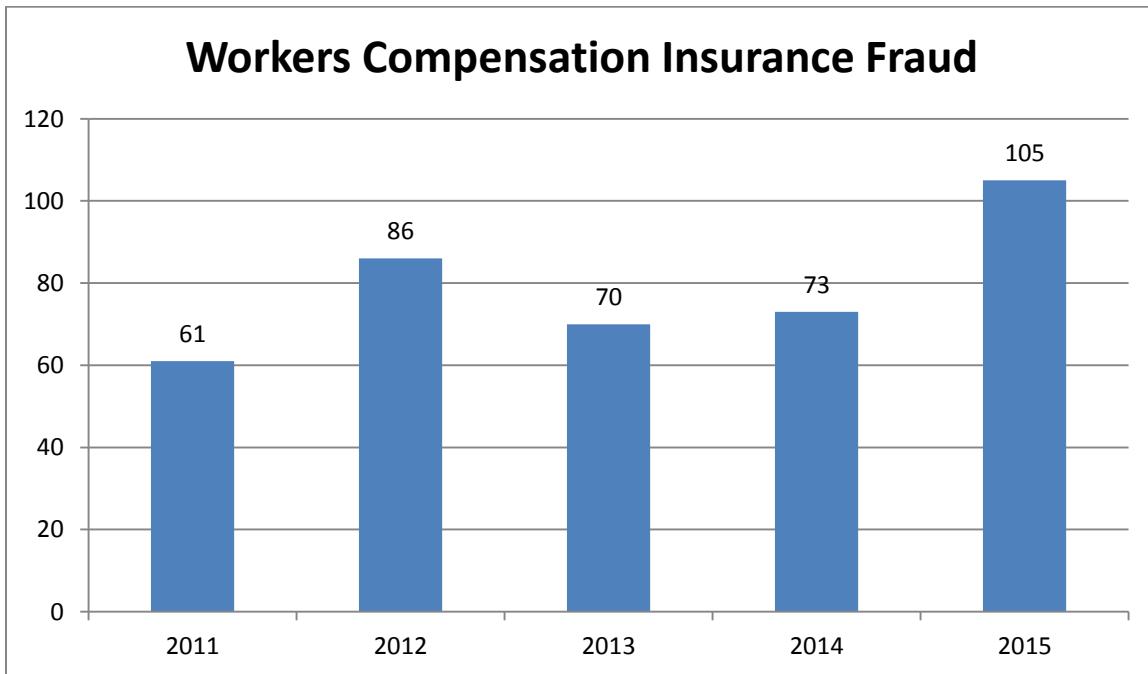


Since 2013, we have experienced a significant reduction in fraud reports relating to homeowners insurance fraud. The five year average number of these cases being referred is 204.



Commercial insurance is insurance coverage for businesses for protection against potential losses through unforeseen circumstances such as theft, liability, property damage, and for coverage in the event of an interruption of business or injured employees. Since 2013, we have

noted a sharp decline in the reporting of these types of cases. The five year average number of these cases being referred is 76.



