



COMMERCE FRAUD BUREAU

Annual Report 2014

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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 completed its tenth year of operation in 2014 and I completed my first year as Director.

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.

2014 brought about a number of changes at the CFB. During 2014 three veteran Agents and two Analysts left their employment with the Fraud Bureau. This presented the Bureau with an opportunity to evaluate our current and future staffing needs.

As a result of that evaluation it was determined that we had a pressing need for additional Agents to respond to the growing demands for our services. To fill those needs, we hired five new Agents which brought our complement of law enforcement professionals to 11 forgoing the replacement of our Analysts.

During 2014 we also re-evaluated our mission statement. The new mission of the Commerce Fraud Bureau is "To protect Minnesotans from fraud by conducting aggressive criminal investigations in the pursuit of justice". We believe this new mission statement clearly defines the current and future role the Commerce Fraud Bureau has for Minnesotans.

Change continues to be the one constant we have in the Fraud Bureau. The Bureau will continue to evolve to better meet the needs of all Minnesotans. The men and woman in this organization have dedicated themselves to make a difference protecting those who cannot protect themselves. I feel very fortunate to be their Director.

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, which includes 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, eight Special Agents, and four Analysts. 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

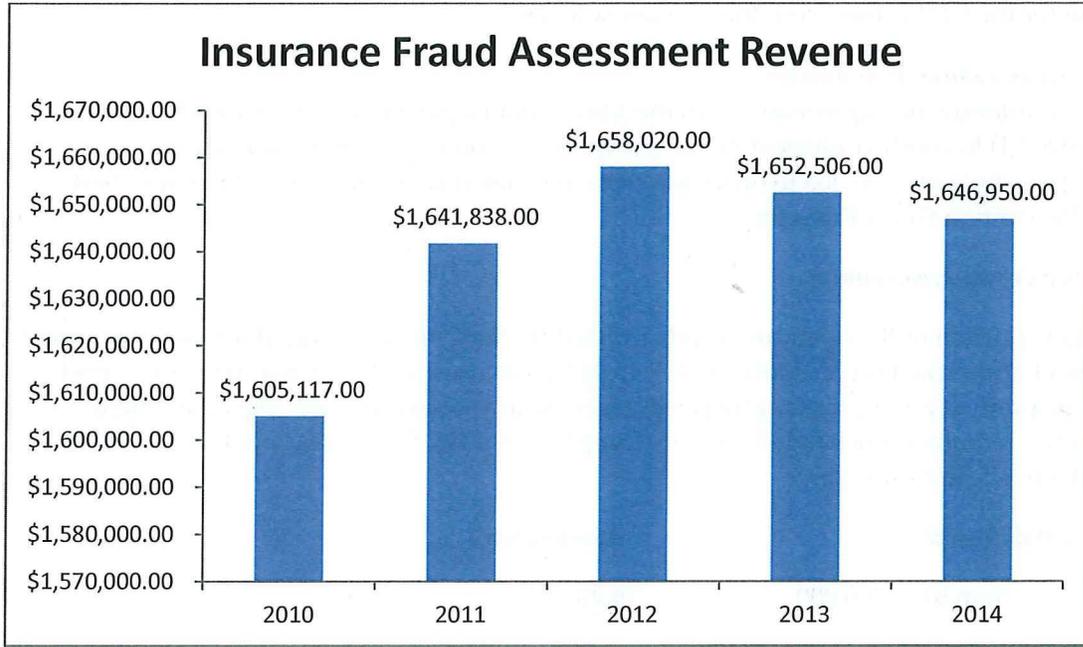
The largest portion of the operating funds utilized by the CFB is generated through an annual assessment authorized under Minn. Stat. § 45.0135, subdivision 7. The assessment is levied against insurers that have been authorized to sell insurance in our state. The assessment formula has remained unchanged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

