

**ANNUAL REPORT
OF THE
MINNESOTA
CLIENT SECURITY BOARD**

DANIEL L. BOWLES

CHAIR

4809 Wilford Way

Edina, MN 55435

(612) 835-3800

EDWARD J. CLEARY

DIRECTOR

25 Constitution Avenue

Suite 105

St. Paul, MN 55155-1500

(651) 296-3952

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I. OVERVIEW AND YEAR IN REVIEW

Rule 1.10, Minnesota Rules of the Client Security Board (MRCSB), provides:

At least once a year and at such other times as the Supreme Court may order, the Board shall file with the Court a written report reviewing in detail the administration of the fund, its operation, its assets and liabilities.

This thirteenth annual report of the Minnesota Client Security Board covers the Board's fiscal year, FY 2000, which began July 1, 1999, and ended on June 30, 2000.

For the second consecutive year, subrogation and restitution issues highlight this year's report. Last year (FY1999), the Board reported a record dollar-amount of restitution recovery. That result largely was due to recovery on one matter for which the Board received a substantial repayment. This past year, on the other hand, the Board spent a considerably greater percentage of its time than ever before dealing with collection efforts against lawyers, on whose behalf the Board had paid claims. In particular, the Board spent portions of several meetings reviewing complex issues involving potentially liable third parties, such as banks or insurers. While routine and recurring restitution matters are handled by the Attorney General's Office subject to review by the Board or the Director, many of these third-party issues arose for the first time in Board history, requiring the full Board's involvement. Ultimately the Board created a new subcommittee specifically to deal with subrogation and litigation matters between full Board meetings. Several settlements with banks were the end result of this process, resulting in a total restitution recovery for the Board this past year of over \$45,000.

After its sixth and final meeting of the year in June 2000, the Board had approved 21 claims this year against 11 former attorneys in the total amount of \$282,186.67. [Ftn 1](#) In addition, \$200,000 was paid during this fiscal year on two claims against disbarred attorney Peter Orlins, claims approved last year which could not be paid until special trustee arrangements were completed on the claimants' behalf. In the thirteen years of the Board's operation, the Board now has approved 304 claims and paid out \$3,804,428.35 against 88 different lawyers (Appendix 2). Twenty-three (23) claims will still be pending before the Board following its June meeting; only six of which will have been pending more than six months.

II. THE CLIENT SECURITY BOARD AND ITS PROCEDURES

Board Members. As of June 30, 2000, the following individuals served on the Board (see Appendix 4):

<u>Name</u>	<u>Location</u>	<u>Term Expires</u>
Daniel L. Bowles, Chair	Bloomington	June 30, 2000
Richard I. Diamond	Minneapolis	June 30, 2000
Timothy J. Kuntz	South St. Paul	June 30, 2002
Beverly K. McKinnell	St. Paul	June 30, 2002
Judith A. Pinke	Minneapolis	June 30, 2001
Daniel L. Rust	Crookston	June 30, 2001
Margaret J. Westin	Minneapolis	June 30, 2002

Daniel Bowles was elected and served as the Board's Chair for the past year, but has completed his second and final complete term on the Board. Mr. Bowles has a long history of involvement in the client protection system in Minnesota, and his expertise and consensus-building skills will be missed. His business and banking law knowledge has proven particularly useful in unraveling several claims, and in guiding the Board on some of its thorny subrogation actions.

The Board elected Daniel Rust as its new Chair for the upcoming year at its most recent meeting. Mr. Rust is a partner in a law firm in Crookston and has served on the Board for five years.

Minneapolis attorney Warren Sagstuen, an assistant public defender for Hennepin County, was nominated by the Minnesota State Bar Association (MSBA) to fill Mr. Bowles' seat on the Board. The Supreme Court approved the appointment by order dated May 22, 2000. Mr. Sagstuen should bring an additional public lawyer perspective to the Board and also a criminal defense perspective that has not previously been part of the Board's composition.

Board member Richard Diamond's term also expired at the end of June. He was eligible to be reappointed by the Court to a second term on the Board, which occurred by order dated May 22, 2000. Mr. Rust and Ms. Westin, along with Mr. Sagstuen, are MSBA nominees to the Board. Ms. McKinnell and Judith Pinke are the Board's two non-lawyer members.