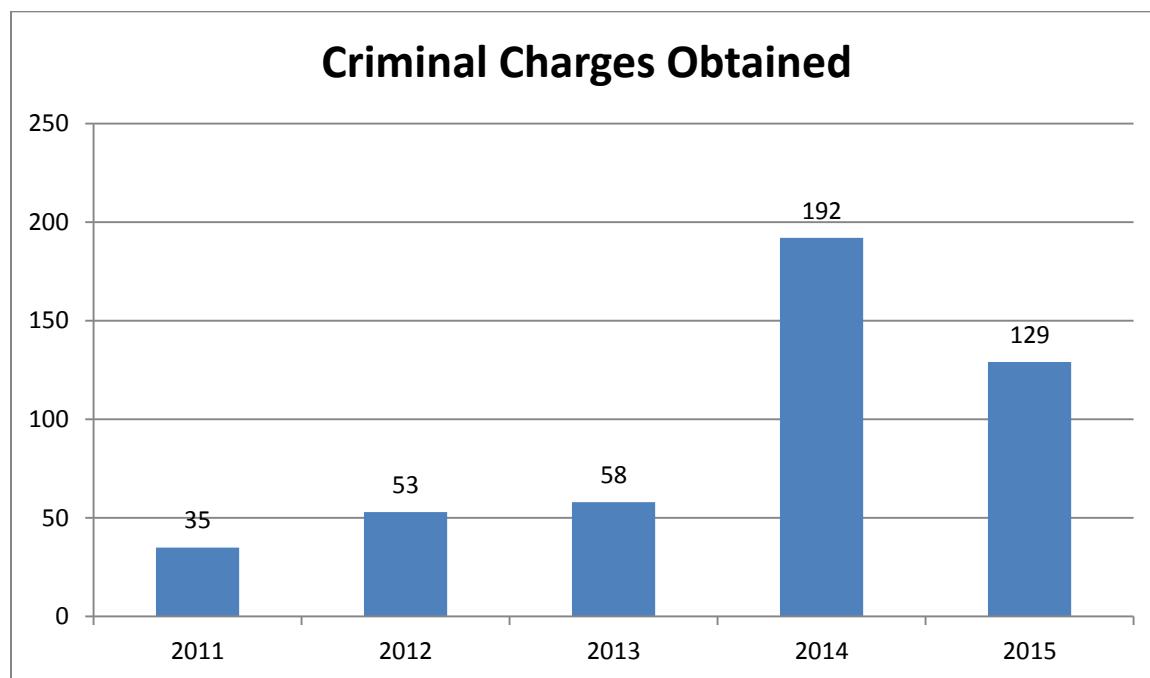
The data indicates that the number of workers compensation insurance fraud cases is trending upwards. In 2015 we experienced a one year increase of 44%. The five year average number of these types of cases being referred to the Bureau is 79.

## IV. PROSECUTION

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.

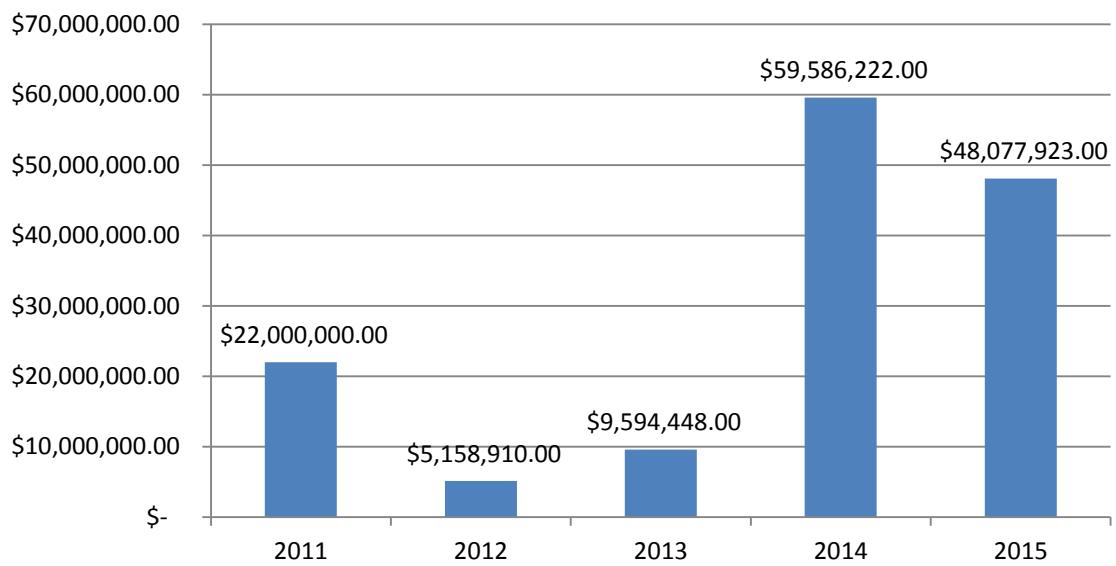
Once a case is submitted for prosecution, the case is reviewed by the prosecutor. The prosecutor makes a final determination of what violations of criminal law the defendant should be charged with violating. Prosecutors have a broad discretion in determining whether to prosecute a criminal defendant.

In 2015, CFB investigations resulted in the filing of 129 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. During the past two years, the CFB obtained 321 criminal charges against defendants. During the previous five year period (2011 - 2015), the Bureau obtained on average 93 criminal charges against defendants.