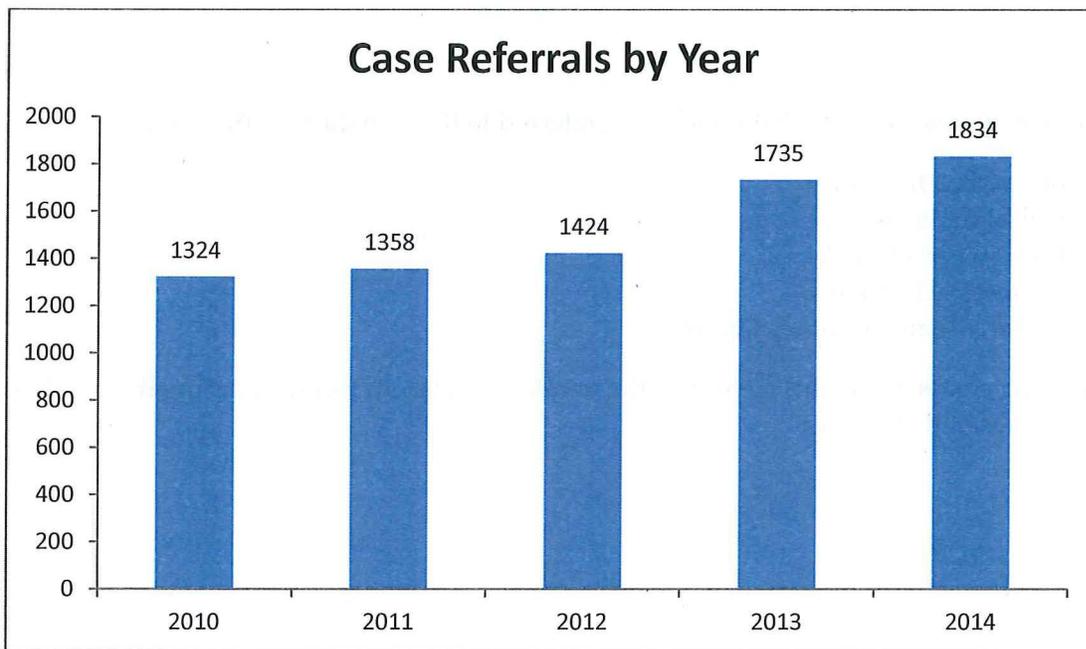
process for activities that address the problem of auto theft. Since 2009, the CFB has been managing this program.

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.

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.

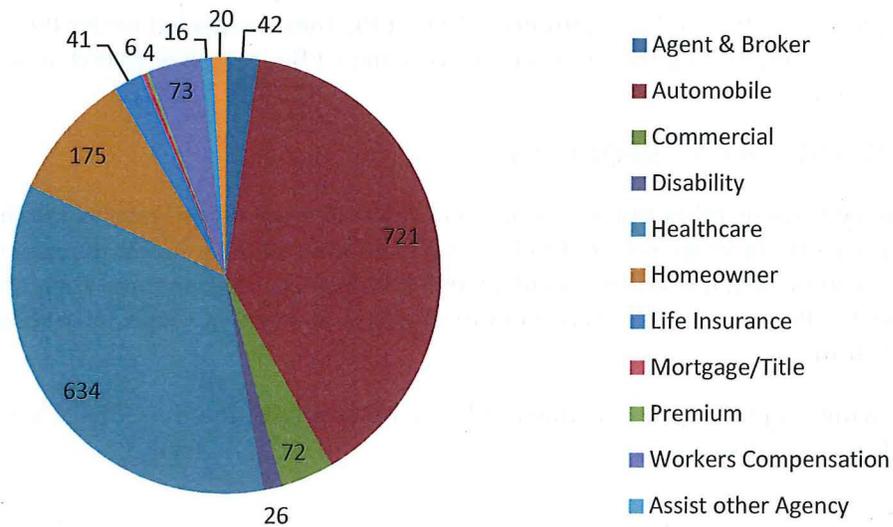
The following graphic represents the number of cases referred to the CFB for investigation during the previous five years.



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 2014 that number had increased to 1834 cases, representing an increase of 102%. The increase in case referrals from 2013 to 2014 was 6%.

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.

