

**2007
ANNUAL
REPORT**

**U.S. Attorney's Office
District of Minnesota**



**District priorities
highlighted in
this report:**

Economic Crime

Human Trafficking

**Project
Safe Childhood**

**Project
Safe Neighborhood**

Terrorism

Identity Theft

Drug Trafficking





Federal Courthouse
Minneapolis, Minnesota

District Facts

Land Area—
79,610 square miles

Population—5,000,000

Counties—87

State Capitol—St. Paul

Largest City—
Minneapolis

Lakes—11,842

Lake Itasca, in the north region of the state is the source of the Mississippi River.

Lake Superior, in Duluth, Minnesota, is part of the Great Lakes.

District's Climate—
High temperature of 114 degrees, in July, 1936, in Moorhead; low temperature of 60 below zero, in February, 1996, in Tower; and most snow fell (170 inches) during the winter of 1949-1950, in Grand Portage.

Major Industries—
Health Care
Technology
Agriculture
Mining
Forestry

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Message from U.S. Attorney Rachel K. Paulose



Dear Friends:

I write to thank you for your partnership with this Office to produce an outstanding record of service to Minnesota over the past two years:

- We prosecuted a record 668 defendants in Fiscal Year 2007, a higher total than in any previous year in this District's history;
- We tripled our child pornography initiations;
- We doubled our gun prosecutions;
- We accelerated from zero defendants to 32 defendants prosecuted for human trafficking;
- We prosecuted the largest Internet fraud case in the country and one of the largest insider trading cases in District history;
- We dismantled criminal organizations peddling narcotics throughout our state as our Narcotics Section produced nearly half the indictments issued this year;
- We prosecuted a record 37 defendants for aggravated identity theft, using 18 U.S.C. § 1028A for the first time in this District;
- We created new initiatives on mortgage fraud and bankruptcy fraud; we vitalized existing task forces on human trafficking and child pornography.

These accomplishments were possible in large part because of the strong relationships we have built with federal, state, and local law enforcement groups; joint task forces; and community organizations. You should be proud of the record of success that we built, together.

I am confident that history will confirm that we did great things to protect our children, stem the scourge of human trafficking, fight violent crime, enhance confidence in the marketplace and government, and prevent terrorist attacks on our country. It was a privilege to work alongside you and so many others whose deep love for America makes public service a privilege, not a sacrifice.

I am honored to have served as United States Attorney for the District of Minnesota, and I am thankful to all of you who have contributed to the accomplishment of our law enforcement goals. Together, we have made a significant impact on crime in Minnesota.

With Gratitude,

Rachel K. Paulose
United States Attorney, District of Minnesota

Mission Statement

The mission of the U.S. Attorney's Office, District of Minnesota, is to represent zealously and with excellence and integrity the interests of the United States.

In the criminal area, the Office will focus its resources on the priorities of terrorism, economic crime, Project Safe Neighborhoods, Project Safe Childhood, civil rights (including human trafficking and immigration violations), and drug trafficking.

The Office will work to develop criminal cases of unique federal interest. In particular, the Office will consider large-scale structural prosecutions that target criminal leadership, dismantle criminal gangs or organizations, and remove criminal threats to our citizens and our businesses.

In the civil arena, the Office will focus on affirmative civil enforcement, particularly health care fraud, and aggressively defend suits against the United States.



“Lake Country”

Fiscal Year 2007 Statistical Highlights

Criminal Division

Defendants Charged	668
Defendants Disposed	553
Defendants Found Guilty	522
Guilty Defendants Sent to Prison	439
Defendants Sentenced to More than Three Years in Prison	306

Civil Rights Prosecutions

Defendants Charged	33	(Up 1,500% from last year due in part to human trafficking cases)
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Immigration

Defendants Charged	46	(Up 91% from last year due in part to document and benefit fraud cases)
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Violent Crime

Defendants Received	112	(Up 17% from last year due in part to an emphasis on child pornography cases)
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White Collar

Defendants Received	94	(Up 14% from last year due in part to an emphasis on mortgage fraud cases)
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The Criminal Division charged more defendants during Fiscal year 2007 than charged in any previous year.



The mighty Mississippi River starts out as a small stream, flowing from Lake Itasca, in Itasca State Park, in northwestern Minnesota.