Justice Edward Stringer remains the Board's liaison justice on the Supreme Court. He again this year attended parts of several Board meetings and provides regular communication with the Board from the Court.

Funding and Budget Procedures. The Supreme Court's May 22, 1998, order implementing the current assessment created parameters for the fund of \$2.5-million and \$1.5-million, with the Board to report to the Court if the fund exceeds or drops below these figures. The Board's recently filed budget for FY 2001 projects a year-end balance of \$2.04-million for June 30, 2001, well within these parameters, but only so on the assumption that the Court will retain the current funding mechanism and amount. The Court just recently amended the attorney registration fee, in part creating the new Lawyer Assistance Program, but the Client Security Board's portion of the fee was not changed. Basically, all active lawyers in Minnesota pay \$17 per year to support the Fund.

The Board does not handle any funds directly nor the investment of the Fund. The assessment is collected through the Office of Attorney Registration and placed into a segregated fund within the State Treasury. This past year the assessment generated approximately \$316,000. The Board also received approximately \$96,000 in investment income and approximately \$45,000 in restitution payments from lawyers on whose behalf claims have been paid.

The Board prepares an annual budget that is presented for approval by the Supreme Court at one of the Court's May meetings. The Board's FY 2001 budget was recently presented to and approved by the Court. Based upon the \$17 per attorney per year assessment, the Board anticipates total income this coming year of approximately \$466,000. The Board has budgeted \$504,000 in total expenditures for next year, which will represent a slight increase from the amount spent this year. Based upon the information presently available to the Board concerning pending claims or known potential claims, \$450,000 has been budgeted for claims payment next year. \$54,000 has been budgeted for staff services, travel for one or two Board members to attend a national conference on client protection, and administrative supplies and enhancements to the Board's computer database. As has been consistently true throughout the Board's history, almost 90 percent

of the Board's budget goes to paying claims.

Administrative Staff. Since the Board's inception in 1986, the Office of Lawyers Professional Responsibility has provided staff services to the Client Security Board. Edward Cleary is the Director of the Office of Lawyers Professional Responsibility and the Client Security Board. Assistant Directors Martin Cole and Timothy Burke, along with paralegal Patricia Jorgensen handle most daily operations for the Board, as they have for several years. Mr. Cole serves as a director-at-large of the National Client Protection Organization (NCPO), and is a member of the ABA's Advisory Commission on Client Protection Funds. In these positions, he taught sessions at national conferences on client protection this past year in Chicago and New Orleans for the NCPO and ABA. Board members Timothy Kuntz and Richard Diamond attended the NCPO conference in Chicago, and Mr. Diamond also attended an NCPO conference in Phoenix. Such activities allow the staff and Board to remain current with any trends or developments in the client protection field.

The Board maintains a computerized record-keeping system, which was fully operational for the entire year. Having worked with the system, staff have identified several minor areas where enhancements are necessary, especially to allow greater ability to answer queries from the Board, bar and public. Revisions have been started and should be completed in the next year.

Following each meeting, the Board issues a press release pursuant to the Board's policy. The Board posts its press releases on the Board's internet website^{Ftn 2} as well, in the hopes that the public better will be able to obtain information about the Board's activities. The site also contains copies of articles about the Board, as well as answers to frequently asked questions (FAQ), the Board's rules, claim form, staff directory and a copy of the latest annual report (*see* Appendix 5, which is a copy of the part of the Board's internet website homepage). Following the completion of the Board's computerized database, the Board added to the website a list of attorneys against whom claims have been approved, similar to that in Appendix 2, which is updated regularly.

The Minnesota Attorney General provides legal services to the Client Security Board in enforcing its subrogation rights against attorneys on whose behalf the Board has paid claims, or against any third persons from whom payments may be legally obtained. Mr. Burke oversees the Attorney General's collection efforts on behalf of the Board. Assistant Attorney General James Crassweller and his staff provide outstanding representation for the Board. Mr. Crassweller began representation of the Board this past year, continuing a line of excellent attorneys assigned to the Board's work. The Board pays no attorney's fees for this representation, but is responsible for direct costs of collection efforts and litigation.

