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# 2017 Commerce Fraud Bureau Annual Report

June 2018

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## Introduction

The Commerce Fraud Bureau is a law enforcement agency housed inside the Minnesota Department of Commerce. The Bureau's authority is in Minnesota Statute § 45.0135.

The Fraud Bureau is a leader in fraud and white-collar criminal investigations in Minnesota. The Bureau is Minnesota's primary law enforcement agency responsible for conducting criminal investigations into cases involving insurance fraud and related criminal activity. The Bureau is critical to Minnesota's law enforcement community due to the increasingly sophisticated and organized individuals who commit these types of crimes.

The Commerce Fraud Bureau's investigations are complex and challenging due to technological advances utilized by those committing crimes. As criminal use of technology increases, Fraud Bureau agents and analysts continue to advance their knowledge in criminal methodologies to build cases resulting in successful prosecutions.

The Fraud Bureau undertakes investigations that require a level of expertise that is usually beyond the ability of traditional law enforcement agencies.

The Fraud Bureau completed its 12th year of operation in 2017. In furtherance of its mission, the Fraud Bureau collaborates with local, state and federal law enforcement agencies to bring criminals to justice and hold them accountable for their actions.

## History

The Commerce Fraud Bureau was designated as a state law enforcement agency in April 2005 with a staff of three. During 2017, the Fraud Bureau was staffed by 17 professionals: a Director (Chief Law Enforcement Officer), two Supervisory Special Agents, nine Special Agents and five Analysts.

Fraud Bureau Special Agents are licensed peace officers with extensive law enforcement backgrounds, training and experience. Special Agents are considered the leading experts in the field of insurance fraud. They are trained in criminal investigations and provide assistance as well as training for consumers, the insurance industry and our statewide law enforcement partners.

Fraud Bureau Analysts are highly-trained individuals who function in a non-sworn support role conducting research, analyzing data and producing reports in support of our Special Agents.

## Purpose

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The overall purpose of the Commerce Fraud Bureau is to conduct criminal investigations and to enhance the effectiveness of law enforcement agencies throughout the state. Specifically, the unique skillset that the Fraud Bureau Special Agents possess facilitates the investigation of crimes that require technical expertise generally beyond the knowledge base of many law enforcement agencies. Due to the lean, agile operating principles employed at the Fraud

Bureau, the Bureau can quickly provide significant assistance to Greater Minnesota where investigative law enforcement resources may not be readily available.

The Fraud Bureau assists our law enforcement partners by providing services such as:

- Computer forensic services
- Collection and analysis of evidence in financial crimes
- Surveillance support
- Technical expertise

## Funding Sources

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Funding for the Commerce Fraud Bureau comes from three major sources:

- An assessment on insurers.
- A legislative appropriation from the Minnesota Department of Labor and Industry to conduct investigations concerning workers' compensation fraud.
- An administrative fee to offset the costs associated with managing the Auto Theft Prevention Grant Program.
- A \$1.3 million appropriation from the Auto Theft Prevention Grant Program.

### Insurance Fraud Assessment

The largest portion of the Commerce Fraud Bureau's operating funds are generated through an annual assessment authorized under Minnesota Statute § 45.0135, subdivision 7. Insurance Companies authorized to sell insurance in Minnesota are assessed. The state currently has 1,136 companies paying this assessment.

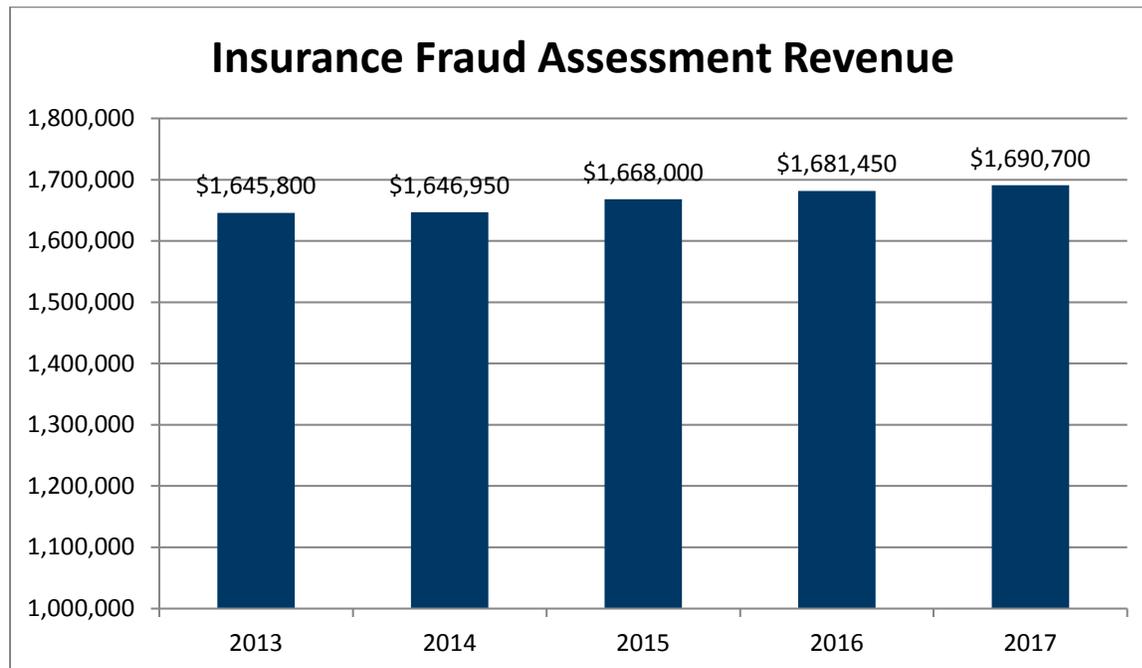
The assessment formula has remained unchanged since its inception in 2004. The assessment is calculated under the following formula:

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 \$1,00,000,000	\$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. It is important to note that the assessment is levied on the insurance company, not individual agents.

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



The five-year average amount of revenue obtained through this assessment was \$1,666,580.