The University of Minnesota, proud home of the golden “Gophers.”

Fiscal Year 2007 Statistical Highlights

Civil Division

Cases Opened

Affirmative Civil Enforcement	34
Asset Forfeiture (Civil)	33
Bankruptcy	79
Bivens Actions Against Federal Employees	14
Civil Rights Enforcement	10
Employment Discrimination	3
Environmental Enforcement	7
Federal Tort Claims Act	12
Immigration	115
Mental Commitments	13
Post-Conviction Prisoner Cases	189
Property/Lien Cases	86
Social Security Disability	82
Tax	24
Others	169
Total Civil Cases Opened	870

Cases Closed

Judgments in Favor of U.S.	377
Settlements Reached	116
Other Dispositions	288
Total Civil Cases Closed	781



State Capitol
St. Paul, Minnesota



Largest City
Minneapolis, Minnesota

The largest increase in civil matters in Fiscal Year 2007 was in the area of immigration.



The Minnesota State Flower, Pink Lady Slipper; the State Tree, Norway Pine; and the State Bird, the Loon.

The day-to-day operations of the U.S. Attorney's Office, District of Minnesota, are overseen by First Assistant U.S. Attorney Frank Magill.



Criminal Division

The Criminal Division, led by Assistant U.S. Attorney Jeffrey S. Paulsen, serves as the prosecutorial arm of the U.S. Department of Justice here in Minnesota.

The forty lawyers in the Criminal Division prosecute violations of federal criminal law. To accomplish that task, the lawyers, along with several paralegals, legal assistants, and specialists, work closely with federal grand juries as well as local, state, and federal investigative agencies.

The Criminal Division is divided into three sections: The Economic Crimes Section is supervised by Assistant U.S. Attorney David L. MacLaughlin and focuses on major mail, wire, and bank fraud; computer crimes; investment scams; and public and private corruption cases.

The Major Crimes Section is supervised by Assistant U.S. Attorney Nathan P. Petterson and focuses on terrorism, gun and gang crime and related violence, child

pornography, human trafficking, immigration violations, bank robbery, and federal crime in Indian Country.

The Narcotics Section is supervised by Assistant U.S. Attorney Chris S. Wilton and focuses on Organized Crime Drug Enforcement Task Force (OCDETF) cases as well as other drug cases that involve major organizations or repeat federal drug law offenders.

“No man is above the law and no man is below it, nor do we ask any man’s permission when we ask him to obey it.”

President Theodore Roosevelt



Sugar beet harvest



Iron-ore mine



Minnesota forest



Wind power production

Economic Crimes Section

Why is the Fight Against Economic Crime Important in Minnesota?

Minnesota is a national leader in business and industry. In 2005, the state enjoyed a gross domestic product of \$234 million.

Minnesota is the nation’s premier grower of sugar beets, used to make the alternative to cane sugar, and has become the country’s largest processor of turkeys. The state also continues to be a leader in the production of wheat, soy beans, and corn.

While forestry and mining remain vital to the state’s economy, the research and development of alternative energy sources are now big business too.

In addition, Minnesota’s biomedical industry is rapidly growing, complementing a respected medical community that includes the world-renowned Mayo Clinic, in Rochester, Minnesota, and the University of Minnesota Hospital, where the nation’s first open-heart surgery was performed.

Moreover, of the top 1,000 publically traded companies in the U.S., thirty-six are headquartered here in Minnesota, including Target, Best Buy, 3M, General Mills, United Health Group, Medtronic, and U.S. Bancorp. The state is also home to the

country’s second-largest privately owned company, Cargill, which makes farm products.

Minnesota’s economy is dependent upon the strong reputation the state maintains in business and industry. Therefore, the people who work in the U.S. Attorney’s Office and live in this state have a vested interest in ferreting out and prosecuting individuals who could soil that reputation by illegally using their positions in government or mispending taxpayer or consumer dollars.

Corporate and Investment Fraud

Post-Enron Steps to Combat Corporate Fraud Nationally

The collapse of Enron and other major American corporations, such as Worldcom and Tyco, shook Main Street as well as Wall Street. The televised reports of outrageous spending and wild excesses by corporate executives caused stress for those with college savings plans for their children or investment plans for their own retirement. Ultimately, the public's trust in the financial market plummeted.