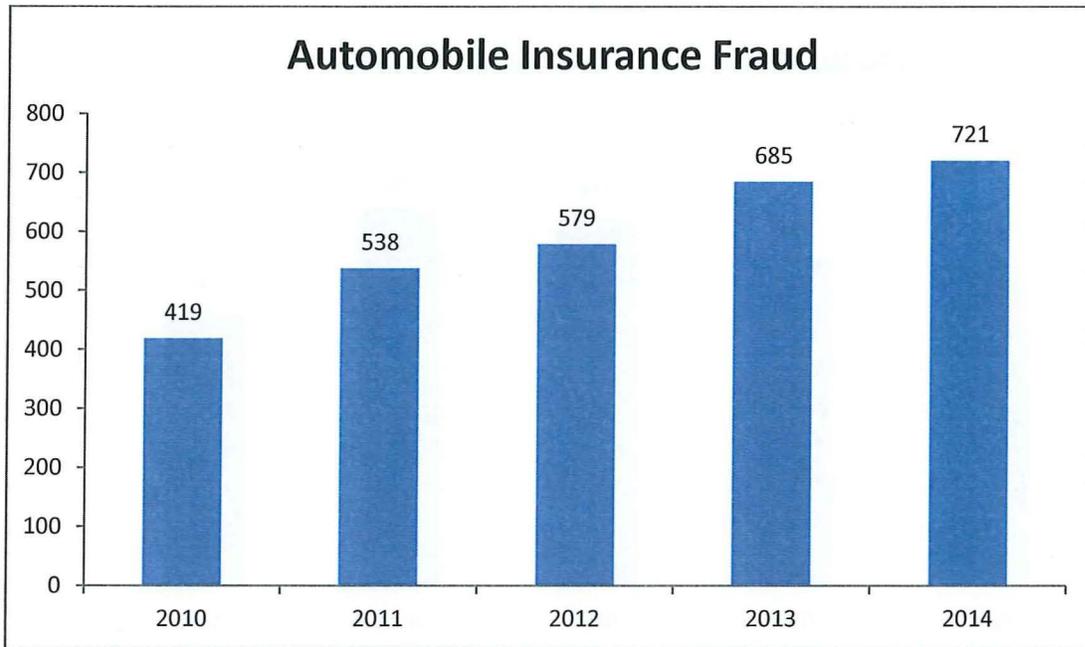
2014 Incoming Referrals By Type of Fraud



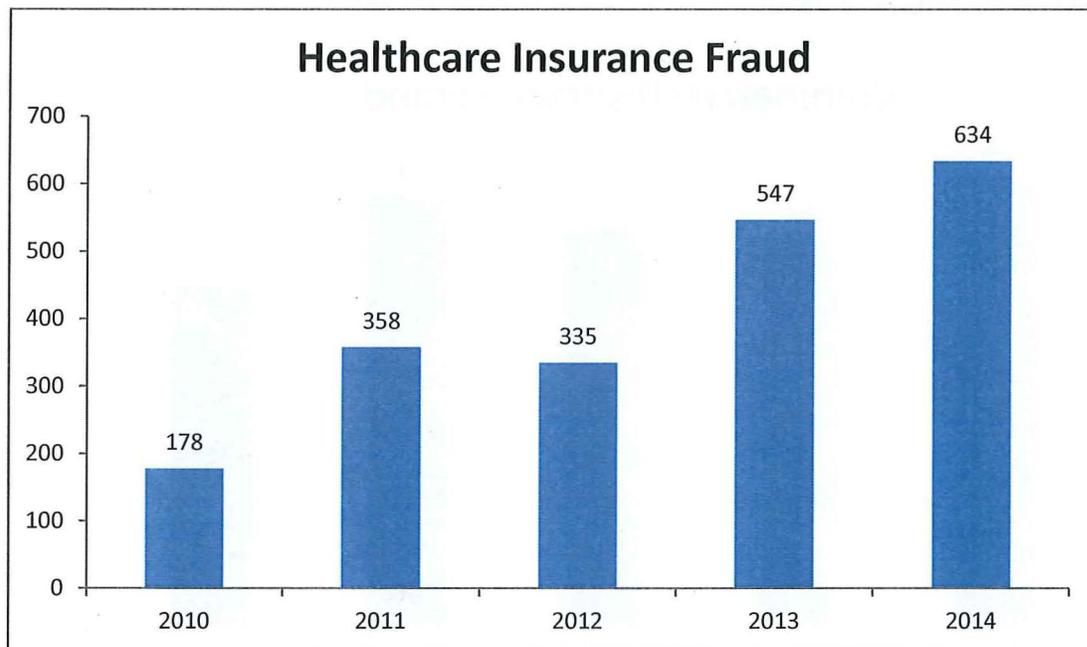
The five largest areas of suspected fraud being referred to the CFB during 2014 were:

