U.S. Department of Justice
Criminal Division

FRAUD SECTION

ACTIVITIES REPORT

Fiscal Years 2000 and 2001

(October 1, 2000, through September 30, 2001)

MESSAGE FROM THE CHIEF

The Fraud Section is charged with major responsibility for leading the federal economic crime enforcement effort. The Section's challenging portfolio of responsibilities encompasses cutting-edge litigation, large-scale and multidistrict case coordination, legal advice activity, and policy and legislation formulation and analysis. Fraud Section attorneys routinely prosecute complex and sensitive white-collar crime enforcement initiatives, identifies new fraud trends and issues, and helps develop Department of Justice policy for combating financial fraud. The Section is well situated to identify and adapt to changing priorities such as the growth of corporate institutional fraud and the emergence of identity theft as problems with enormous victim impact. Fraud Section attorneys provide critical interagency coordination for priority enforcement programs and participate in developing and teaching white-collar crime training courses.

The Fraud Section's attorneys and support personnel can take special pride in their contributions to the Section's accomplishments, which I am pleased to share with you.

Joshua R. Hochberg

SIGNIFICANT STATISTICS
Combined Fiscal Years (FYs) 2000 & 2001

119 Defendants Indicted

112 Defendants Convicted

94 Guilty Pleas

18 Guilty Verdicts

ENFORCEMENT LEADERSHIP

The Fraud Section leads or partners several white-collar crime enforcement programs:

Securities and Financial Institution Frauds: The Fraud Section has been a focal point for the Department's financial institution fraud and securities fraud enforcement programs. The Section devotes substantial resources to prosecution of bank and securities fraud cases across the nation and undertakes additional casework in United States Attorneys' offices as needs arise. The Section also serves as the Department's primary source of legal and legislative advice on securities and financial institution fraud issues.

Complex Corporate and International Fraud: The Fraud Section conducts complex corporate fraud investigations and is responsible for all investigations and prosecutions under the Foreign Corrupt Practices Act (FCPA), which prohibits the payment of bribes to foreign government officials in international business transactions. The Section was instrumental in negotiating the Organization for Economic Cooperation and Development's (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Internet Fraud Initiative: The Internet continues to expand as a global medium for electronic commerce and communication. Increasingly, Internet fraud is the type of cybercrime most likely to cause significant harm to consumers and businesses here and abroad and to undermine consumer confidence in the Internet. Complaints increase each year, and the number of transborder Internet fraud schemes, which require a substantial coordination of effort between the United States and foreign law enforcement agencies, has increased significantly.

> The Internet Fraud Complaint Center (IFCC), a partnership between the Federal Bureau of Investigation (FBI) and the National White Collar Crime Center (NW3C), opened on May 8, 2000. In 2001, the IFCC handled 16,775 fraud complaints, with the majority of those frauds committed over the Internet or other online service. In 2001 the Federal Trade Commission (FTC), through its Consumer Sentinel database, received more than 20,000 consumer complaints just on Internet auction fraud. In 2000 and 2001, the IFCC, the FTC, and the National Consumers League reported online auction sales were the No. 1 source of Internet fraud.

The Fraud Section leads the Department's Internet Fraud Initiative to define the scope of the problem, develop litigation expertise, coordinate the federal response, train prosecutors and investigators, develop investigative and analytical resources, and conduct public education and prevention programs

Health Care Fraud: Health care fraud continues to have a serious impact on all health care payers, cheating taxpayers out of billions of dollars every year. Health care fraud schemes also result in inadequate or harmful treatment for patients, including those who are among the most vulnerable members of our society. The Fraud Section plays a pivotal role in all aspects of the Department's vigorous health care fraud enforcement program: handling cases of national significance, chairing national-level working groups, identifying future crime trends, and developing policies and strategies to bolster investigations and prosecutions on a nationwide basis.

> "With services delivered by hundreds of thousands of providers to nearly 40 million beneficiaries and payments of about $220 billion in fiscal year 2000, Medicare is highly vulnerable to fraud, waste, and abuse." GAO testimony, June 11, 2001.

Bankruptcy Fraud: The Fraud Section spearheaded the Department's development of a program to support bankruptcy fraud investigations and prosecutions through a multiagency working group, identification of bankruptcy fraud trends, and investigative and prosecutorial training courses. The Section also collects and disseminates information on bankruptcy fraud statutes and leads the Bankruptcy Fraud Working Group in resolving bankruptcy fraud enforcement issues.

> The Executive Office for U.S. Trustees estimates that at least 10 percent of all bankruptcies involve fraud. Bankruptcy fraud undermines the integrity of the bankruptcy system as a whole. These frauds, which have occurred more frequently in recent years, cause creditors and investors to lose faith that their interests will be protected.

INTERAGENCY COORDINATION

Attorney General's Council on White-Collar Crime

Identity Theft Subcommittee: The Fraud Section is uniquely positioned to promote the interagency communication and cooperation that are essential elements of an effective law enforcement effort against the significant problem of identity theft--the misappropriation of an individual's personal identification information. The Identity Theft Subcommittee of the Law Enforcement Initiatives Committee brings together representatives of interested federal prosecutive, investigative and regulatory agencies, and often invites representatives of state and local law enforcement offices to ensure a coordinated response to the emerging threat of identity theft.