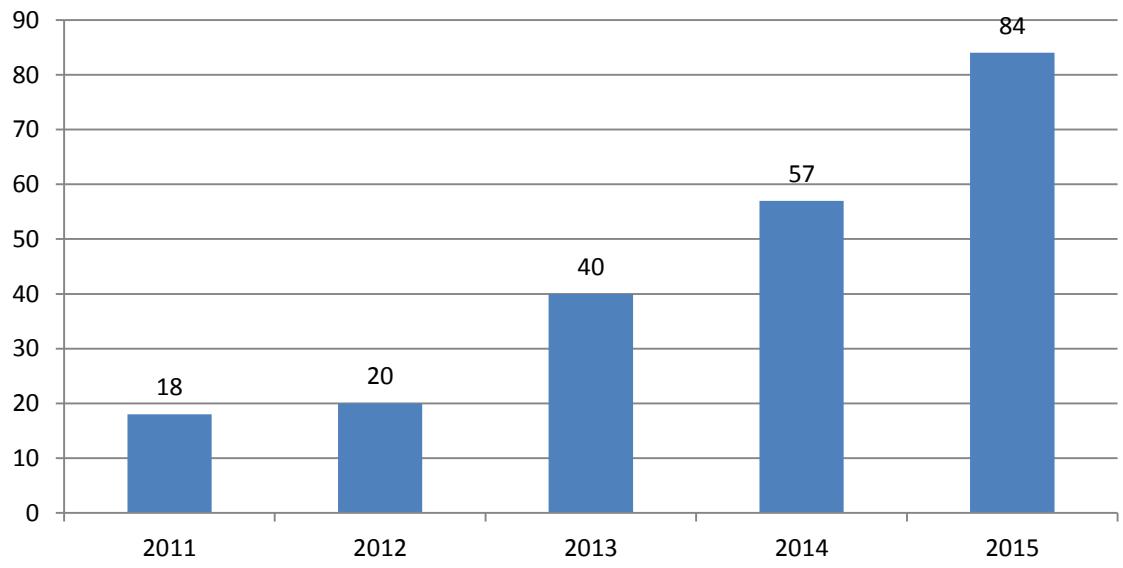
In 2015, CFB investigations that resulted in the filing of federal criminal charges had an economic impact of \$48,077,923. During the previous five year period (2011 - 2015) the average annual economic impact of the cases charged through Bureau investigations was \$28,883,500. The following chart represents the economic impact of the previous 5 years of cases that were prosecuted as a result of the investigative efforts of the CFB.

## Economic Impact of Cases Prosecuted



One of the most important aspects in conducting investigations into complex fraud cases is evidence gathering. A large amount of the evidence required to obtain a successful prosecution of an offender relies upon securing evidence via the subpoena powers granted to the Commissioner. The following chart represents the number of subpoenas issued pertaining to investigations conducted during the previous five years.

## Subpoenas Issued



## **V. MAJOR CASE HIGHLIGHTS**

The following cases represent a portion of the investigations conducted by the Fraud Bureau during 2015 or were the result from cases that went to trial during 2015.

### **Split Rock Mortgage**

In February, guilty pleas were submitted in US Federal Court by Justin Christensen, Thomas Rosensteel, and Robert Aslesen in connection with their scheme to defraud mortgage lenders by falsifying loan applications and related documents.

Rosensteel was the President of Split Rock Realty. Between 2006 and 2007, Rosensteel and Christensen participated in numerous real estate transactions on behalf of Split Rock to conceal payments from mortgage loan proceeds and divert them to buyers and other individuals through the use of fraudulent underwriting and closing documentation. Rosensteel fraudulently concealed that the buyers were given money for down payments and passed these funds off as the buyers' own funds, thereby misleading mortgage loan lenders to believe that the buyers had a financial stake in the purchased residences and thus incentive to pay the loans.

Rosensteel, Aslesen, and Christenson admitted participating in at least 35 fraudulent real estate transactions as part of the scheme, resulting in nearly all of the properties going into foreclosure. The actual loss to the mortgage holders was more than \$2.5 million.