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

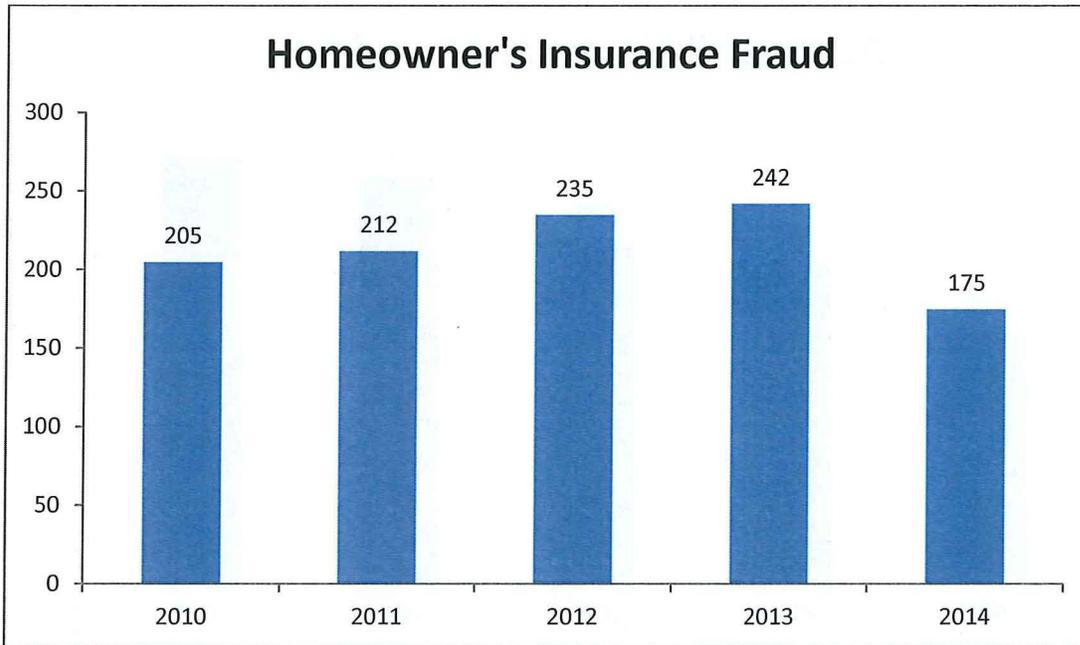
The following charts depict the changes in the number of referrals received during the previous 5 years for each of these areas:



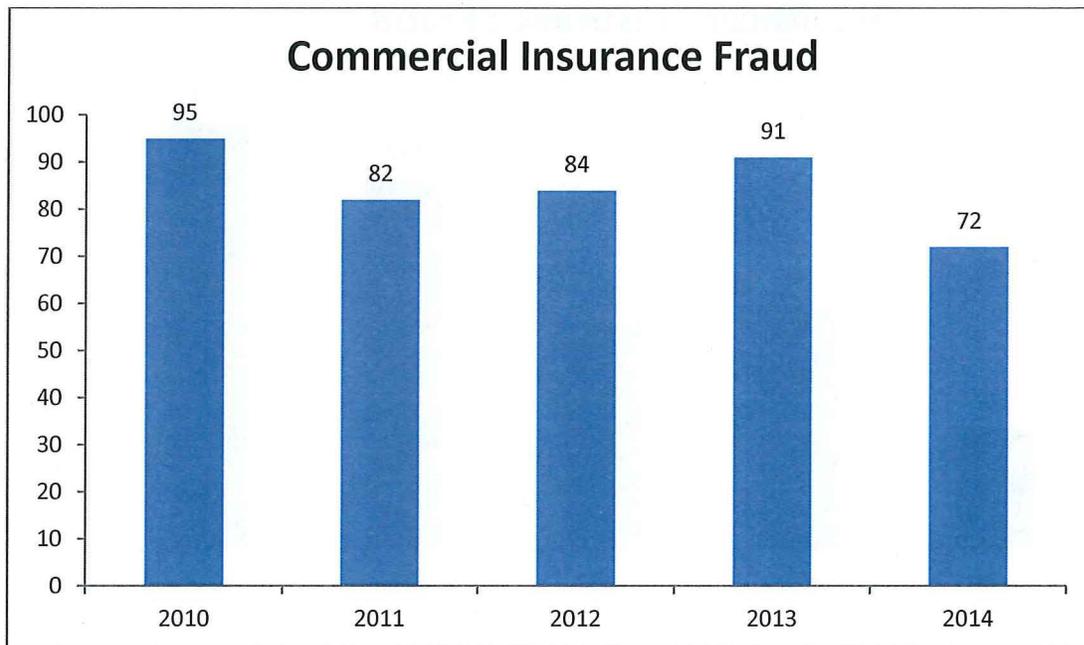
The data indicates that the number of automobile insurance fraud cases is trending upwards. Since 2010, the CFB has experienced a 72% increase in these types of referrals