### **Department of Labor and Industry Investigations**

The Workers' Compensation Division is part of the Minnesota Department of Labor and Industry. 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 to which they are not entitled are committing insurance fraud. Through a legislative appropriation, the Fraud Bureau receives \$198,000 in funding to offset the costs associated with conducting investigations into workers' compensation fraud.

### **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 Minnesota. The amount of the surcharge is 50 cents per vehicle for every six months of coverage. With this funding, the program makes money available through a competitive

grant process for activities that address the problem of auto theft. Since 2009, the Fraud Bureau has managed this program.

This statute allows the Fraud Bureau to retain up to 10% of the funds collected under the ATPP to pay for the costs of administering the program. In 2017, the Fraud Bureau received \$220,000 under the ATPP for program administration.

In 2017, the legislature changed Minn. Stat. § 65B.84. This change redirected an annual \$1,300,000 transfer that had historically went to the general fund, and directed it to the insurance fraud prevention account. This change was made by the legislature to increase the funding of the Fraud Bureau without raising the assessment.

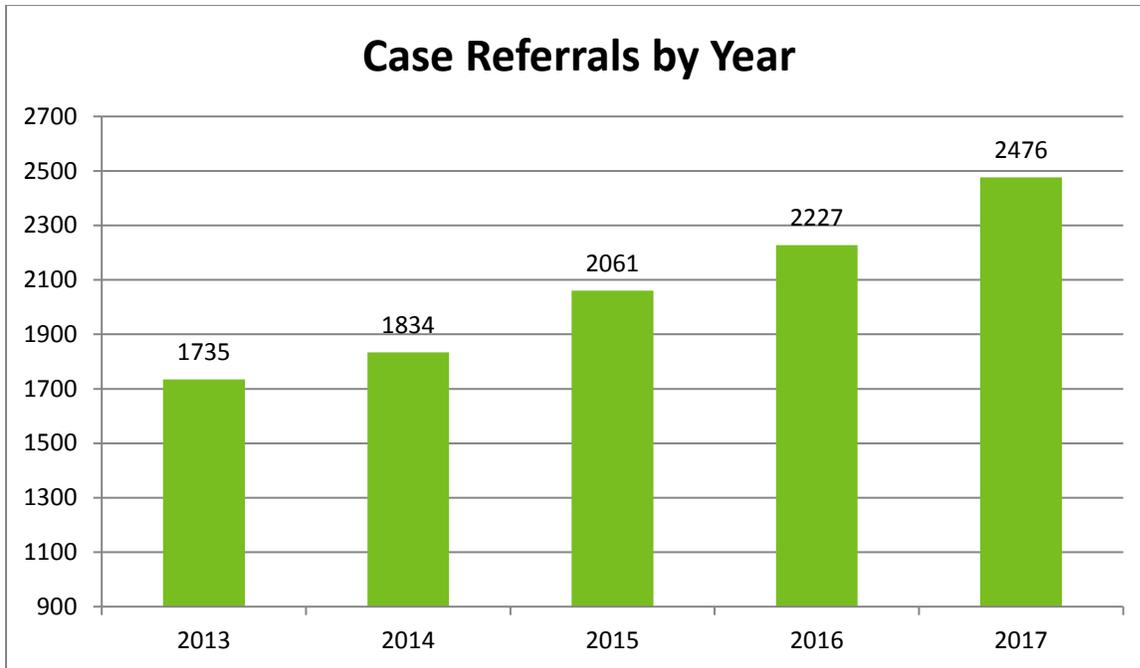
## Investigative Requests

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The primary responsibility of the Fraud Bureau is to conduct criminal investigations into insurance fraud. Fraud occurs when someone knowingly lies to obtain a benefit or advantage to which they are not otherwise entitled, or someone knowingly denies a benefit that is due and to which someone is entitled.

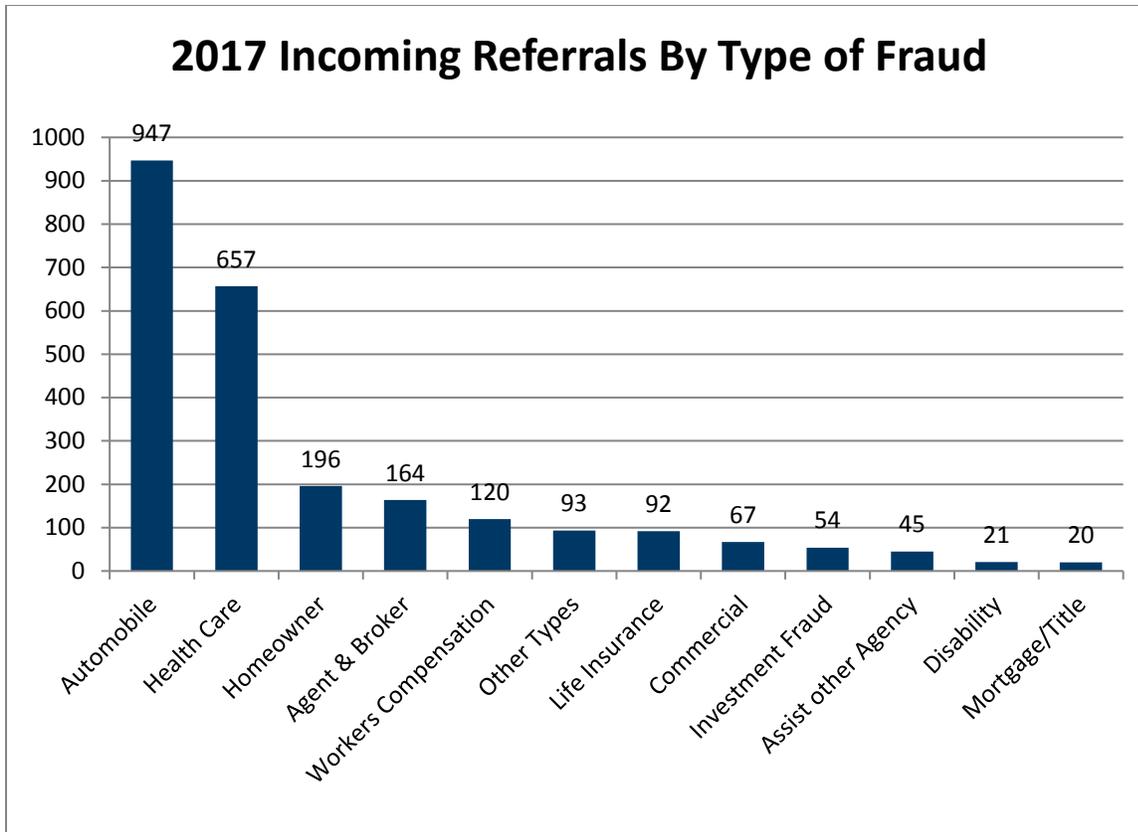
Cases for investigation are referred to the Fraud Bureau from four major sources: the general public, insurance companies, law enforcement agencies and other governmental regulatory agencies. The subject of the referrals varies from individuals to businesses suspected of committing insurance fraud. Each incoming case is carefully reviewed to determine if the information submitted articulates a sufficient basis for the Fraud Bureau to initiate a criminal investigation into the fraud allegation.