### **Kamyar Farahan**

In March, the Washington County Attorney's Office filed criminal charges against Kamyar Farahan of Golden Valley for orchestrating a multi-faceted fraud scheme charging him with multiple counts of Theft by Swindle, Aggravated Forgery, Identity Theft, and Unauthorized Practice of Law.

Farahan perpetrated several fraud schemes beginning in November of 2013. Farahan allegedly filed a fraudulent deed concerning a property owned by his father. Farahan is also alleged to have fraudulently notarized the deed, making it appear as though his father transferred ownership of the property to him, while in reality, Farahan's father had no knowledge of the transfer. Months later, Farahan sold the property for a profit of over \$100,000.

Farahan was also charged with the identity theft of a Minnesota attorney and notary. In August 2014, a lawyer appearing to represent Farahan filed a lawsuit against Sprint. Several demand letters and communications were sent to Sprint's attorney by Farahan's attorney. When Sprint questioned the authenticity of Farahan's attorney, the Minnesota Bar Association confirmed that Farahan's attorney's name was indeed licensed in Minnesota to practice law. However, the lawyer confirmed that he had never represented Farahan.

Farahan also allegedly filed fraudulent insurance claims against Progressive Insurance. In January 2014, Farahan contacted Progressive Insurance for roadside assistance. Subsequently, Farahan contacted the company and alleged that it had engaged in negligence during the handling of the roadside assistance claim.

Farahan demanded more than \$3,000 to settle the complaint. As a result of false information, Progressive settled the claim and Farahan was paid more than \$2,000. In June 2014, Farahan submitted another automobile insurance claim with Progressive which claimed he had paid \$1,531 to repair damage to his vehicle. It was determined the body shop that supposedly performed the repairs and the attorney representing Farahan were both fictitious.

### **Christine Schmidtke**

In February, Christine Schmidtke was charged in Clay County with five felony counts of theft by swindle for allegedly embezzling over \$400,000 from her employer Clay County Abstract Company (CCA) while she was a real estate closing agent. Charges were brought against Schmidtke after a Bureau investigation revealed a decade-long fraud scheme against CCA.

During the investigation into Schmidtke's license violations, Agents learned that between 2001 and January 2014, Schmidtke engaged in a duplicate check scheme where she used money related to real estate closings in CCA's trust account to pay her personal credit card bills. Schmidtke's thefts were related to hundreds of real estate transactions.

The Bureau identified more than 186 illegal transactions resulting in over \$423,000 of fraud.

### **Sean Meadows**

In June, Sean Meadows of Eden Prairie was sentenced to 25 years in federal prison for using his financial planning and asset management firm, Meadows Financial Group (MFG), to operate a long-term Ponzi scheme in which he stole more than \$13 million from at least 100 individual victims. Meadows had been indicted on August 5, 2014, and plead guilty on December 11, 2014 as a result of joint Fraud Bureau and Federal Law Enforcement investigation.

Meadows lured victims into removing funds from their retirement and other savings accounts by promising high rates of returns – up to 10 percent annually – when, in fact, he did not invest their funds and did not have a legitimate means by which to make interest payments. Instead, Meadows used funds from new investors to make interest and/or principal repayments to existing investors.

Meadows used the illicit proceeds of the Ponzi scheme to pay personal expenses, including: making "salary" payments to himself; making payments to his spouse; paying expenses on personal investment properties; paying personal credit card bills; purchasing a vehicle for himself; traveling to Las Vegas; gambling at various casinos and online; and spending more than \$135,000 at adult entertainment establishments in Minnesota and Las Vegas.

Among the victims Meadows defrauded were senior citizens and the disabled, poor or terminally ill. Victims were left in financial ruin because they lost their financial security, retirement funds, their ability to support their families, and in some cases, their ability to pay for cancer treatments.

### **Dennis Olson**

In October the Ramsey County Attorney's Office charged Dennis Olson of White Bear Lake with stealing hundreds of thousands of dollars from his grandmother while she was in an assisted living facility and suffering from Alzheimer's disease.

The Fraud Bureau conducted the investigation into this case after a family member contacted the White Bear Lake Police Department and reported suspicions that Olson had stolen from his grandmother. Olson moved his grandmother from Nevada to Minnesota in 2008 and placed her in a facility for assisted living and memory care. From that time and until her death in 2013, he administered her finances and ultimately her estate.