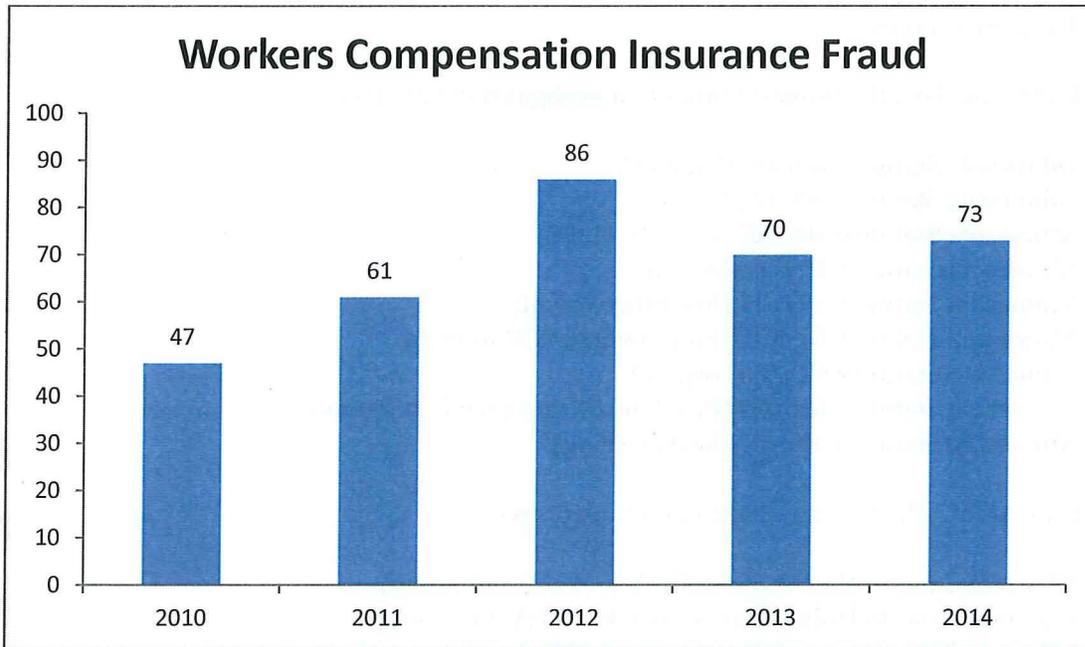
The data indicates that the number of healthcare insurance fraud cases is trending upwards. Since 2010, the CFB has experienced a 256% increase in these types of referrals



Previous data indicated that the number of homeowner insurance fraud cases was trending upwards. In 2014, we noted a significant reduction in these types of cases. The one year reduction (2013 - 2014) was 28%.



Previous data indicated that the number of commercial insurance fraud cases had been trending upwards. In 2014, we noted a significant reduction in these types of cases from the previous year. That one year reduction was 21%.



The data indicates that the number of workers compensation insurance fraud cases is trending upwards. In 2014 we experienced a 4% increase in these types of cases.

IV. 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).

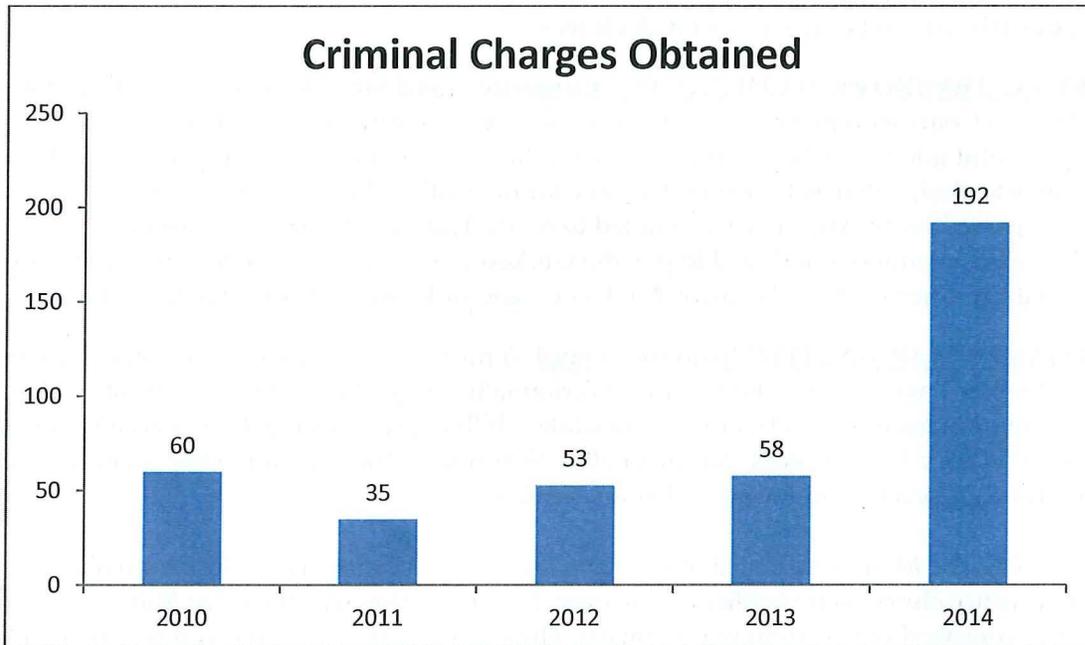
Under Federal law, the Bureau investigates violations of:

- 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).

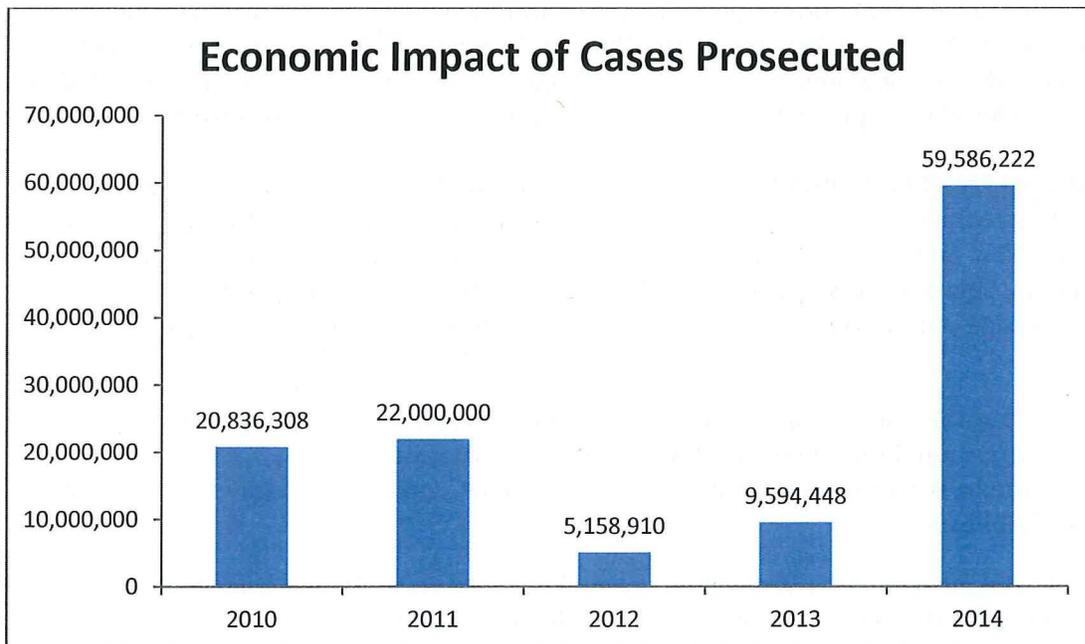
After conducting an investigation into a referral, the CFB will submit the results of those investigations for criminal prosecution. These investigations are either referred to a Minnesota County Attorney's Office or the United States Attorney's Office - District of Minnesota, depending on the jurisdiction 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 2014, CFB investigations resulted in the filing of 192 state and federal criminal charges against defendants. This represents a one year increase of 231%. The following graphic represents the previous five years of data concerning the number of criminal charges obtained against defendants.



In 2014, CFB investigations that resulted in the filing of federal criminal charges had an economic impact of \$59,586,222. This represents a one year increase of 521%. 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.



V. 2014 HIGHLIGHTED INVESTIGATIONS

SERGEY VLADIMIROVICH CHERNYAEV Insurance Fraud Mr. Chernyaev was charged in Anoka District Court with insurance fraud in connection with his exploitation of his mother's checking account into which her workers compensation payments were being deposited. Mr. Chernyaev was designated as Power of Attorney for his mother. In December of 2011, Mrs. Chernyaev passed away. Mr. Chernyaev failed to notify Travelers Insurance of his mother's death. Travelers Insurance continued to pay the workers compensation benefits into a checking account that Mr. Chernyaev had control. Mr. Chernyaev stole over \$18,000.00 in this scheme.