As noted in the highlights section, this past year saw considerable activity in the area of subrogation and restitution, particularly against third-party entities, such as banks that negotiated settlement checks over forged endorsements, or that were potentially negligent in overseeing accounts of attorneys known to have misused their trust accounts. Such claims have involved some difficult fact situations and aggressive presentation of defenses. The Attorney General's staff has had to spend considerably more time on these matters than in some previous years, but with remarkable success. The final amount anticipated this year is \$44,391.54. The Board has budgeted this coming year to recover \$35,000.

Also as a part of the collection process, the Board may forward matters to the Minnesota Collections Enterprise (MCE), an agency created to assist government agencies in their collection work. Although the Attorney General continues to handle most matters for the Board that are to be contested, or that appear capable of prompt resolution, other matters are now referred to MCE to pursue.

Rules of the Minnesota Client Security Board. The Board's rules were last amended effective July 1, 1995, and underwent no changes in the past year. No changes presently are anticipated this coming year either.

The Board's maximum payment per claim remains at \$100,000, with no limit on the aggregate amount payable on behalf of an attorney. Only one claim was approved for the maximum amount this past year. At its April 2000 meeting, the Board first discussed the possibility of seeking authority to raise the current cap amount. Such an increase will require a rule change, with a petition to the Court followed by a comment period. This issue will be reviewed and discussed by the Board in the coming year. No decision has been reached as yet, but maximum (preferably full) payment of claimant losses is always a goal for any client protection system.

Claims Procedure. Claims are initiated by submitting the claim to the Director's Office on forms approved by the Board. Claimants are provided the forms and a brochure to help explain the process. The claim form, and copies of the Board's rules are also available via the internet at the Board's website. The respondent attorney is provided an opportunity to respond in writing, although frequently no response is received. The Board also has access to all lawyer disciplinary files, from which considerable information is often obtained.

The rules provide that claimants are expected to pursue reasonably available civil remedies. In order to avoid hardship and provide prompt claim resolution and payment, the Board occasionally exercises its discretion by waiving this requirement when it is already known that the Attorney General will be pursuing litigation against the attorney under the Board's subrogation rights. One recurring situation where direct claimant efforts are appropriate is when the dishonesty involves forged instruments that were honored by a financial institution.

In most cases, attorney disciplinary proceedings will have been completed before any Client Security payment is made. The Board generally relies upon findings made in related lawyer disciplinary action concerning misappropriation, or in related civil or criminal cases whenever possible.

If a claim is denied, the claimant is notified in writing of the Board's determination and reasoning. The claimant has the right to request reconsideration and a discretionary meeting with the Board, so that all claimants have a full opportunity to present the merits of their claim.

III. GOALS AND OBJECTIVES

Despite having to deal with a large number of issues this past year, the Board remains current with its workload. The Board anticipates facing several substantial claims this year. As noted, the maximum amount payable will be studied this year, and the Board's computer database will be upgraded. A new Chair and one new lawyer member will influence the Board's direction next year, but with a settled funding amount in place as the new fiscal year begins, and with fewer complex restitution issues on the horizon, the Board hopes to keep its attention on its core function of resolving claims promptly and paying victims of lawyer theft to the fullest possible amount.

Respectfully submitted,

Dated: July 24, 2000

DANIEL L. BOWLES, CHAIR
MINNESOTA CLIENT SECURITY BOARD

Dated: July 31, 2000

EDWARD J. CLEARY, DIRECTOR
MINNESOTA CLIENT SECURITY BOARD

[Footnotes](#) _____

¹ Claims were paid against the following attorneys in the following amounts:

Glenn L. Smith - 1 claim	\$ 100,000
Gerald "Jay" McNabb - 7 claims	\$ 86,113
Michael G. Singer - 1 claim	\$ 63,000
Donald A. Wheat - 1 claim	\$ 12,842
Helen A. Dovolis - 2 claims	\$ 8,910
Dennis L. Palm - 1 claim	\$ 3,200
Dyan L. Campbell - 4 claims	\$ 2,815
Stanley J. Leino - 1 claim	\$ 1,807
George C. Ramler - 1 claim	\$ 1,500
Gregory A. Carpenter - 1 claim	\$ 1,000
Thomas J. Bieter - 1 claim	\$ 1,000

² The Client Security Board's internet address is: www.courts.state.mn.us/csb/csb.html.

