

**DIVISION OF INSURANCE FRAUD PREVENTION  
MINNESOTA DEPARTMENT OF COMMERCE**

**ANNUAL REPORT 2012**



*To detect, reduce and deter insurance fraud crimes by aggressive investigation, identification and prosecution of violators by working cooperatively with the insurance industry, law enforcement and the citizens of the State of Minnesota*

## TABLE OF CONTENTS

Section	Page
COVER	
AGENCY MESSAGE	
I. INTRODUCTION .....	1
II. STAFFING.....	1
III. FUNDING .....	2
IV. AUTO THEFT PREVENTION PROGRAM.....	2
V. REFERRALS.....	2
A. Procedure .....	2
B. Statistics .....	3
1. Economic Impact.....	3
2. Referrals by Type of Fraud .....	3
3. Referrals by Source .....	4
VI. PREVENTION .....	4
A. Educational Presentations.....	4
B. Educational Materials .....	5
C. Other Activities.....	5
VII. INVESTIGATIONS.....	5
A. Overview.....	5
B. Intelligence and Other Activities .....	6
VIII. PROSECUTION.....	6
A. Overview.....	6
B. Statistics .....	7
IX. CONCLUSION.....	7
APPENDIX – 2012 Case Highlights	

## *AGENCY MESSAGE*

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

**On behalf of the Division of Insurance Fraud Prevention (IFD) of the Minnesota Department of Commerce, I am pleased to present the annual report of the IFD for calendar year 2012, pursuant to Minn. Stat. § 45.0135, subdivision 5.**

The IFD is Minnesota's primary law enforcement agency responsible for conducting criminal investigations concerning insurance fraud and related crimes. The IFD entered its eighth year in 2012. This was an exciting year as it continued to make significant progress in its efforts to combat and prevent insurance fraud throughout the Minnesota.

In January 2012, a new director was brought on and charged to strengthen the IFD internally and reset and improve its roles as a state law enforcement agency. Robert J. Hernz accepted the position of Director from the Minnesota Bureau of Criminal Apprehension. Prior to his time at the BCA, he was the Director of Public Safety for the City of Golden Valley. As part of the IFD's 2012 strategic plan meeting with insurance industry stakeholders, law enforcement agencies and community organizations was a priority and significant time and energy was dedicated to those efforts. The outreach efforts were critical to the IFD as it continues to build and re-build solid partnerships and solidify its role as Minnesota's premier criminal investigative agency focused on insurance fraud.

As part of Commissioner Rothman's mission of greater accountability and improved productivity and performance, the Division was organized into two investigative groups, with a supervisor appointed to lead each group. Many of the cases investigated by the IFD are large and complex, and as a result of the reorganization, are now assigned and investigated by all or a portion of an entire group, with supervisors working hand-in-hand with detectives and analysts. This reorganization has enhanced the IFD's ability and capacity to effectively and efficiently handle a wide variety of cases of varying complexity, scope and duration.

Insurance fraud is a serious crime. According to the National Insurance Crime Bureau, it is the most costly white collar crime in the U.S., behind tax evasion. The IFD's efforts produced several noteworthy accomplishments in 2012 as well as an increase in the number of investigations resulting in criminal charges being filed. These high-profile cases raised the public's awareness of insurance fraud as well as recognition for the IFD and our dedicated staff of detectives and analysts. Several of these cases targeted multi-faceted, high-dollar fraud schemes perpetrated by organized criminals who targeted vulnerable individuals and groups. These were resource-intensive investigations, but they provided the opportunity for the IFD to establish that it is up to the challenge and will continue to target individuals who prey on our communities.

In 2013, the IFD will continue its efforts by focusing on complex, high-dollar insurance fraud schemes as well as targeting schemes involving health and no-fault insurance. It will pursue its mission by working with local, county and federal law enforcement, promoting public awareness of insurance fraud, and aggressively identifying and investigating criminal activity.

NANCY LEPPINK  
Assistant Commissioner - Enforcement  
Minnesota Department of Commerce

## **I. INTRODUCTION**

In 2004, Minnesota became the 41st state to join the fight against insurance fraud by enacting legislation creating the Division of Insurance Fraud Prevention within the Minnesota Department of Commerce. The legislation authorized the Commissioner to establish a law enforcement agency and appoint peace officers to conduct investigations and make arrests. The jurisdiction of the agency is the criminal investigation and assistance with the criminal prosecution of insurance fraud and related offenses.