In response, the federal government began investigating corporate America in 2002. Investigators found that many company boards had failed to establish and monitor financial reporting procedures; auditors often had significant conflicts of interest; and executives routinely were pressured to meet unrealistic earnings targets in order to obtain stock-based bonuses.

Moreover, outside accountants sometimes exploited loopholes to curry favor with the companies that paid their fees, and investment bankers occasionally engaged in sham deals to help corporate clients meet quarterly profit targets.

As a result of these findings, President Bush, by

Executive Order, created the President's Corporate Fraud Task Force in July of 2002. Chaired by then Deputy Attorney General Paul McNulty, the Task Force includes senior Justice Department officials, seven U.S. Attorneys, and the heads of numerous government departments and commissions.

The purpose of the Task Force was to locate those who violated the trust of corporate employees and investors and prosecute them quickly in an effort to minimize the financial damage to stockholders.

In July of 2002, Congress also passed the Sarbanes-Oxley Act, often called the most sweeping revisions in business regulations since the Great Depression. The Act tightened the business loopholes many corporate wrongdoers were using to skirt the law.

Among other things, the Act required companies to set up comprehensive internal controls. It also established a new federal board to oversee accounting firms in their roles as auditors of public companies. Moreover, the Act demanded that company executives sign off on company financial statements, holding them personally liable for wrongdoing. Finally,

it increased white-collar sentences.

With the use of this new law, the members of the Corporate Fraud Task Force have yielded remarkable results. In the five years since the creation of the Task Force, members have obtained over 1,200 corporate fraud convictions, which have included 214 chief executive officers and presidents, 53 chief financial officers, 23 corporate attorneys, and 129 vice presidents. In addition, the Justice Department's Asset Forfeiture and Money Laundering Section has obtained more than \$1 billion in fraud-related forfeitures and has distributed that money to the victims of corporate fraud.

Through deferred prosecution agreements, the Task Force has also made clear that the government expects private industry to help ferret out fraud. For example, an important part of many of the agreements is the company's promise to improve internal compliance with government regulations. These agreements demonstrate that the Justice Department is not only looking to punish past bad behavior but is interested in promoting good conduct in the future.



Members of the Corporate Fraud Task Force have yielded remarkable results by using the Sarbanes-Oxley Act and working with investigators and prosecutors at the District level. In the five years since the creation of the Task Force, members have obtained:

- **1,200 corporate fraud convictions; and**
- **\$1 billion in fraud-related forfeitures.**



*The U.S. Attorney's Office:
Working hard to maintain
the good life in Minnesota.*

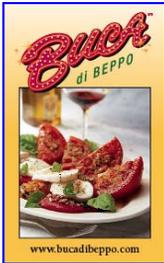
**Minnesota-Based
“Fortune 500”
Companies**

United Health Group
Target
Best Buy
Travelers
3M
Supervalu
U.S. Bancorp
CHS
Northwest Airlines
General Mills
Medtronic
Xcel Energy
Ameriprise
Land O’Lakes
C.H. Robinson
Worldwide
Thrivent for
Lutherans
Hormel Foods
Mosaic
Ecolab

**Working to Maintain
an Ethical Climate
for
Minnesota Business
and Industry**



Corporate and Investment Fraud Case Highlights



Italian Restaurant Executives Sentenced for Fraud

Minneapolis-based chain of Italian restaurants, were ordered to serve federal prison time for misappropriating more than \$200,000 in corporate funds and submitting false financial statements to the U.S. Securities and Exchange Commission.

U.S. District Court Judge Donovan W. Frank sentenced Joseph Micatrotto, of Las Vegas, to thirteen months in prison and ordered him to pay a \$250,000 fine and \$65,000 in restitution to BUCA. Earlier, Micatrotto, who was the CEO and chairman of the board of directors at BUCA, had pled guilty to one count of wire fraud.

Greg Gadel, of Eden Prairie, Minnesota, was sentenced to one year in prison and ordered to pay a \$50,000 fine and \$76,180 in restitution to the restaurant. Gadel, the former chief financial

officer and executive vice president of BUCA, had previously pled guilty to one count of aiding and abetting mail fraud and one count of wire fraud.