After Braun's death, a family member questioned Olson about the whereabouts and size of her estate. Olson told the family member he would provide information about the estate, but he never did.

Although Braun had assets of over \$600,000 in 2008, at the time of her death only about \$15,000 could be located in bank accounts in her name. Although Braun had expenses for her care, they amounted to no more than \$264,000 from 2008 to her death.

The investigation determined that, from October 2010 to January 2013, Olson repeatedly withdrew or transferred funds from several of Braun's bank accounts for his personal benefit.

### **Gerard Roy**

In November, Gerrard Roy was federally indicted for fraud, money laundering and concealing assets in anticipation of filing for bankruptcy in connection with a series of construction companies he owned and operated. Roy is charged with using the various companies to submit false insurance documents in the bidding process to fraudulently obtain government contracts.

Between 2010 and 2015, Roy owned and operated at least seven construction companies. Through these companies Roy bid on construction contracts offered by public and quasi-governmental organizations. These entities generally solicit bids from multiple contractors and require the contractors to obtain surety bonds issued by a third-party insurer, guaranteeing satisfactory completion of the construction project and the payment of all labor and material costs.

Roy fraudulently obtained construction contracts through the submission of fraudulent construction bonds asserting that the projects were insured if Roy could not complete the contract or failed to pay subcontractors. In fact, Roy had no such insurance and was ineligible to bid on the projects. Roy's actions resulted in losses to clients, subcontractors and others.

### **Jeffrey Petersen**

In November, Jeffery Petersen of Edina was sentenced in Hennepin County District Court to 80 months in prison for a fraud scheme that used ads on Craigslist to swindle a dozen victims out of \$337,000. Petersen pleaded guilty to 22 counts of securities fraud and theft by swindle.

Petersen placed ads on Craigslist to attract investors, promising them that he would trade their money in stock options and make them profits. Petersen said he had developed a strategy where he only did low-risk trades and that he had a long history of successful options trading.

All of that was false. Instead, the money clients gave Petersen to invest disappeared through a combination of theft and his own losses in the market.

### **Gloria Hidalgo**

In November, the Hennepin County Attorney's Office charged Gloria Hidalgo with using her power of attorney designation to steal tens of thousands of dollars from a 68 year old client who suffers from dementia.

Hidalgo met the victim through her work as an insurance agent. In June 2014, after the victim was treated at a local hospital for injuries due to a fall, Hidalgo obtained the victim's signature on a power of attorney document, which appointed Hidalgo as her health care agent. As a result, Hidalgo gained access to the victim's bank accounts and money.

Between June and November 2014, Hidalgo stole nearly \$33,000 from the victim, including more than \$26,000 in cash withdrawals from the victim's bank accounts.

### **Suzanne Walker**

In November, Suzanne Walker, a former Twin Cities financial adviser was sentenced to 88 months in federal prison for stealing more than \$1.1 million from at least 24 of her former clients.

Walker stole from her clients by misusing her access to their retirement accounts, drawing checks on their accounts and depositing the funds into accounts that she controlled. Walker also opened investment brokerage accounts in her own name and in the names of several clients without their knowledge or authorization. She used these accounts to conceal funds stolen from other clients and then spent the money for her own personal use to pay for, among other things, private school tuition and vacation travel.

## **VI. PEACE OFFICER STANDARDS & TRAINING AUDIT**

In April of 2015, the CFB underwent a comprehensive organizational review that was conducted by the Peace Officer Standards & Training (POST) Board. The POST Board is an occupational regulatory agency that is responsible for licensing over 12,000 peace officers across our State. The board has the legislative authority to adopt administrative rules that have the force and effect of law. These rules enable the board to establish policies and standards to which all licensees must adhere.

The POST Board's Standards Coordinators conduct on-site compliance reviews of law enforcement agencies throughout the state. Reviews ensure compliance with training standards, officer hiring practices and state mandated policies in order to promote a more predictable and uniform state-wide delivery of public safety services. The POST Board staff conducts these reviews on each law enforcement agency every four to five years.

I am very pleased to inform you that the POST Board audit found that the CFB was in compliance with all legislative mandates and POST Board rules.