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



The Fraud Bureau began tracking the total number of cases that were referred for investigation in 2007. In that year, 909 cases were referred. By 2017, that number had increased to 2,476 cases, representing an increase of 172% during that ten-year period.

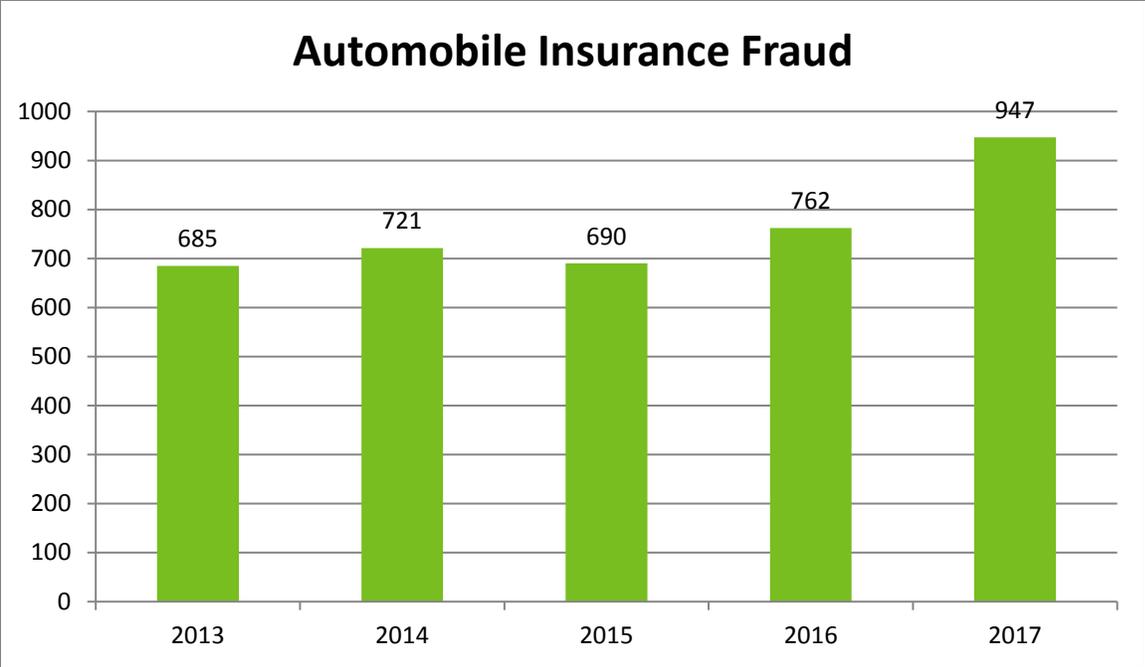
The increase in case referrals from 2016 to 2017 was 11%.



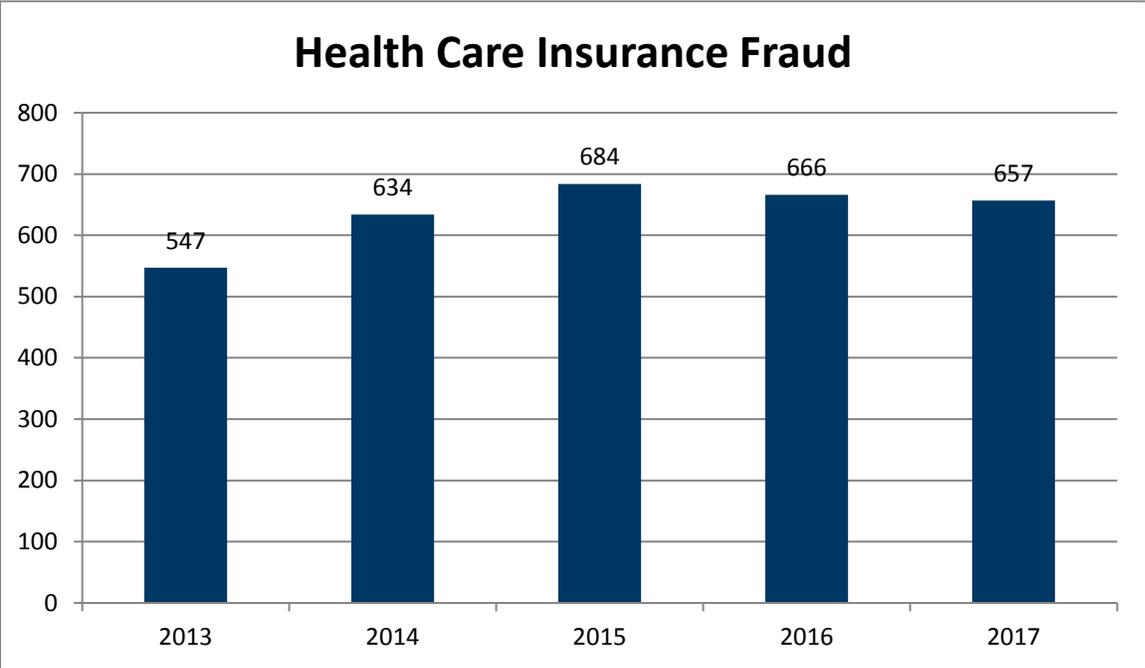
The five largest areas of suspected fraud reported to the Fraud Bureau during 2017 were:

- Automobile Insurance
- Health Care Insurance
- Homeowners Insurance
- Agent and Broker Fraud
- Workers' Compensation Insurance

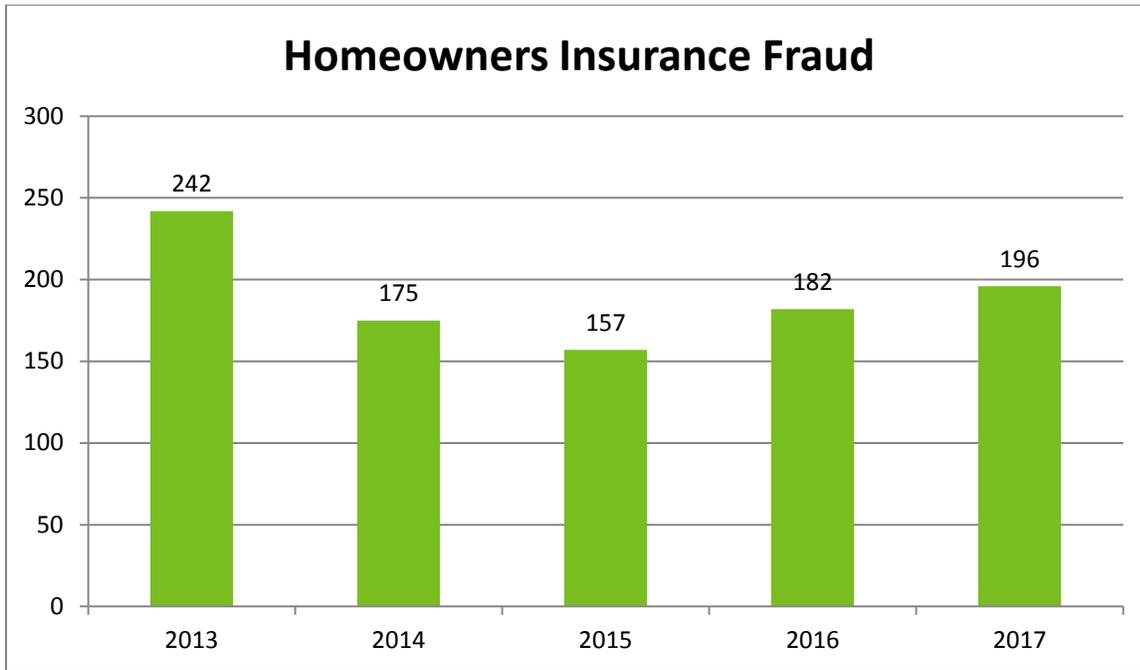
The following charts depict the changes in the number of referrals received during the previous five years for each of these areas. The data below indicates that the number of automobile insurance fraud cases has significantly increased when compared to 2016.



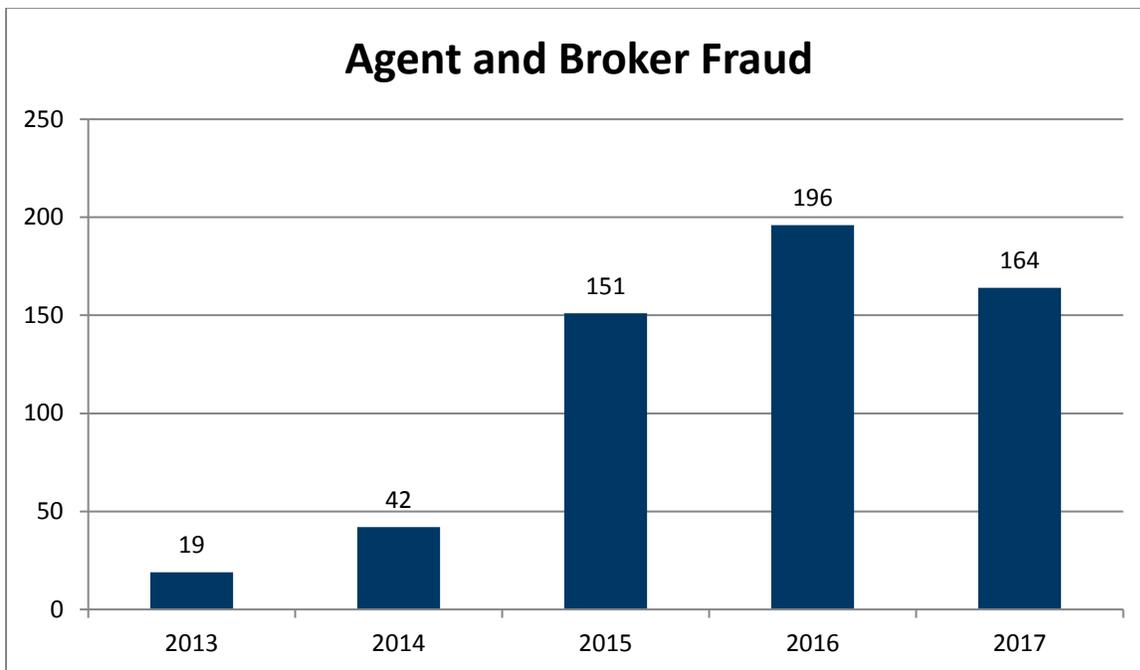
The data below indicates that the number of health care insurance fraud cases experienced a slight decline during 2017.