DAVID JAMES SCHORNSTEIN Insurance Fraud A former chiropractor and Cambridge City Council Member David James Schornstein was criminally charged with three counts of insurance fraud in Isanti District Court for fraudulent billing practices involving his chiropractic clinic. From January 2011 through December 2011, Schornstein fraudulently billed an insurance company for chiropractic and massage-therapy services.

In August 2011, the Minnesota Board of Chiropractic Examiners suspended Schornstein's license to practice chiropractic medicine; however, the suspension was stayed as long as Schornstein complied with certain requirements. The Chiropractic Board allowed Schornstein to be involved in the business operations of his Cambridge clinic, but he was not allowed to practice chiropractic medicine. As a result, Schornstein employed a licensed chiropractor at his clinic.

An investigation conducted by agents from the Commerce Fraud Bureau uncovered evidence that, contrary to the restrictions imposed by the Chiropractic Board, Schornstein continued to treat patients. In fact, from September 2011 through November 2011, he billed an insurance carrier under the Personal Injury Protection coverage for services which were not provided or contained material misrepresentations in the claims. The fraudulent billings were over \$8,300.

ARLESIA SHANNELL ROBINSON Insurance Policy Mill Ms. Robinson was criminally charged with two counts of Aggravated Forgery in Hennepin District Court for perpetrating an insurance policy mill scheme on unwitting consumers. During its investigation, Commerce Fraud Bureau agents uncovered evidence that Robinson was creating forged insurance declaration pages and purporting to unsuspecting victims that the insurance documents were legitimate.

Posing as an Esurance agent, Robinson operated under the alias Amelia Hall and accepted money up-front from individuals wanting to purchase insurance. Commerce Fraud Bureau agents executed a search warrant at Robinson's Brooklyn Center residence and subsequently arrest Ms. Robinson.

Robinson's victims were unaware that their auto insurance was fake and believed that they had purchased legitimate automobile insurance, only to later find out, after being involved in a traffic accident, that they did not have insurance.

SPLIT ROCK REALTY Mortgage Fraud A joint Commerce Fraud Bureau and FBI investigation resulted in a federal grand jury indictment charging four men in connection with the Split Rock Realty mortgage fraud investigation. On July 9, 2014, Thomas Edward Rosensteel III, 41, of Excelsior, Robert Scott "Rod" Aslesen, 65, of Little Canada, Justin Joseph Christenson, 34, of East Bethel, and Dale Russell Wurzinger, 57, of Burnsville, were each charged with eight counts of Wire Fraud and one count of Conspiracy to Commit Wire Fraud.

The four defendants allegedly participated in a scheme to defraud mortgage lenders in connection with the sale of excess unsold builder inventories of residential real estate. The scheme allegedly involved recruiting purchasers to buy properties at inflated prices, falsifying loan applications and other documents, fronting down payments for purchasers, and paying kickbacks to the purchasers outside of closing. The indictment alleges that the defendants concealed the fronted down payments and kickbacks from the lenders.

Three other individuals had previously pled guilty to criminal charges in connection with this scheme. They are Amri Elsafy, 42, of Brooklyn Park; Gerald Edwin Carlson, 67, of Kennedy, Minnesota; and James Bryan Crook, 58, of Brooklyn, New York.

TYRONE HERMAN Investment Fraud Between 1998 and 2013, Mr. Herman of Saint Anthony, operated the Executive Marketing Group (EMG) and Ty Herman & Associates, which he claimed had business relationships with manufacturers and wholesalers from whom he could purchase small appliances and other inventory at below-retail market rates. Mr. Herman told his victims that he could re-sell the inventory in which they invested for a profit of 35 percent, and that victims would receive their money back, with a 30 percent rate of return, within 90 days of the sale of inventory.

Mr. Herman created false invoices to demonstrate to victims that had sold the inventory. When they demanded return of their investments, Mr. Herman provided fake bank statements showing that, while he had the money in his bank account, the Internal Revenue Service had frozen the account so that he could not access the victims' money. Mr. Herman repaid some investors with Ponzi-type payments, not from the sale of inventory. Mr. Herman stole more than \$19 million from at least 25 separate victims. The criminal indictment of Mr. Herman was the result of a joint Commerce Fraud Bureau and FBI investigation.