The Division of Insurance Fraud Prevention, more commonly known as the IFD, is authorized to conduct criminal investigations of insurance fraud and related crimes by Minn. Stat. § 45.0135, which provides the IFD 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 IFD 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 and responsibilities, the IFD is authorized to employ a Director (Chief Law Enforcement Officer), two Investigations Supervisors, eight Detectives, five Analysts and a Computer Forensics Specialist. Detectives at the IFD are licensed peace officers and have extensive experience in law enforcement with local, county and state law enforcement agencies.

### **III. FUNDING**

The IFD is funded by an assessment on each insurer authorized to sell insurance in the state of Minnesota. Specific assessment language can be found in Minn. Stat. § 45.0135, subdivision 7. The assessment has remained relatively stable since 2004; however, because there has not been an increase to the assessment since the division's inception, the IFD has faced some budgetary stress.

To date, the assessment has collected just over \$14 million for fiscal years 2004 through 2012. Expenditures total approximately \$11 million for the same period. In addition, between 2008 and 2011, legislation was enacted that transferred funds from the IFD budget to the General Fund. In fiscal year 2011, the IFD transferred \$48,000 to the General Fund. In the years prior, the IFD transferred a total of \$3,112,000 to the General Fund, which has had a significant negative impact on the IFD's operational budget.

### **IV. AUTO THEFT PREVENTION PROGRAM**

On July 1, 2009, the IFD assumed administrative responsibility for the Auto Theft Prevention Program (ATPP). The ATPP 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. For fiscal year 2012, the IFD awarded grants totaling approximately \$1,499,122.00 to eighteen law enforcement and crime prevention entities.

As a result of legislation enacted in 2004, the ATPP transfers approximately \$1.3 million of the collected surcharge to the General Fund each fiscal year; over the last 8 years these transfers have totaled over \$10 million. This year's transfer reduced by almost half, the resources collected to fund grants to combat auto theft in Minnesota.

### **V. REFERRALS**

#### **A. PROCEDURE**

The IFD is responsible for investigating violations of insurance fraud crimes as well as crimes related to insurance fraud. The division received 1424 referrals during the calendar year 2012. The referrals came from the general public, the insurance industry, law enforcement or other government agencies.

If it is determined that a referral has sufficient information and is appropriate for criminal investigation, the case is assigned to a detective and analyst for investigation. If initially a referral does not include sufficient information to make a determination regarding its appropriateness for criminal investigation, it may be assigned to an analyst for additional research, review and analysis. Thereafter, the referral is either assigned for investigation or closed.

*B. STATISTICS*

Once referrals are reviewed, they are entered into the IFD's Records Management System ('RMS'). RMS is used for the purposes of file management; data mining and intelligence gathering; and compiling statistics. The statistics assembled from our database relate to the type and source of the fraud as well as the economic impact of referred and charged cases.

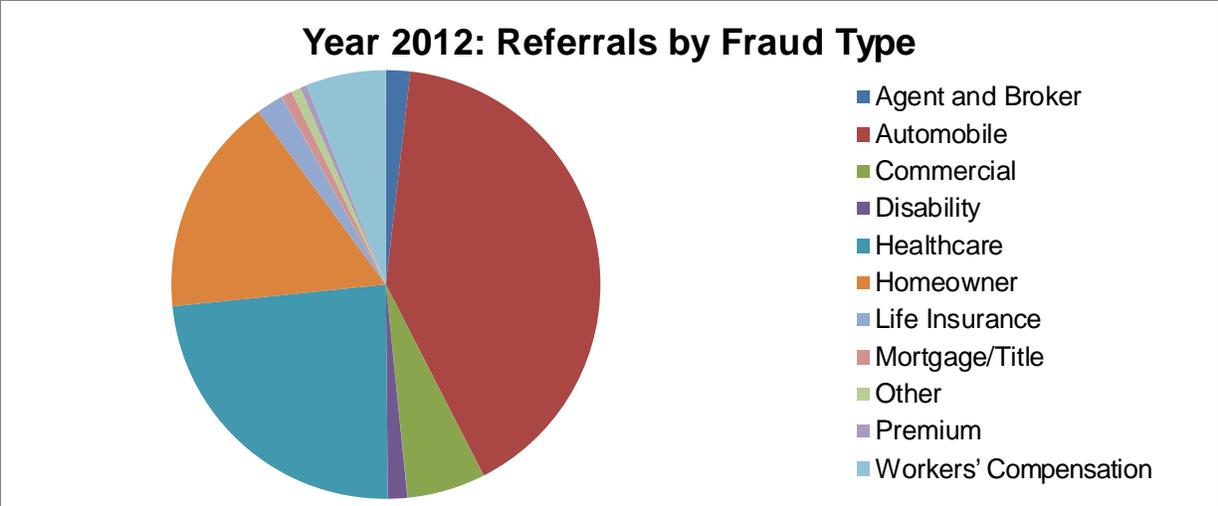
*1. Economic Impact*

The IFD does not document the losses reported for each and every referral since some losses are unsubstantiated. The amount of fraud in each case that was investigated and referred for criminal prosecution is recorded. This allows the IFD to evaluate the annual economic impact of insurance fraud in Minnesota. The economic impact of IFD cases criminally charged in 2012 was \$5,158,910.53.