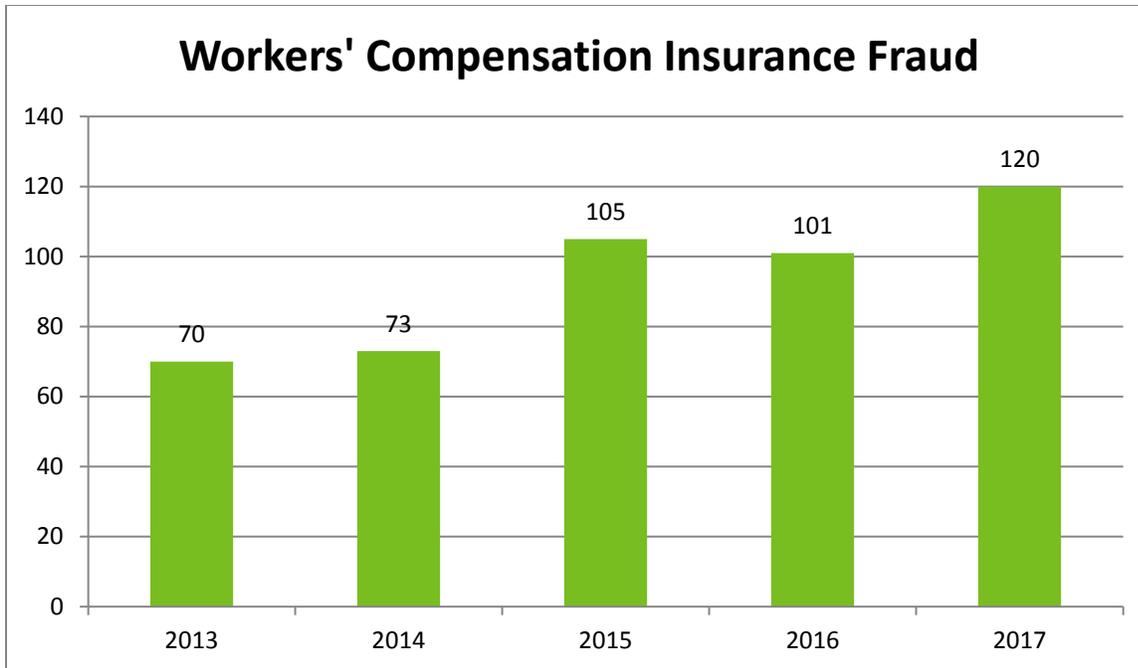
Homeowners insurance fraud cases are continuing an upward trend that started in 2015.



The number of Agent and Broker fraud cases being referred showed a significant decline over the previous year.



2017 showed a significant increase in the number of workers' compensation insurance fraud cases, over 2016.

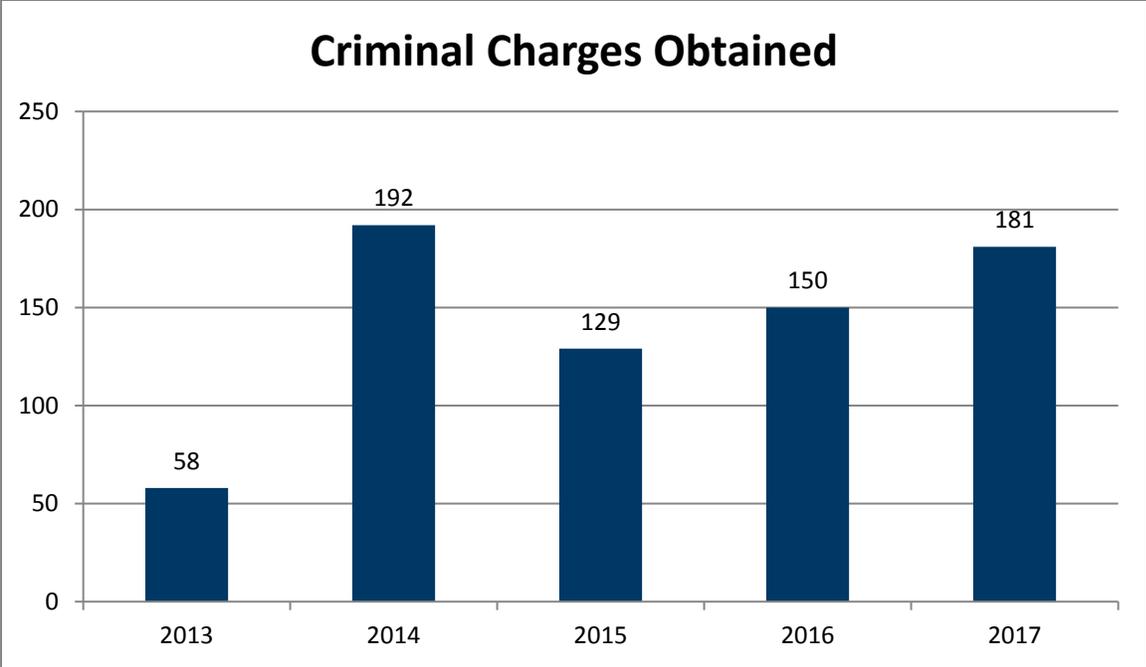


## Prosecution

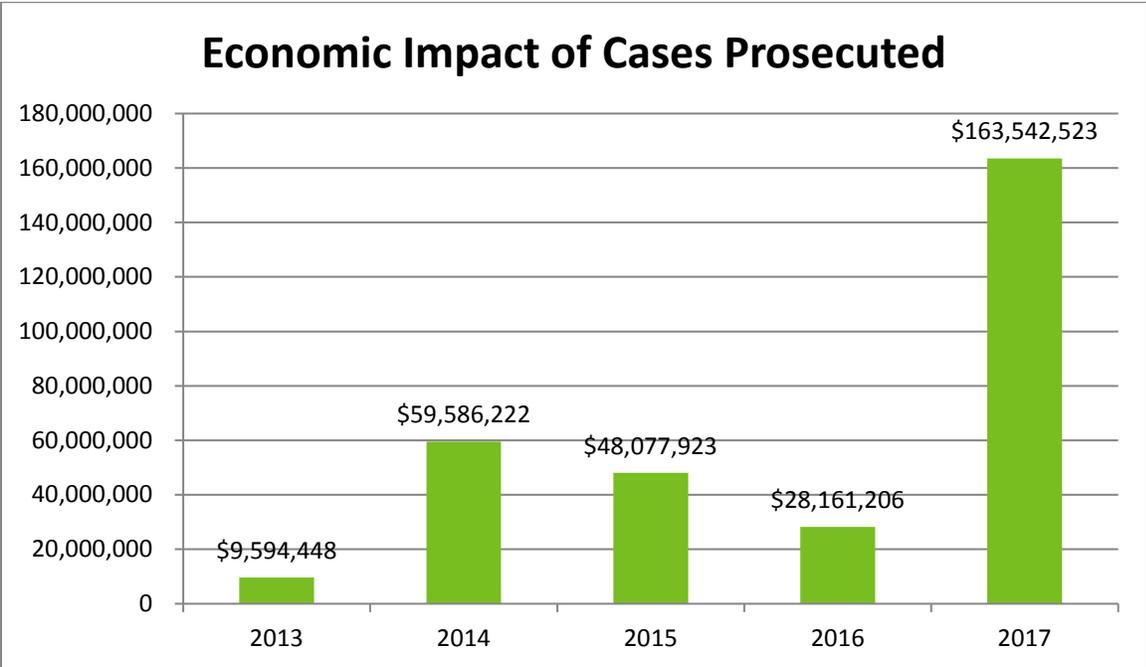
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After gathering evidence and completing an investigation into a referral, the Fraud Bureau submits the results of those investigations for criminal prosecution. These investigations are referred to either a Minnesota County Attorney's Office or the United States Attorney's Office – District of Minnesota, depending on the jurisdiction and criminal violations applicable to the investigation.