John Motschenbacher, of Chanhassen, Minnesota, was sentenced to six months in jail, with work release, followed by six months of home detention with electronic monitoring and work release. He was also ordered to serve 200 hours of community service and pay a \$25,000 fine and \$145,000 in restitution to BUCA. Motschenbacher, who worked in a variety of capacities at the restaurant, had earlier pled guilty to two counts of aiding and abetting mail fraud.

Micatrotto admitted defrauding BUCA out of \$65,000 in an attempt to pay a bank debt incurred when another restaurant in which he had a financial interest ceased to operate. Specifically, Micatrotto paid the bank debt with a personal check. But, then, to cover that check, Micatrotto, Motschenbacher, and Gadel caused a BUCA technology vendor known

as High Wire to bill BUCA for \$65,000 in services not actually provided. Upon receipt of payment for that bill, High Wire issued a check for \$65,000 to another company owned solely by Micatrotto, who then used the funds to cover his personal check to the bank.

Gadel admitted that from 2001 to 2004, he misappropriated \$54,000 in BUCA funds to pay for adult entertainment while on business trips. And, Motschenbacher admitted soliciting and obtaining various illegal gratuities from High Wire and another company, including \$35,000, two all-terrain vehicles, and use of a 2003 Chevy Tahoe.

Moreover, Micatrotto and Gadel falsely certified to the U.S. Securities and Exchange Commission that proper fraud disclosures had been made to BUCA’s auditors as well as the audit committee of the board of the directors.

This case was investigated by the FBI and the U.S. Postal Service.

Owner of Stonebridge Wireless Sentenced for Fraud

In June of 2007, Stephen Gowdy, the owner, president, and CEO of Stonebridge Wireless, Inc., a wireless broadband company, was sentenced to twenty months in federal prison for defrauding the United States of more than \$1 million. Earlier, Gowdy had pled guilty to mail fraud in connection to this crime.

Gowdy admitted that in 2002, Stonebridge applied

for a loan from Rural Utilities Service, an agency of the U.S. Department of Agriculture. The purported purpose of the loan was to assist Stonebridge in providing wireless broadband service to rural communities around Minnesota. Rural Utilities Service approved the loan in the amount of \$4,252,000 and advanced the funds to Stonebridge through periodic payments made

between May of 2003 and November of 2004. Over \$1 million, however, was paid pursuant to false invoices.

Gowdy used the fraudulently obtained funds for various business purposes, including covering payroll. In addition, he combined the funds with money obtained legitimately and then used the commingled result for personal purposes.

“I hope I shall always possess firmness and virtue enough to maintain what I consider the most enviable of all titles, the character of an ‘honest man.’”

President George Washington

Fugitive Executive Apprehended

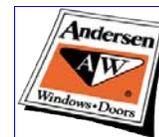
Robert Beale, age 63, of North Oaks, Minnesota, was the founder, CEO, and chairman of the board of the Comtrol Corporation. In 2000, he allegedly began taking his corporate salary and other compensation through a shell company known as Chayil. He also allegedly directed that Comtrol not report his income to state or federal tax authorities. Moreover, he allegedly conspired with Comtrol president, Lee Stagni, of Plymouth, Minnesota, to conceal evidence of funds paid to Beale from internal auditors, the Department of Revenue, and the IRS.

From 2000 to 2004, Beale received almost \$5.7 million in income from Comtrol, but he neither reported it nor paid taxes on it. Moreover, he allegedly paid Stagni more than \$1.4 million for helping him with his crime.

In January of 2006, Beale was indicted on one count of conspiracy to defraud the U.S. and five counts of tax evasion, but he fled before the start of his September, 2006, trial. Stagni, however, was convicted of one count of conspiring to defraud the United States and five counts of aiding and abetting tax evasion.

In April of 2007, Stagni was sentenced to forty-three months in prison for his role in this crime. On November 1, 2007, Beale was located and arrested in Orlando, Florida.

This case resulted from an investigation conducted by the IRS, Criminal Investigation Division. The search for Robert Beale was coordinated through the U.S. Marshal’s Service.



Minnesota Financial Crimes Task Force

The Minnesota Financial Crimes Task Force works on combating the growing trend of cross-jurisdictional financial crimes.