*2. Referrals by Type of Fraud*

The IFD assigns a case code to every referred case received. The classification system enables the division to determine the most prevalent type of insurance fraud in Minnesota. The categories for each type of fraud and the number of referrals in 2011 and 2012 are as follows:

<u>Case Code</u>	<u>2011</u>	<u>2012</u>
Agent/Broker	14	26
Automobile	519	579
Commercial	75	84
Disability	15	21
Healthcare	379	335
Homeowner	208	235
Life Insurance	21	29
Mortgage/Title	9	12
Other	7	10
Premium	6	7
Workers' Compensation	51	86
	<hr/>	<hr/>
	1304	1424



3. *Referrals by Source*

The IFD receives case referrals from four main sources: the general public, insurance companies, law enforcement agencies and government agencies. The subject of the referrals varies from individuals to businesses suspected of committing insurance fraud. The majority of these referrals are received from the insurance companies through the National Association of Insurance Commissioners. The general public can contact the IFD through its toll-free hotline (1-888-FRAUDMN), the US mail and the department website ([www.mn.gov/commerce](http://www.mn.gov/commerce)). The division has an inter-agency agreement with the Minnesota Department of Labor and Industry (DOLI) to conduct investigations concerning workers' compensation fraud.

**VI. PREVENTION**

A. *EDUCATIONAL PRESENTATIONS*

One of the primary goals of the IFD is to educate the public, the insurance industry, law enforcement, government agencies and prosecutors that insurance fraud is a crime and that it has a negative impact on insurance rates in Minnesota. The National Insurance Crime Bureau (NICB) estimated that fraud accounts for between 10 and 30 percent of all property and casualty insurance claims. The Coalition Against Insurance Fraud estimated that insurance fraud costs consumers \$80 billion a year in damages, leaving the average American family paying a minimum of \$950 a year in higher insurance premiums and increased costs of goods and medical services.

In 2012, the IFD made several presentations to community organizations, the insurance industry, law enforcement and government agencies. A common goal of our presentations was to provide a brief background on the IFD and its role and responsibilities with specialized areas of interest, such as workers' compensation fraud and staged automobile accidents. Additionally, the division offered POST (Peace Officers and Standards Training) sponsored training for law enforcement on insurance fraud.

In 2012, the division leased exhibit booths at the annual conferences for the Minnesota Chiefs of Police Association, Minnesota Sheriffs' Association, the Minnesota Crime Victims Association, the Minnesota Crime Prevention Association and the Minnesota State Fair to provide awareness about insurance fraud and reporting of insurance fraud.

#### *B. EDUCATIONAL MATERIALS*

As part of its public awareness program, the IFD continues to distribute an informational pamphlet on insurance fraud. The pamphlet provides information about why people commit insurance fraud, the types of insurance fraud, elements of insurance fraud, and how to contact the IFD. The division also distributes pamphlets designed by the Coalition against Insurance Fraud, "Insurance Fraud, the Crime You Pay For," which has information on the types of fraud, the costs of fraud and how to prevent becoming a victim of insurance fraud.

#### *C. OTHER ACTIVITIES*

As part of its mission to reduce and deter insurance fraud, the IFD works cooperatively with the general public, the insurance industry and law enforcement. The division staff has joined, or is associated with various professional groups, both from the insurance industry and the law enforcement community. These groups include but are not limited to the IFM, NICB, National Association of Insurance Commissioners, Coalition Against Insurance Fraud, Mid-States Organized Crime Information Center, FBI Mortgage Fraud Task Force, Minnesota Health Care Fraud Task Force, National Health Care Anti-Fraud Association, Twin Cities Securities Partnership, Association of Certified Fraud Examiners, Minnesota Chiefs of Police Association, High Technology Crime Investigation Association and the Minnesota Cyber Crimes Task Force. Our association and participation with these groups provide valuable assistance, resources and information to us in our efforts to combat insurance fraud in Minnesota.