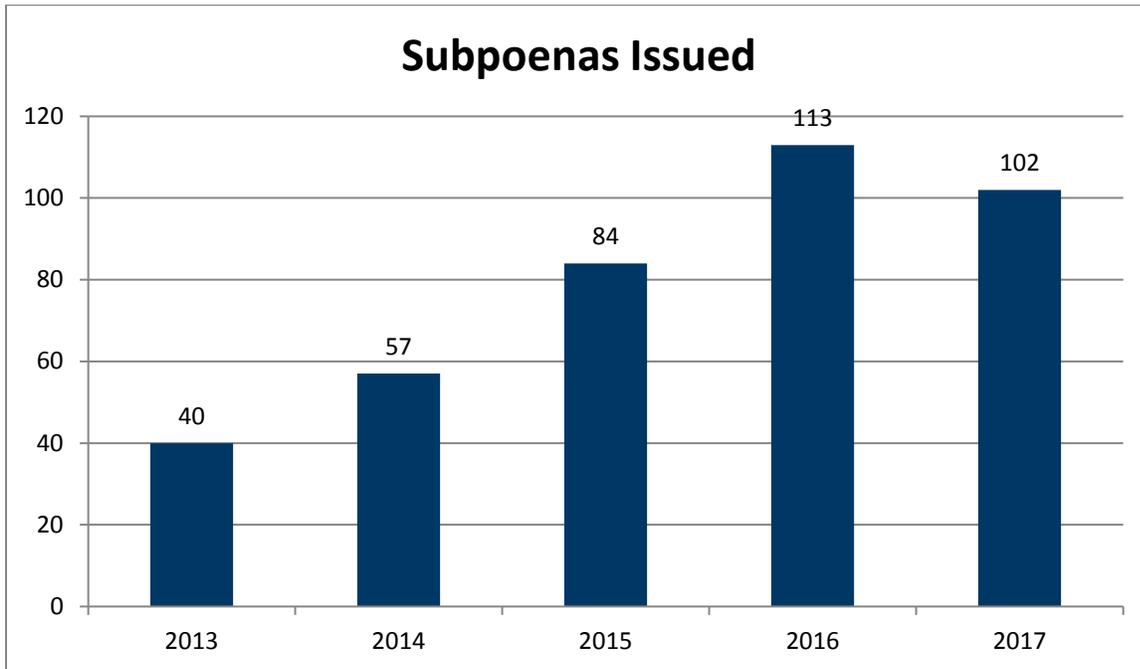
In 2017, Fraud Bureau investigations resulted in the filing of 181 state and federal criminal charges against defendants. The following graphic represents the previous five years of data concerning the number of criminal charges obtained against defendants. During the previous five-year period (2013 – 2017) the Bureau obtained, on average, 106 criminal charges against defendants annually.



In 2017, the Bureau experienced a significant increase in the economic impact of our investigations. This was primarily due to the investigation of the Providence investor fraud case, which is detailed later in this report.



One of the most important aspects in conducting investigations into complex fraud cases is evidence gathering. 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.



## Task Force Officer Program

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During 2017, the Commerce Fraud Bureau continued its partnerships with the United States Postal Inspection Service, the United States Secret Service and Homeland Security Investigations in their respective Task Force Officer (TFO) programs.

The TFO program is a force multiplier where the Fraud Bureau’s resources are leveraged with our law enforcement partners. This program enables a Fraud Bureau Agent to be cross-designated as a Federal Law Enforcement Officer, which allows the Agent access to various federal law enforcement data systems, personnel and other resources. This program has allowed the Fraud Bureau agents to gain additional expertise and competency in conducting complex criminal investigations.

Participation in this program continues to elevate the Fraud Bureau in the eyes of Minnesotans and our law enforcement peers. The Fraud Bureau continues to be a recognized leader and expert in the law enforcement community.



## Major Case Highlights

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The following cases represent a portion of the investigations conducted by the Bureau during 2017 or were the result from cases that went to trial during 2017.

### Insurance Fraud

In March 2017, as part of a joint investigation conducted by the Fraud Bureau and FBI, chiropractor Timothy Guthman was indicted in federal court on one count of Conspiracy to Commit Health Care Fraud and one count of Conspiracy to Commit Mail Fraud. Similar to the other indictments filed against other chiropractors in December 2016, the charges alleged that Guthman paid kickbacks to “runners” to recruit individuals who had been involved in automobile accidents. By paying the runners, who would often provide a portion of their kickback to each patient, Guthman employed a scheme to defraud automobile insurance companies by prescribing medically unnecessary treatments and billing for services not rendered. In late 2017, Guthman pleaded guilty to Conspiracy to Commit Health Care Fraud.