State law directs the Task Force to investigate an expanded list of financial crimes, including investment fraud, insurance fraud, tax fraud, and mail and wire fraud. In addition, the law authorizes the Task Force commander to establish seven regional offices to investigate financial crimes throughout the state.

To contact the Task Force for assistance or more information, call (763) 502-7756 or (612) 328-7490.

More Corporate and Investment Fraud Case Highlights

Insurance and Investment Seller Gets Eight-Year Sentence

In June of 2007, an insurance and investment salesman from Austin, Minnesota, was sentenced to ninety-seven months in federal prison for investment fraud. Dale Eugene Schlichting, age 48, was also ordered to pay \$2,986,057.70 in restitution to the ninety-two people he admitted defrauding. In December of 2006, Schlichting pled guilty to three counts of mail fraud and three counts of money laundering relative to this case.

Schlichting, who operated the DSI Agency in Hayfield, Minnesota, admitted that between 1999 and 2006, he knowingly and intentionally managed a scheme to defraud his customers of their money.

Specifically, he sold insurance and investment products to them even though his securities license had been terminated by the National

Association of Securities Dealers in 1998, and his insurance license had been revoked by the state in 2003. To facilitate his scheme, Schlichting had customers make investment checks payable to entities he had established. However, he failed to inform those customers that the entities were shell companies. Furthermore, he failed to invest the money he received from customers as promised. Instead, he used the funds to pay off other investors and for his personal use.

This case resulted from an investigation by the U.S. Postal Inspection Service; the Internal Revenue Service, Criminal Investigation Division; the Minnesota Department of Commerce, Division of Insurance Fraud Prevention; the Mower County Sheriff's Office; the Dodge County Sheriff's Office; and the Dodge County Attorney's Office.



Association of Securities Dealers in 1998, and his insurance license had been revoked by the state in 2003.

To facilitate his scheme, Schlichting had customers make investment checks payable to entities he had established. However, he



The Mayo Clinic, top, and the University of Minnesota, bottom, two of the finest health care facilities in the world.

Health Care Fraud

The National Health Care Anti-Fraud Association estimates health care fraud costs Americans, collectively, between \$60 billion and \$100 billion a year. But, the cost of health care fraud is only part of the story. The rest of the story concerns the harm such fraud causes our most vulnerable citizens: the elderly and the poor. So, the U.S. Department of Justice keeps the fight

against health care fraud among its priorities.

Federal prosecutors routinely work for several months, or even years, with the FBI, the DEA, HHS, and the Office of Inspector General to develop and indict or otherwise litigate a good health care fraud case. Under federal law, health care fraud violations may be litigated as criminal

cases, civil cases, or administrative matters, and those remedies are not mutually exclusive.

Historically, prosecutors have employed the Federal False Claims Act, codified at 31 U.S.C. 3729, to penalize civilly or criminally those who make false claims or present false statements to the government. That statute, known as the "whistle blower"

Continued on next page

statute, also allows private citizens to sue on behalf of the government through “qui tam” actions and share in any proceeds recovered.



In 1972, Congress enacted an anti-kickback statute, codified at 42 U.S.C. 1320A-7b, in response to concerns that payoffs to those who influence decisions about the delivery of health care goods and services may result in goods and services being provided that are unnecessary or inferior. That was of particular concern after the 1965 enactment of the Medicare and Medicaid programs.

Then, in 1986, Congress strengthened the False Claims Act by amending it to include more incentives for private parties to sue on behalf of the government. Those amendments also gave new criminal investigative tools to the Justice

Department, while, at the same time, making civil litigation more appealing by increasing penalties for violations and providing for treble damages.

Next, the Nursing Home Reform Act of 1987, codified at 42 U.S.C. 1395i-3 for Medicare and 42 U.S.C. 1396r for Medicaid standards, was enacted to mandate that long-term care providers who receive public funds provide care in the manner specified by the funding program.



In 1996, Congress renewed its commitment to the fight against health care fraud and abuse by passing the Health Insurance Portability and Accountability Act, known as “HIPPA.” That Act created a separate health care fraud offense, codified at 18 U.S.C. 1347, and funded HHS and the FBI for more investigations into health care fraud.