SUSAN ELIZABETH WALKER Mail Fraud and Tax Evasion This case was the result of a joint investigation conducted by the Commerce Fraud Bureau, Internal Revenue Service Criminal Investigators and the FBI. Between October of 2008 and March of 2013, Ms. Walker provided financial planning services to several clients through her affiliation with Ameriprise Financial Inc. She was a securities agent registered with the Minnesota Department of Commerce, and a financial advisor registered with the Financial Industry Regulatory Authority (FINRA). Ms. Walker stole nearly \$1 million from her clients by misusing her access to her victim's retirement accounts and causing checks to be drawn from victim accounts and deposited into accounts that she controlled.

Ms. Walker also opened investment brokerage accounts in her own name, and in the names of several victim-clients without their knowledge or authorization, which she used to conceal money stolen from other clients. She caused money to be withdrawn from retirement accounts

belonging to clients and deposited in those brokerage accounts, which she took for her own personal use. Ms. Walker utilized these stolen funds to pay for a myriad of personal expenses including private school tuition and vacation travel.

JEFFREY ALAN PETERSON Securities Fraud and Theft by Swindle The Hennepin County Attorney's Office charged Mr. Peterson with swindling 13 Minnesotans out of more than \$430,000, following an investigation conducted by the Commerce Fraud Bureau. Mr. Petersen was charged with 12 counts of securities fraud, six counts of theft by swindle over \$35,000 and four counts of theft by swindle over \$5,000. He swindled his victims after the Commerce Department had revoked his securities and insurance licenses.

Petersen used advertisements he placed on Craigslist to obtain 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, according to the criminal complaint. In fact, the records showed Petersen had no history of trading success and investigators were unable to identify any client for whom Defendant made money.

He also failed to tell his investors that his securities and insurance licenses had been revoked and that he was subject to two Commerce Department cease and desist orders prohibiting him from engaging in unlicensed investment activity, the complaint states.

In September 2013, an agent for the Commerce Department's Fraud Bureau answered one of Petersen's Craigslist ads. On October 2, 2013 the undercover agent went to Petersen's house, where Petersen made more of his claims and showed him a spreadsheet of successful trades. Agents from the Commerce Fraud Bureau subsequently executed a search warrant at Petersen's home and he was ultimately arrested and booked in the Hennepin County Jail.

Several weeks later, not knowing his potential victim was an undercover agent, Petersen contacted him to see if he still wanted to invest. Peterson and the agent communicated over the next few weeks and on November 15, 2013, Petersen accepted a check for \$25,000 from the undercover agent. Peterson was then arrested for the second time in connection with this case. Petersen used the money he obtained from his victims to make payments on his mortgage and pay his credit card bills.

SEAN MICHAEL MEADOWS Mail Fraud, Wire Fraud, and Money Laundering Mr. Meadows was a licensed insurance producer from February 1997 until April 2014. He owned and operated Meadows Financial Group, LLC, through which he provided financial planning, asset management services, and sold insurance and investment products such as annuities to clients in Minnesota.

Beginning in 2007 and continuing through at least April 2014, Meadows fraudulently solicited money from investors through promises that he would use the invested funds to purchase bonds or other legitimate investments when, in fact, he used the invested funds to pay personal expenses and make Ponzi-type payments to other investors.

It was further part of the scheme that in order to lure the potential investors into taking money out of other legitimate investments-such as annuities and retirement accounts-and investing it with MFG, Meadows deceptively promised a high rate of return of up to 10% annually when, in fact and as he knew, he did not invest his clients' money and therefore had no legitimate profits with which to make interest payments. Meadows told his investors that the investment was safe and liquid. In total, Meadows raised at least \$13,000,000 from more than 50 investors for his purported MFG investment vehicle.

Meadows used the proceeds of the fraudulent scheme to, among other things: pay personal expenses; make "salary" payments to himself; make payments to his spouse; purchase at least one vehicle for himself; pay expenses related to his personal investment properties; pay personal credit card bills; travel to Las Vegas and elsewhere; gamble at casinos and online; make numerous payments totaling over \$100,000 to adult entertainment establishments in Minnesota and Las Vegas; and make Ponzi-type payments to previous investors.

VI. 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. Fraud continues to be a growing threat today and will remain so into the foreseeable future. Fraud is not only a threat to our economy, but it is also a recognized threat to our most vulnerable population, our seniors.

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.