In August 2017, superseding indictments were filed against chiropractors Adam Burke, Angela Schulz, Huy Nguyen and Preston Forthun. Mail and wire fraud counts were added to each of the conspiracy cases against those chiropractors and their charged runners. In addition, Mimi Doan, Quincy Chettupally, Mukhtar Hassan and Okwuchuwu Jidoefor were added as defendants in the Nguyen and Schulz conspiracy cases.

Beginning in September 2017, Fraud Bureau agents participated in a three-week federal trial against Preston Forthun, Abdisalan Hussein and Carlos Luna. The federal jury convicted each of the men for their crimes.

In December 2017, the Fraud Bureau participated in the two-week federal trial that against Adam Burke, Dana Kidd and Abdirahin Ibrahim. As in the previous trial, the federal jury convicted each of the men.

At the end of 2017, 26 individuals had been federally charged with participating in a scheme to defraud automobile insurance companies for over \$20 million.

### Investment Fraud

In late 2015, the Commerce Fraud Bureau received a complaint about a potential investment fraud scheme perpetrated by an insurance agent working out of an office in St. Louis Park. The insurance agent held an insurance producer license at the time, but he was not licensed as an investment adviser or registered to sell securities.

The investigation focused on an investment product being offered on behalf of a company called Providence, based in the Miami area. Providence had operations in several foreign

locations around the world, including Hong Kong and the Bailiwick of Guernsey, and was targeting investors in these locations as well as the U.S.

Providence claimed through printed materials and its website that it would send and use the U.S. investor funds overseas to purchase account receivables at a discount from various businesses in Brazil. This practice was known as “factoring.” The advertising materials said that because Providence was able to purchase the account receivables at a discount, this ultimately led to large profits allowing Providence to pay high interest rates to its investors. Providence promised to pay investors back either monthly on their investment or at the end of a period of time determined by the investor’s note. However, Providence delayed and eventually stopped paying investors and later declared bankruptcy.

The Commerce Fraud Bureau partnered with the U.S. Postal Inspector’s office and the FBI to conduct the lengthy investigation. The investigation determined that very little investor money was ever used by Providence for factoring in Brazil. Instead, investor funds were used by the principals of the company to fund lavish worldwide travel and vacations, invest in several U.S. business ventures, pay themselves large salaries, pay excessive commissions to producers like Churchfield, and pay back old investors with funds obtained from new investors.

Several Minnesota investors lost their life’s savings on their investment in Providence. Hundreds of other investors were identified in the U.S., Puerto Rico and other worldwide locations who lost large sums of money. Several of the victims were elderly and had invested funds from retirement savings accounts. The total financial loss to investors globally was approximately \$150 million. The three primary principals in Providence (Antonio Buzaneli, Jose Ordonez and Julio Rivera) were indicted by the U.S. Attorney’s Office for the District of Minnesota on multiple counts of mail and wire fraud. All three have pleaded guilty.

## **Mortgage Fraud**

In 2014, Timothy Kes, a licensed real estate salesperson, approached a Lakeville homeowner (with over \$100,000 in equity) whose home had been foreclosed upon pending the redemption period. Kes offered to redeem the house and sell it back to him on a contract for deed. The homeowner agreed and signed a bogus mortgage in Kes’s favor so that he would have the ability to redeem. The homeowner was then contacted by Kes on the evening the homeowner’s redemption period was about to expire and backed out. A third company did redeem on the property and served the homeowner with an eviction notice. Upon receiving the notice, the homeowner hired an attorney, who brought suit against Kes.

Kes subsequently agreed to purchase the property back from the third company and to sell it to the homeowner as originally promised. In the process of purchasing the property, Kes filed and signed documents stating the home would be owner occupied. Kes took out a traditional homeowner’s insurance policy misrepresenting the house would be owner occupied. He eventually filed a claim for hail damage that had occurred prior to him owning the house. The insurer reported the fraud to the Commerce Fraud Bureau. After an investigation, Kes was charged by the LeSueur County Attorney’s Office with Residential Mortgage Fraud and Perjury. In 2017, Kes pleaded guilty to the Mortgage Fraud charge.

## **Theft**

In 2017, the Commerce Fraud Bureau conducted an investigation involving Lauran Whalen, who orchestrated and executed a residential real estate fraud scheme. Whalen presented and falsified a cashier's check at a residential closing to the closing agent. Whalen also presented an altered/falsified account summary to the sellers of the residential property as proof of funds. Throughout the investigation, numerous witnesses as well as the victim were interviewed. In addition, various financial documents were obtained and reviewed. Whalen was interviewed by Fraud Bureau agents and during the interview confessed to altering the bank documents.

The Dakota County Attorney's Office charged Laura Whalen with one count of Theft-False Representation (Felony) and one count Theft of Property value over \$35,000 (felony). The residential home value was \$750,000.

## **Theft by Swindle**

Beginning in mid-2016, Ling Zhou served as a money mule for funds stolen from at least two victims of online romance scams and one victim of a business email compromise/email account compromise scheme. Zhou received instructions regarding where to wire fraudulently-obtained funds from a person she previously met online. Between September 19, 2016, and December 13, 2016, a total of \$361,704.11 in funds fraudulently obtained from three victims in Minnesota were deposited to bank accounts owned or controlled by Zhou. She forwarded a majority of the funds to other persons in the United States, the United Arab Emirates and South Africa. She spent a portion of the fraudulently-obtained funds on personal and business expenses.

The investigation was initiated in September 2016 by the Lakeville Police Department. The Commerce Fraud Bureau and Homeland Security Investigations began to assist with the investigation in December 2016. In 2017, the Ramsey County Attorney's Office filed charges against Ling Zhou.

## **Forgery**

In May 2016, the Commerce Fraud Bureau investigated a complaint about bail bond company Ability Bail Bonds that it has passed a fraudulent bail bond at the Hennepin County Jail. The bond was used to secure the release of a female defendant who had been charged in multiple murder cases resulting from the sale of illegal narcotics.

Anthony Hanson managed, controlled and operated Ability Bail Bonds. Hanson organized a scheme to create the fraudulent bond and submit it to the Hennepin County Jail. The original bond for the victim was set by the court at \$350,000. Hanson and Ability only received \$35,000 as the bond premium, which left Ability short of the amount required to secure the defendant's release.