## **VII. INVESTIGATIONS**

### *A. OVERVIEW*

The IFD conducts criminal investigations concerning insurance fraud and offenses related to insurance fraud, including healthcare fraud, mortgage fraud, securities fraud, arson, and other state and federal criminal violations. The investigation process includes activities such as:

- interviewing witnesses,
- victims and suspects;
- serving subpoenas;
- executing search warrants;
- conducting surveillance;
- conducting undercover operations;
- reviewing/analyzing documents and evidence;
- conducting computer forensic examinations; and
- making arrests.

By statute, the jurisdiction of the IFD is limited to offenses related to insurance fraud; however, given IFD detectives are fully sworn peace officers of the State of Minnesota, detectives have full powers of arrest – anywhere in the state. Accordingly, Minn. Stat. § 45.0135, Subd. 2b(4) provides that the IFD *shall otherwise assist any law enforcement authority having jurisdiction*. In essence, IFD detectives conduct criminal investigations with a nexus to insurance fraud; however, detectives do not stop their investigations when additional crimes are uncovered or are believed to have occurred. When these offenses are identified, detectives partner with local, state or federal law enforcement, which includes the prosecuting authority having jurisdiction. These investigations often involve all facets of state and federal criminal code.

## **B. INTELLIGENCE AND OTHER ACTIVITIES**

Information is a key element in solving crimes. Insurance fraud is typically deemed a white collar crime, often crossing jurisdictional boundaries of city, county and state lines. The IFD shares information and intelligence with other law enforcement agencies and government agencies throughout the state to accomplish its mission. Many of the division's investigations have developed into coordinated efforts by multiple law enforcement agencies to bring forth successful prosecutions.

Some of the agencies the division's detectives have either provided assistance to or worked with on joint investigations include Minnesota Sheriffs' Offices, Minnesota Police Departments, Minnesota County Attorneys, Federal Bureau of Investigation, Internal Revenue Service, Drug Enforcement Administration, Bureau of Alcohol, Tobacco and Firearms, U.S. Postal Inspection Service, U.S. Department of Health and Human Services, Social Security Administration, U.S. Attorney's Office, Minnesota Department of Labor and Industry, Minnesota Department of Employment and Economic Development, Minnesota Department of Human Services, and the Civil Enforcement and Securities Divisions of the Minnesota Department of Commerce. This cooperation has helped solve many criminal cases, establish and build valuable relationships, and consolidate resources in the fight against crime.

## **VIII. PROSECUTION**

### **A. OVERVIEW**

The IFD refers its investigations concerning insurance fraud and offenses related to insurance fraud for criminal prosecution. These investigations are either referred to Minnesota County Attorneys or the United States Attorney's Office – District of Minnesota, depending on the jurisdiction and criminal violations applicable to the investigation. Under state law, the division 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 division 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).

In all prosecutions, the division seeks the forfeiture of assets from defendants and restitution for the victims.

#### *B. STATISTICS*

In 2012, IFD investigations resulted in the filing of 53 state and federal criminal counts with an economic impact of at least \$5,158,910.53.

Additionally, the IFD referred 20 investigations to state and federal prosecuting agencies in 2012. These investigations involved 23 individuals. Some of these investigations are still pending at prosecuting agencies and are at various stages of the court and legal process.

### **IX. CONCLUSION**

The IFD has worked diligently with the general public and our partners in law enforcement, the insurance industry, and government agencies during 2012 in our efforts to combat insurance fraud. The IFD will continue to aggressively investigate and seek prosecution of fraudulent acts and increase public awareness of insurance fraud across the State of Minnesota. We proudly serve and protect the citizens of Minnesota in our pursuit of justice against those who violate our laws.

## APPENDIX

### 2012 Highlighted Cases

#### BeneVento Capital, et al.

Economic Impact: \$4,218,763.81

Case Type: Agent/Broker

The IFD received a referral alleging Steven A. Marrone and Robert J. Hertz, through their St. Paul based company, BeneVento Capital, had internally recycled forty-six annuities with Allianz Life Insurance of North America. In December 2010, the IFD commenced a criminal investigation re. BeneVento Capital, et al.

During the course of a eighteen-month investigation, search warrants were executed at the office of BeneVento Capital, Marrone's residence, on business and personal bank accounts as well as an *ex parte* order was served on Minnesota Department of Revenue. The execution of the warrants and order resulted in thousands of pages of records being seized, which were then compiled, reviewed and analyzed by an IFD detective and analyst.