> Identity theft involves wrongfully appropriating and deceptively and fraudulently using another person's personal data–a Social Security number, bank account or credit card number, telephone calling card number, or other private identifying data.

Consumer Protection Initiatives Committee: The Fraud Section co-chairs a multiagency committee to develop and coordinate consumer protection initiatives focusing on enforcement, deterrence, and public awareness. The committee also seeks to facilitate referrals of cases with strong criminal implications to the Department and United States Attorneys for prosecution. It works closely with state and local law enforcement and non-governmental groups. A priority is consumer education and protection in regard to the Internet.

Fraud Prevention Committee: The Department designated a Special Counsel for Fraud Prevention within the Fraud Section to assist prosecutors, investigators, and consumers and report on the progress of the Fraud Prevention Initiative and preventive solutions developed in response to possible systemic weaknesses. The Committee encourages use of cross-linked government Web pages to provide information and direct citizen complaints and referrals to the appropriate investigative offices and has developed cooperative relationships between the public and private sectors to resolve systemic problems.

National, Interagency Working Groups

Telemarketing and Internet Fraud Working Group: The Fraud Section chairs the Telemarketing and Internet Fraud Working Group, a national, multiagency group that coordinates federal law enforcement efforts. Telemarketing fraud is estimated to cost consumers in the United States approximately $40 billion a year. Concentrated in U.S. urban areas and in Canadian cities, fraudulent telemarketers contact prospective victims throughout the United States. Many operations target senior citizens, often causing victims to lose their life savings and to suffer financial ruin.

> At any given time, there are in North America at least several hundred fraudulent telemarketing operations–some employing as many as several dozen people–that routinely seek to defraud consumers in the United States and Canada.

Health Care Fraud Working Group: The national, multiagency Health Care Fraud Working Group, chaired by the Fraud Section, provides a forum for exchanging information and addressing issues relating to the identification, investigation and prosecution of fraud in the health care industry.

Bank Fraud Enforcement Working Group: The national, Interagency Bank Fraud Enforcement Working Group, chaired by the Fraud Section, promotes enhanced communication and coordination between the law enforcement and federal financial regulatory communities.

Securities and Commodities Fraud Working Group: The Securities and Commodities Fraud Working Group is an interagency forum for exchanging information and discussing violation trends and law enforcement issues and techniques. Membership includes representatives of the federal securities and commodities law enforcement and regulatory groups, and securities and commodities exchange and broker/dealer organizations. The Fraud Section chairs the meetings and coordinates the agenda.

Bankruptcy Fraud Working Group: As part of the Department's Bankruptcy Fraud Training and Identification Program, the Fraud Section co-chairs a national, interagency Bankruptcy Fraud Working Group, which serves as a forum for addressing enforcement problems and facilitating interagency cooperation and coordination. The Working Group's focus is on education, proactive investigations, national trends, legislation, and prevention/deterrence.

MAJOR FRAUD CASES

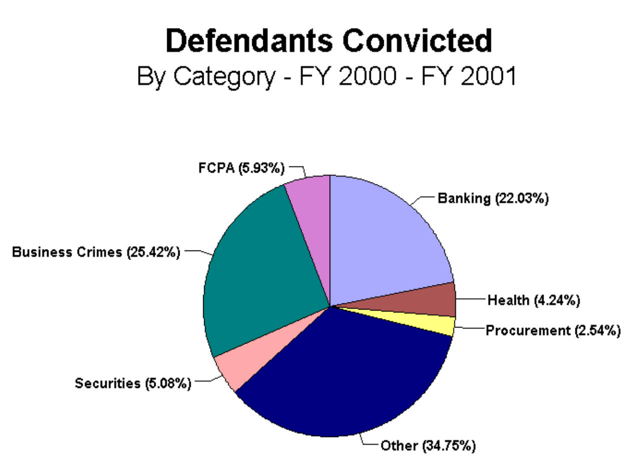
The Fraud Section undertakes the prosecution of significant cases that are self-generated by the Section as part of initiatives by the Department, Criminal Division, or Section; when the law requires or national interest rises above that of any particular United States Attorney's office; when a United States Attorney's office must be recused; upon request from a United States Attorney's office for assistance in the form of expertise or trial support; or upon request by a United States Attorney's office to handle a particular prosecution.

SELECTED CASES

Health Care

United States v. HCA – The Healthcare Company
In FY 2001, the Fraud Section coordinated the global criminal plea agreement, civil settlement agreement, and corporate integrity agreement between HCA–The Healthcare Company (formerly Columbia/HCA), the largest hospital chain in the world, and the Department and various United States Attorneys offices. The settlements stemmed from a multiagency, thirty-district fraud investigation. In the largest government fraud settlement in history, HCA was required to pay a total of *$95* million in criminal fines and *$745* million plus interest as a partial civil settlement as well as to divest itself of two hospitals in Florida.