As a result, U.S. Attorney offices, in the late 1990s, began using the Federal False Claims Act, often in conjunction with the Nursing Home Reform Act, as the basis of affirmative civil enforcement actions against nursing home owners who received public money for—but provided inadequate care of—long-term patients. Those “failure of care” cases included billing for non-existent or valueless services and goods and services that violated a statutory, regulatory, or contractual provision.

Soon thereafter, federal prosecutors began charging “failure of care” cases criminally by indicting individual nursing home employees for “specific” harm caused to residents. In 2003, the federal government for the first time filed criminal charges against the owner of a nursing home for “systemic failure” to provide adequate care.

Why the Fight Against Health Care Fraud is Important to Minnesotans

In 2005, the health care sector constituted 12.2 percent of the total jobs in the state; and for every 100 jobs in health care, another 60 jobs were created in other fields.

Minnesota health care workers earn \$20.3 billion in wages each year; and as a whole, the health care industry contributes about \$29 billion to the state economy annually.

Minnesota’s health care industry is world-renowned in research and innovation, care and assistance, as well as medical education and technology. Each year one-half million people worldwide go to the Mayo Clinic for medical care.

By the year 2030, nearly twenty percent of Americans will be 65 or older. That will present challenges and opportunities to health care leaders. As cited above, Minnesota is one of those leaders and must maintain its integrity as such—our state economy depends on it. Thus, health care fraud cannot and will not be tolerated.



Nurse Gets Prison Time for Health Care Fraud

In 2007, Michelle Torgerson, a licensed practical nurse who operated a series of unauthorized flu-shot clinics at Augsburg College during the fall of 2005, was sentenced to nine months in prison. In 2006, she pled guilty to dispensing drugs without a prescription. She also admitted she had diluted some of the flu shots with saline in an effort to increase her vaccine supply and, thus, the money made selling the inoculations. Furthermore, Torgerson misrepresented to Augsburg College that she was holding the clinics on behalf of the American Heart Association. In truth, she was keeping all proceeds for her personal use.



“Christopher Smith and his co-defendants made millions of dollars at the expense of the health and well being of people around the world. His sentence should serve as a warning that those who manipulate the Internet for illegal purposes will be held accountable for their crimes.”

**U.S. Attorney
Rachel K. Paulose**



Congratulations!

The National Health Care Anti-Fraud Association named U.S. v. Smith the 2007 “investigation of the year.” Congratulations to those involved in the investigation and prosecution of that important case.

Health Care Fraud Via the Internet

Country’s Largest Internet Fraud Case Prosecuted Here in Minnesota

Christopher Smith, the owner of Xpress Pharmacy Direct, an Internet business, will spend the next thirty years in federal prison for operating an illegal online pharmacy. Smith, age 26, of Prior Lake, Minnesota, was sentenced on August 1, 2007, following a six-week jury trial that ended in November of 2006.

Smith was convicted of one count of conspiracy to distribute and dispense controlled substances, three counts of unlawfully distributing and dispensing a controlled substance, three counts of introducing misbranded drugs into interstate commerce, one count of conspiracy to commit money laundering, and one count of operating a continuing criminal enterprise.

Smith sold prescription drugs and controlled substances, including hydrocodone, an addictive painkiller, to customers who did not possess legitimate prescriptions. He solicited orders through the use of spam emails, Internet web sites, and telemarketing call centers located in the Philippines; the Dominican Republic; Montreal, Canada; and Burnsville, Minnesota.

Customers completed online questionnaires, outlining their medical

conditions and choosing the types and quantities of controlled substances and other prescription drugs they wanted. Then, Dr. Philip Mach, a doctor and co-defendant in the case, reviewed the questionnaires. Without verifying medical conditions, obtaining histories, or performing physical exams or testing, he issued hundreds of prescriptions every day.



In early 2005, the DEA sent a directive to pharmacies across the U.S., warning them “It is illegal to receive a prescription for a controlled substance without the establishment of a legitimate doctor/patient relationship, and it is unlikely for such a relationship to be formed through Internet correspondence alone.”