Based on the review of documents, a forensic examination of seized electronic files and over twenty witness interviews, an IFD detective discovered, in order to further their criminal scheme, Marrone and Hertz paid clients for loss amounts and tax consequences incurred as a result of surrendering their annuities. Additionally, it was discovered that many of the clients were not fully aware of the ramifications related to surrendering their policies. In some instances, without regard for their clients' financial interest, Marrone and Hertz encouraged clients to surrender and reapply for policies that were not suitable. In order to avoid Allianz suitability requirements, the net worth of certain clients was inflated.

The IFD investigation revealed Marrone and Hertz convinced nineteen clients to surrender fifty-two Allianz annuities worth \$4,218,763.81, surreptitiously reinvesting the surrender proceeds back with Allianz. When Marrone and Hertz completed the 'new' annuity applications, they materially misrepresented the true nature of the policies. In doing so, Marrone and Hertz received large commission payments.

In August 2012, the Ramsey County Attorney's Office charged Marrone and Hertz with seven felony criminal counts, respectively. In December 2012, Hertz pleaded guilty to one count of Insurance Fraud, agreeing to cooperate with the government and its case against Marrone. During the summer of 2013, Marrone pleaded guilty to three counts of Theft by Swindle.

Jason W. Sheedy

Economic Impact: \$352,539.58

Case Type: Agent/Broker Fraud

An IFD detective was contacted about a possible insurance fraud scheme perpetrated by Jason Sheedy. The allegation centered on a theft report Sheedy filed in September 2007. In the report, Sheedy claimed nearly all of his personal property was stolen from a moving van. He later filed insurance claims asserting over \$250,000.00 worth of artwork and \$90,000.00 worth of household items had been stolen. Sheedy received settlements from two insurance carriers.

An initial investigation and subsequent 'trash pull' conducted by an IFD detective, uncovered a pawn redemption receipt for one of the pieces of artwork Sheedy had previously reported stolen. Additionally, it was determined Sheedy had attempted to sell several pieces of artwork using an online art brokerage site.

A federal search warrant executed by the IFD and FBI resulted in all but one of the pieces of art being found at Sheedy's St. Paul, Minnesota residence. The year-long investigation uncovered additional evidence of Sheedy's scheme as well as a confession from Sheedy himself.

In August 2012, the United States Attorney's Office filed information on Sheedy. The information charged Sheedy with one count of Wire Fraud. Sheedy later pleaded guilty to this crime. In January 2013, he was sentenced to three years of probation and ordered to pay \$352,539.58 in restitution.

Mark J. Nolte

Economic Impact: \$331,658.59

Case Type: Healthcare Fraud

The IFD received a referral alleging Mark Nolte was involved in an ongoing scheme to obtain prescription drugs by 'doctor shopping.' It was alleged his criminal scheme involved visiting clinics, urgent care facilities and emergency rooms, falsely claiming he was injured and/or was suffering from an illness in an effort to obtain prescription narcotics.

The two-year investigation revealed Nolte had made approximately one-thousand clinic, urgent care and emergency room visits throughout Minnesota and several contiguous states. Nolte claimed pain and injuries to different areas of his body during the visits but failed to return for follow-up treatments. Nolte received approximately 248 pharmaceutical prescriptions primarily for narcotic pain killers as a result of those visits. The total cost incurred by Blue Cross and Blue Shield of Minnesota as a result of this scheme was \$331,658.59.

In September 2012, the Dakota County Attorney's Office charged Nolte with three felony criminal counts as a result of his scheme. In March 2013, Nolte pleaded guilty to two felony counts. He was placed on five years of probation and ordered to pay restitution to Blue Cross and Blue Shield of Minnesota.

Steven W. Schmidt

Economic Impact: \$104,258.20

Case Type: Agent/Broker Fraud

The IFD received a referral alleging Steven Schmidt, a licensed insurance agent and investment advisor, over the course of several years, fraudulently obtained a total of \$104,258.20 from an elderly client.

As a result of his investigation, an IFD detective found, on four separate occasions, Schmidt's client withdrew large sums of money from annuity policies, and 'reinvested' the money in other retirement investments. The client told the detective she did so based on Schmidt's advice. A search warrant was executed on Schmidt's bank account, which revealed he received \$104,258.20 and used it for his own personal gain and benefit. Schmidt claimed his client 'loaned' him the money.

In November 2012, the Carlton County Attorney's office charged Schmidt with two felony criminal counts as a result of his scheme. In March 2013, an amended complaint added three additional felony counts against Schmidt. As of the date of this publication, this case has not yet been resolved\*.

*\*A defendant, is presumed innocent until he or she pleads guilty or is proven guilty at trial.*