APPENDIX

Appendix 1

Awards of Reimbursement - July 1, 1999 through June 30, 2000

This table summarizes, by area of law, all claims for reimbursement approved by the Board during fiscal year 2000.

Area of Law	Number of Awards	Amount of Awards
Criminal	1	\$3,200.00
Family	4	\$2,814.77
Immigration	1	\$1,000.00
Litigation	2	4,807.28
Other	2	\$75,841.00
Personal Injury	3	\$10,410.05
Probate	3	\$131,629.69
Real Estate	2	\$48,483.18
Tax	2	\$3,000.00

Workers' Comp.	1	\$1,000.00
Total	21	\$282,186.67

Appendix 2

Awards of Reimbursement - July 1, 1987 through June 30, 2000

This table summarizes, by area of law, all claims for reimbursement approved by the Board since 1987.

Area of Law	Number of Awards	Amount of All Awards
Bankruptcy	17	\$50,633.30
Business/Corporation	11	\$75,607.40
Criminal	13	\$102,429.69
Debt Collection	33	\$147,270.05
Family	41	\$226,017.30
Immigration	1	\$1,000.00
Investment	11	\$670,522.67
Litigation	31	\$276,953.88
Other	42	\$344,993.88
Personal Injury	19	\$193,490.83
Probate	45	\$1,216,470.17
Real Estate	27	\$450,589.61
Tax	9	\$41,112.28
Workers' Comp.	4	\$7,337.29
Total	304	\$3,804,428.35

Appendix 3

2000 Claims Per Attorney

Respondent	City	Number of Claims	Amount Paid	Disciplinary Action	Comments
Anderson, Harold W. E.	Grand Forks	2	\$39,258.97	Disbarred	
Andrew, John M.	Shoreview	2	\$100,000.00	Disbarred	
Barta, Loren M.	Prior Lake	2	\$3,947.93	Suspended	Reinstated
Batdorf, Richard K.	Minneapolis	1	\$50,000.00	Disbarred	
Benson, John T.	St. Paul	1	\$50,000.00	Disbarred	
Bieter, Thomas	Duluth	1	\$1,000.00	Disability/Inactive	
Campbell, Dyan L.	North St. Paul	4	\$2,814.77.00	Suspended	
Carpenter, Gregory A.	Minneapolis	1	\$1,000.00	Suspended	
Chacon, Jeanne T.	Shakopee	1	\$700.00	Disbarred	
Cohen, Sr., Edward M.	St. Louis Park	1	\$2,245.83	Disbarred	
Danna, Anthony A.	St. Paul	3	\$81,625.00	Disbarred	
Davis, Daniel A.	Edina	3	\$44,486.66	Disbarred	
Douglas, Bruce C.	Edina	11	\$225,309.60	None	Deceased
Dovolis, Helen A.	Minneapolis	15	\$68,317.19	Disbarred	
Erickson, Bruce E.	Winona	2	\$1,995.00	Suspended	
Feldman, John H.	Minneapolis	2	\$12,954.00	Disbarred	
Flanagan, John J.	St. Paul	6	\$113,626.59	Disbarred	
French, Rodney M.	Minneapolis	6	\$4,062.50	Suspended	
Getty, Paris DonRay	St. Paul	5	\$24,278.00	Disbarred	
Goldstein, Robert Mark	St. Paul	4	\$11,173.40	Disbarred	
Graham, Timothy E.	Rochester	3	\$6,257.98	Disbarred	
Grzybek, John E.	St. Paul	1	\$750.00	Disbarred	
Gurstel, Norman K.	Edina	33	\$147,270.05	Disbarred	
Harp, Reynaud L.	St. Paul	2	\$3,702.00	Disbarred	
Heikens, Steven G.	Minneapolis	2	\$12,800.00	Suspended	Reinstated
Heikkila, Neil D.	Hopkins	2	\$90,916.82	Disbarred	
Hendricksen, Harald F.	Annandale	2	\$17,875.00	Suspended	
Henke, David E.	Spring Lake	1	\$1,000.00	Suspended	