In response, a number of pharmacies contacted Xpress Direct, indicating they would cease filling drug orders for the company unless they were assured the online business was legal. Smith replied with a letter, under Dr. Mach’s signature, falsely stating that Xpress Direct dispensed

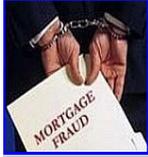
controlled substances based on legitimate doctor-patient relationships and, thus, was not operating illegally.

Between January of 2004 and May of 2005, Smith was responsible for the distribution of more than two million units of hydrocodone-based Schedule III controlled substances. Moreover, he was responsible for sales of Schedule III controlled substances totaling about \$24 million.

Government authorities executed search warrants and shut down Xpress Pharmacy Direct in the spring of 2005. After that date, Smith took steps to establish a new online pharmacy, which was nothing more than a continuation of Xpress Pharmacy Direct. The new online pharmacy was to be serviced by web sites and a telemarketing call center in the Dominican Republic.

Smith’s sentence included an enhancement for conspiring to kill a witness and obstructing justice.

This case was investigated by the FBI; the IRS, Criminal Investigation Division; and the FDA, Office of Criminal Investigation. The DEA and U.S. Postal Inspection Service gave assistance.



Mortgage Fraud Rises and a Task Force Responds

In 2007, the dream of home ownership became a nightmare for millions of Americans. Numerous factors contributed to the housing crisis, but the dramatic increase in mortgage fraud was high among them.

According to the FBI, \$429 million was lost to mortgage fraud in the U.S.

during 2004. That figure jumped to over \$1 billion in 2005, an estimated \$4.2 billion in 2006, and continues to climb.

In Minnesota, mortgage fraud increased 126 percent between 2005 and 2006. The Mortgage Asset Research Institute now ranks Minnesota as eighth in the nation in reported cases of mortgage fraud.

In 2007, the U.S. Attorney's Office joined with the IRS, CID; the FBI; and the U.S. Postal Inspection Service to form a mortgage fraud task. The task force, aided by other agencies, has already investigated many cases of mortgage fraud in Minnesota. For more information about the Task Force, contact Andy Gibart, at IRS, at (651) 767-3213.

Why is Home Ownership Important?

A high rate of home ownership typically reflects a strong local economy as well as an economic and social commitment by homeowners to their communities. Minnesota ranks fourth in the nation in home ownership.

Mortgage Fraud Case Highlights

Home Builder Pleads Guilty to Mortgage Fraud

In the fall of 2007, a long-time Minnesota home builder, Parish Marketing and Development Corporation ("PMDC"), and its owners pled guilty to federal charges of conspiracy to commit mortgage fraud and money laundering. The charges arose from a scheme that involved about 200 homes and \$100 million in loan proceeds. PMDC and its owners acknowledged obtaining more than \$25 million for PMDC from the crime.

PMDC owners, Michael Alan Parish and his wife, and Christopher Troup, a PMDC agent, all of Eagan, admitted using "straw buyers" to purchase homes built by PMDC, primarily in the New Prague, New Market, and Lonsdale areas of Minnesota. They also

admitted completing false loan applications for those straw purchases. Specifically, they signed loan documents in the names of straw buyers and provided potential lenders with fraudulent employment and financial information.

In September of 2007, Melissa Smith, of Ohio, pled guilty to conspiring to commit mortgage fraud. She admitted being a straw buyer and buying 46 homes for approximately \$20 million between October of 2004 and January, 2007.

In September, Ramiz Yousef Saadeh, a former U.S. Bank officer, pled guilty to the same charge. Saadeh admitted providing false financial information to the builder on behalf of straw buyers.

PMDC's owners and Troup also acknowledged obtaining appraisals that overstated the value of the homes. Those appraisals supported a higher sales price for the straw buyers, which allowed PMDC to obtain additional funds from the loan proceeds.

In October of 2007, Donald Todd Yeager, of Oklahoma, pled guilty to honest services fraud, admitting he had provided inflated appraisals.

Parish, his wife, and Troup also admitted that the straw buyers did not view the homes they purchased, did not negotiate the purchase price of the homes, and, often times, did not execute sale or loan documents. Instead, the documents were



Forget about the Cold and Snow: Minnesota has "Best Places" to Call Home

Three Minnesota communities were named to Money Magazine's 2007 list of "100 Best Places to Live in the U.S."