United States v. Kimberly Home Health Care, Inc.
In FY 2000, the Fraud Section coordinated a $61 million global criminal plea agreement and civil settlement agreement between Olsten Corporation and its subsidiary, Kimberly Home Health Care, Inc., and the Department and various United States Attorneys' offices that were the result of a nationwide investigation into kickbacks and false claims to Medicare.



Bank Fraud

United States v. Terry Lee Church et al. (S.D. WVA)
In FY 2000, in conjunction with the United States Attorney's office, two former bank executives were convicted of obstructing a bank examination after a four-week trial in the Southern District of West Virginia in connection with the mass burial of 400 boxes of bank records and microfilm during an examination of failed First National Bank of Keystone–one of the costliest single bank failures in recent history with losses in excess of $500 million. In FY 2001, the former bank executives were further charged in a 25-count indictment with conspiracy, bank embezzlement, and mail fraud in connection with a scheme to loot the estate of the late Keystone bank president and to enrich themselves by obtaining control over his money and bank stock. Two other former bank executives also pleaded to obstructing a federal bank examination in connection with the Keystone failure. A fifth former executive pleaded guilty to insider trading in connection with dumping Keystone stock prior to the bank's 1999 failure.

United States v. Terry Lee Quatkemeyer (C.D. CA)
In FY 2001, a defendant pleaded guilty to two separate indictments, one charging him with making false statements to financial institutions to obtain loans totaling nearly $1.5 million and the second to an unrelated charge of conspiracy in a fraudulent surety bond scheme. Quatkemeyer and others conspired to sell fraudulent financial guarantees and surety bonds using inflated or non-existent assets as collateral for the bonds, which resulted in a total loss to victims of more than $800,000. In related cases, three defendants pleaded guilty in separate indictments and informations to conspiracy and substantive charges.

Investment and Marketing Scams

United States v. April Barnes et al. (D. OR)
In FY 2001, after a five-week trial, jointly tried with the United States Attorney's office, the jury returned guilty verdicts against three defendants in connection with an investment fraud in which investors in cattle partnerships suffered losses of more than $100 million. A rancher, who was the principal organizer of the fraud scheme, was convicted on all 52 counts charging him with conspiracy, mail fraud, bankruptcy fraud, and money laundering. Three other co-conspirators pleaded guilty in 1999-2000.

United States v. Geoffrey Benson et al. (N.D. OH)
In FY 2001, following an eleven-day trial, jointly tried with the United States Attorney's office, the jury returned guilty verdicts against three defendants who operated The Infinity Group Company, a pyramid, or Ponzi, fraud scheme called an "Asset Enhancement Program," through which they collected over $26.6 million from "investors" without selling any product or service.

United States v. Joseph Roper et at. (D. SC)
In FY 2000, following a two-week trial, jointly tried with the United States Attorney's office, two defendants were convicted on conspiracy, mail fraud, and money-laundering charges for a scheme to sell offshore corporations, bank accounts, and credit cards through a multi-level marketing venture known as Offshore Financial Services and the sale of so-called "Self-Liquidating Loans" or "roll programs" through various foundations.

Government Program Fraud

United States v. Kermit Wayne Bunn et at. (N.D. WVA)
In FY 2000, two businessmen were convicted of conspiracy, fraud, and obstruction of justice after a 17-day trial in the Northern District of West Virginia in connection with a scheme to defraud the Small Business Administration's Disadvantaged Business Enterprises (DBE) Program and the West Virginia Division of Highways to obtain $750,000 in highway construction funds.

Commodities Fraud

United States v. Robert C. Rossi et at. (S.D. TX)
In FY 2000, three defendants pleaded guilty on the eve of trial to a wire-fraud charge in connection with a scheme to defraud Coastal Corporation by diverting profitable commodity futures trades belonging to Coastal to accounts controlled by the defendants.

United States v. Barry 1. Wolf (N.D. IL)
In FY 2001, a former commodities broker pleaded guilty to all 13 counts of a mail fraud and commodities fraud indictment charging him with a scheme to fraudulently induce more than 175 customers across the country to invest a total of more than $2.1 million in commodity futures accounts that he managed. Investors, lured by false and misleading radio ads touting large profit opportunities in heating oil and unleaded gas options, sustained losses of more than $1.9 million, including the defendant's commissions of more than $900,000.

EDUCATION AND TRAINING

To complement enforcement efforts, the Fraud Section also supports the Department's training of federal prosecutors and investigators in the areas of identity theft, financial institution fraud, securities and commodities fraud, health care fraud, Internet fraud, telemarketing fraud, bankruptcy fraud, and procurement fraud. The Section helps to develop courses and provides instructors. In addition, the Fraud Section assists investigative and regulatory agencies in their criminal fraud seminars, conferences, and training programs.

URLs

Fraud Section: www.usdoj.gov/criminal/fraud.html
For the specific fraud areas below, after criminal/fraud use the following endings:
Foreign Corrupt Practices Act: /fcpa.htm
Identity Theft: /idtheft.htm
Internet Fraud: /Intemet.htm
Telemarketing Fraud: /telemarketing/index.htm
International Interagency Securities and Commodities Fraud Working Group: /iiscfwg.htm