	Park				
Hollender, R. Fred	Minneapolis	1	\$2,227.74	None	Deceased
Hunter, James W.	Minneapolis	5	\$21,900.00	Disbarred	
Isaacs, Clark F.	St. Paul	1	\$535.78	Disbarred	
Johnson, Richard W.	Red Wing	2	\$9,362.00	Disbarred	
Johnson, Ronald J.	Hopkins	1	\$7,196.71	Disbarred	
Kinnunen, Steven J.	Minneapolis	1	\$500.00	Suspended	
LaChapelle, Arthur W.	St. Paul	2	\$18,400.00	Disbarred	
Ladd, William L.	Minneapolis	13	\$49,542.60	Disbarred	
Larsen, Dean D.	Eden Prairie	1	\$40,000.00	Disbarred	
Leino, Stanley J.	Buffalo	1	\$1,807.28	Suspended	
Levenstein, Eli C.	Minneapolis	1	\$368.00	Suspended	
Logan, Diana Smith	Minneapolis	3	\$560.00	Suspended	
Maresh, Thomas F.	Eden Prairie	1	\$6,500.00	Disbarred	
Marshall, Gary L.	Hoffman	7	\$24,170.00	Disbarred	
McCarthy, Justin H.	St. Louis Park	2	\$58,679.24	Disbarred	
McGrath, F. Patrick	St. Paul	1	\$1,128.00	Suspended	
McNabb, Gerald	St. Paul	11	\$146,308.96	Disbarred	
Merlin, Carol Sue	Minneapolis	1	\$500.00	Suspended	
Moe, Carlton E.	West St. Paul	1	\$89,325.52	Disbarred	
Morgeson, Sr., Dennis John	Edina	8	\$547,922.67	Disability	
Mose, William G.	Bloomington	2	\$400.00	Suspended	
Murphy, Gerald W.	Duluth	9	\$4,980.99	Disbarred	
Olsen, Lawrence E.	Bloomington	1	\$50,000.00	Disbarred	
Orlins, Peter I.	Richfield	11	\$419,843.39	Disbarred	
Ostfield, Benjamin J.	Minneapolis	3	\$15,297.72	Disbarred	
Ostroot, Timothy V.	Champlin	1	\$1,200.00	Disbarred	
Palm, Dennis Lee	Little Canada	2	\$4,080.00	Disability/Inactive	
Pang, Gary Y.	Minneapolis	3	\$6,323.00	Disbarred	
Pearson, Kenneth R.	Golden Valley	2	\$39,000.00	Disbarred	
Pegg, J. C.	Owatonna	1	\$2,500.00	Reprimanded	
Ploetz, John W.	St Paul	1	\$60,494.71	Disbarred	

Plowman, George E.	Prior Lake	4	\$81,144.77	Disbarred	
Polt, Thomas M.	Eyota	3	\$17,082.02	Disbarred	
Pucel, Cherylyn T.	Minneapolis	1	\$3,500.00	Suspended	
Pyles, David A.	Bloomington	1	\$16,450.00	Suspended	Reinstated
Ramler, George C.	Chanhassen	1	\$1,500.00	Disbarred	
Randall, Michael H.	Brooklyn Center	2	\$4,708.00	Disbarred	
Rothstein, Morry N.	Minneapolis	3	\$7,500.00	Disbarred	
Ruttger III, Max J.	Brainerd	1	\$25,678.15	Disbarred	
Sampson, Mark A.	Fridley	20	\$404,742.04	Disbarred	
Scott, John O.	Perham	2	\$57,821.34	None	Deceased
Seiler, Victor P.	Minneapolis	1	\$2,810.77	None	Deceased
Sheffey, Ralph E.	Rochester	1	\$5,000.00	Suspended	
Simonet, William B.	Stillwater	5	\$50,411.56	Disbarred	
Simonson, Paul L.	Minneapolis	1	\$2,360.23	Disbarred	
Singer, Michael G.	Minneapolis	1	\$63,000.00	Suspended	
Skonnord, James T.	St. Paul	5	\$2,349.26	Suspended	Reinstated
Soderberg, James W.	Winona	1	\$557.87	Suspended	
Smith, Glenn L.	Edina	1	\$100,000.00	Disbarred	
Stockman, William L.	Duluth	1	\$25,000.00	Disbarred	
Strid, Dennis W.	Minneapolis	1	\$1,197.00	Suspended	Reinstated
Sullivan, Kevin P.	Elk River	1	\$200.00	Suspended	
Swerine, Brian A.	Brainerd	8	\$23,645.40	Disbarred	
Thompson, Joel R.	Detroit Lakes	2	\$6,160.00	Suspended	
Ulstad, Bjorn	St. Paul	1	\$2,500.00	None	Deceased
Vinitsky, Richard S.	St. Paul	2	\$20,000.00	Disability	
Walker Jr., Samuel	St. Paul	5	\$19,945.00	Disbarred	
Weems, Mark T.	Shoreview	7	\$70,901.64	Disbarred	
Wheat, Donald A.	Eagan	3	\$37,841.70	Disbarred	
Wyant, Bruce P.	see <i>Morgeson</i>			Disbarred	
Total Respondents 88		304	\$3,804,428.35		