After already receiving money from the defendant's family and promising to secure her release from jail, Hanson realized he did not have a bond large enough to accomplish this. He used existing bonds in his possession to "cut and paste" and create the fraudulent bond that was later passed at the Hennepin County Jail.

After receiving the bond from Ability, the jail released the defendant from custody. Shortly after her release, the bond was deemed fraudulent. A warrant was issued for her arrest and she was placed back in custody. In 2017, the Hennepin County Attorney's Office issued multiple felony charges against Hanson for aggravated forgery. Hanson eventually pleaded guilty to the charges.

### **Insurance Fraud/Theft**

In March 2013, a former NFL player Brent Griffith and his then-wife, Mary Griffith (a/k/a Mary Rosemeier), returned from a vacation in Mexico. Griffith claimed that his 1990 Buffalo Bills AFC Championship ring was missing from the shaving bag of his luggage. He filed an insurance claim with North Star Mutual Insurance Company for the stolen ring that was valued at \$4,780. North Star Mutual Insurance Company issued Griffith a check in the amount of \$4,780 payable to Brent & Mary Griffith.

In July 2014, Rosemeier contacted North Star Mutual Insurance Company and informed them that her ex-husband, Griffith, had lied about the ring being stolen and claimed that Griffith was still in possession of the ring. Rosemeier also said she never knew that North Star Mutual Insurance Company issued Griffith and her a check in the amount of \$4,780 and that she never signed her name on the check in order for it to be cashed.

In July 2014, North Star Mutual Insurance Company reported the insurance fraud to the Commerce Fraud Bureau. The investigation resulted in Griffith being charged with insurance fraud and theft in 2017 by the Swift County Attorney's office.

### **Theft/Forgery**

In July 2016, the Commerce Fraud Bureau received a complaint from Acceptance Insurance Agency about a theft and check forgery incident. Epic Insurance was a Managing General Agency (MGA) for Acceptance Insurance Agency, which was based in Omaha, Nebraska. As an MGA for Acceptance, Epic was able to bind coverage, underwrite policies and settle claims on behalf of Acceptance. Epic Insurance held blank checks in their office from an account held by Acceptance Insurance. The checks were used by Epic to settle claims on behalf of Acceptance.

Acceptance conducted routine audits at Epic and during one of those audits discovered that claim files could not be located to coincide with several checks that had been allegedly issued to settle customer claims. Acceptance investigated and discovered four checks that were allegedly issued by Epic to settle claims were actually used by an Epic Insurance employee, Michael Swartz, for personal use. Swartz had used the checks to purchase two vehicles from a car dealership, purchase a new camper trailer, and pay for a rental vehicle.

Swartz had the authority to settle claims and issue settlement checks for up to \$5,000. Any checks over that amount required additional signatures from other Epic employees. Some of the checks issued and used by Swartz were greater than \$5,000 and contained what were determined to be forged signatures of other Epic employees.

During its investigation, the Commerce Fraud Bureau obtained copies of the checks involved, sales receipts, bank records and conducted several interviews. Fraud Bureau agents eventually executed a search warrant at the suspect's residence. During a non-custodial interview with

Fraud Bureau agents. Swartz confessed to using old claim numbers from previously settled customer claims on the checks to make it appear that they were issued to settle actual claims. He also confessed to using the checks to purchase a car for himself, a car for his wife and a camper trailer for his family. He confessed to using several smaller dollar amount checks to pay down his credit card debt. Swartz told Fraud Bureau agents he was angry with his employer over compensation issues. Fraud Bureau agents seized the vehicles and camper trailer and the items were eventually returned to Acceptance Insurance.

The unauthorized checks written by Swartz totaled \$112,783. In 2017, the Dakota County Attorney's Office issued a criminal complaint charging Swartz with two counts of Theft by Swindle over \$35,000 (felony) and one count of Theft by Swindle over \$5,000 (felony). Swartz recently pleaded guilty to the charges.

### **Workers' Compensation Fraud**

In August 2015, the Commerce Fraud Bureau received a complaint about a workers' compensation fraud incident against ACE American Insurance Company. The complaint indicated that Shawn Curtis Kingsley had made a workers' compensation claim after sustaining a shoulder injury while employed at Federal Cartridge in Anoka.

The complaint indicated that from, September 2014 through December 2014, Kingsley had obtained \$13,600 in workers' compensation pay while at the same time failing to disclose more than \$14,000 in additional income from an unrelated job he obtained at Nord Excavating located in Elk River.

Commerce Fraud Bureau agents conducted an investigation of the alleged fraud that included obtaining bank records and conducting several interviews. This included an interview with Kingsley, who admitted failing to disclose the additional income from his excavating job to his workers' compensation administrator. The Fraud Bureau submitted the case to the Mille Lacs County Attorney's Office, which charged Kingsley with one count of Workers' Compensation Fraud in 2017.

### **Insurance Fraud**

In March 2017, the Hennepin County Attorney's Office charged Lafayette Temple, a former police officer, with one felony count of Insurance Fraud stemming from an accident that occurred in 2015.

On August 4, 2015, Temple purchased a Kawasaki motorcycle. Within hours of the purchase, he crashed the motorcycle, causing injuries to himself and his passenger. The day after the accident, Temple contacted his insurance company to add the motorcycle to his existing insurance policy; however, he did not notify the company of the previous day's accident. Once insurance was in place for the motorcycle, Temple contacted his insurance company and stated he had been involved in an accident on August 5, 2015. Temple went so far as to email altered medical records reflecting a treatment date of August 5, not August 4. Based on the information provided by Temple, the insurance company paid damages of over \$11,000.

## **Insurance Fraud**

In September 2017, the Dakota County Attorney's Office charged Susan M. Carter with one felony count of Insurance Fraud stemming from falsely reporting the theft of her vehicle.

In September 2013, Carter reported to Saint Paul Police that her car had been stolen, and she later filed a claim with her insurance company. As a result of her claim and police report, the insurance company paid Carter and the lienholder nearly \$12,000, with Carter pocketing almost \$6,000. In 2015, based on a tip, law enforcement recovered Carter's 'stolen' vehicle from her garage.