Through June 30, 2000

[Appendix 7](#)

CLIENT SECURITY FUND FINANCIAL HISTORY

Fiscal Year	Contribution by Bar	Investment Income	Restitution	Number of Claims Paid	Amt. Paid to Claimants	Other Expenses	Balance Year End
1988	\$1,433,397	\$58,040	\$0	35	\$489,656	\$37,273	\$964,508
1989	93,318	79,049	0	21	236,016	24,068	876,791
1990	79,350	70,952	768	25	260,561	22,884	744,416
1991	137,851	66,264	39,249	23	235,316	28,905	723,559
1992	328,954	52,748	14,302	28	150,180	30,490	938,893
1993	353,560	49,156	12,104	16	200,681	33,170	1,119,862
1994	369,320	47,244	9,830	24	123,600	24,538	1,398,118
1995	349,424	85,075	37,075	14	62,421	25,471	1,781,800
1996	368,450	82,630	31,361	22	705,524	35,427	1,523,290
1997	375,730	94,547	23,797	12	103,073	27,207	1,887,084
1998	255,762	119,276	25,217	35	341,984	40,481	1,904,874
1999	325,207	118,078	200,416	42	413,231	35,575	2,099,769

Appendix 8BOARD MEMBERSMinnesota Client Security Board Members
1987-2000CHAIRS

Melvin I. Orenstein	Minneapolis	1987-1993
Nancy L. Vollertsen	Rochester	1993-1995
Bailey W. Blethen	Mankato	1995-1997
Kim Buechel Mesun	St. Paul	1997-1999
Daniel L. Bowles	Edina	1999-2000
Daniel L. Rust	Crookston	2000-

*Sister Mary Madonna Ashton	St. Paul	1992-1998
Bailey W. Blethen	Mankato	1991-1997
Daniel L. Bowles	Bloomington	1994-
*Sandra Brown	Minnetonka	1990-1996
Kim Buechel Mesun	St. Paul	1993-1999
Richard I. Diamond	Eden Prairie	1997-
Gilbert W. Harries	Duluth	1987-1991
*Jean L. King	St. Paul	1987-1992
Timothy J. Kuntz	South St. Paul	1996-
Earle F. Kyle IV	Minneapolis	1993-1996
*Beverly K. McKinnell	St. Paul	1996-
Melvin I. Orenstein	Minneapolis	1987-1993
*Constance S. Otis	St. Paul	1987-1990
*Judith A. Pinke	Minneapolis	1998-
Daniel L. Rust	Crookston	1995-
Warren R. Sagstuen	Minneapolis	2000-
Ronald B. Sieloff	St. Paul	1987-1994
James B. Vessey	Minneapolis	1987-1993
Nancy L. Vollertsen	Rochester	1987-1995
Margaret L. Westin	Hastings	1999-

*Public Members

[Link to Client Security Board Homepage](http://www.courts.state.mn.us/csb/csb00ar.html)