- #8 Chaska
- #28 Apple Valley
- #36 Vadnais Heights



Continued on next page



*The American Dream:
Buying a Home*



Local Mortgage Broker and Assistant Bilk Vulnerable

A Prior Lake, Minnesota, mortgage broker and his assistant are awaiting sentencing after pleading guilty to federal charges related to mortgage fraud. Michael Fiorito, a former mortgage broker at American Alliance Mortgage Company, and Kristin Jerde, of Minneapolis, who worked with Fiorito, have admitted that from January of 2004 through February of 2007, they schemed to defraud homeowners who were in

foreclosure or behind on their mortgage payments.

Specifically, they caused homeowners to refinance their homes and then stole some or all of the equity checks produced through the refinancing process. They also used physical intimidation to force homeowners to endorse equity checks over to them. Furthermore, they induced homeowners to sell them or a third party their homes and then stole the

sale proceeds intended for the sellers.

In all, the defendants converted about \$160,000 to their own use by committing these crimes. Each faces a maximum sentence of twenty years.

This case was the result of an investigation by the IRS, Criminal Investigation Division; and the U.S. Postal Inspection Service.



Mortgage Brokers Defraud Lenders

Between 2000 and August of 2004, Christopher Horton, of Minnetonka, and Sean Leaf, of Woodbury, along with four co-defendants, conspired to defraud federally insured financial institutions and private mortgage lenders through their fraudulent mortgage business, First Rate Mortgage Group.

Specifically, they represented that for a fee, they could help people obtain real estate financing. To do so, however, they mailed false loan applications to banks and lending companies. They concealed that First Rate Mortgage Group had loaned to the borrower the money for the down payment. They also inflated the borrower's income and assets, falsely described the borrower's employment, and provided forged signatures. In addition, the applications included falsified pay stubs, bank statements, and tax returns.

In January of 2004, for example, Horton and Leaf, along with their co-defendants, caused false loan applications to be submitted to Washington Mutual Bank for the amount of \$1,330,000 and Associated Bank for the amount of \$378,555.

Each defendant is facing a maximum sentence of five years in federal prison for this crime.

*"Parish,"
continued from previous page*

signed by the defendants, pretending to be the straw buyers.

In September of 2007, Kristopher Kenton Robbins, a closing agent and licensed notary public, pled guilty to conspiring to commit mortgage fraud. Robbins admitted allowing signatures of the straw buyers to be made by others.

Parish, his wife, and the PMDC co-defendant also acknowledged that the straw buyers, who were the nominal owners of the homes, made no payments on the mortgages taken out in their names. Instead, PMDC made all payments or allowed the mortgages to go into foreclosure. Moreover, PMDC often used the proceeds from the sale of one home to make monthly payments on others.

Parish faces up to fourteen years in prison. His wife, a minor participant in the scheme, faces as much as five years. Co-defendant Christopher Troup faces up to eleven years. The government also seeks full restitution to the victims.

This case was the result of an investigation by the Federal Mortgage Fraud Task Force, comprised of the IRS, Criminal Investigations Division, and the FBI. The investigation was aided by the Minnesota Commerce Department, the Scott County Sheriff's Office, the Rice County Sheriff's Office, the Le Sueur County Sheriff's Office, and the New Prague Police Department.

Major Crimes Section

Employees of the U.S. Attorney's Office in the District of Minnesota represent the law enforcement interests of all Americans but specifically those who live in Minnesota.

Citizens of this state enjoy a high quality of life. The state, historically, has ranked among the lowest

nationally for violent crime and continues to do so.

In 2006, however, 16,123 violent crimes were reported in Minnesota, an increase of almost 1,000 over 2005 and 2,500 over 2004. That figure includes 8,920 aggravated assaults, up from 8,146 in 2005, and 125 murders, up from 115 in 2005.

In response, the Office continues to pursue the perpetrators of violent crime while supporting and assisting crime victims.



Human Trafficking The State of Modern-Day Slavery

Human trafficking represents a continuation of the struggle that divided this nation over one hundred and fifty years ago. Although the Civil War yielded the Thirteenth Amendment to the U.S. Constitution and an end to sanctioned slavery, the continued presence of human trafficking illustrates that each generation of Americans is called on to maintain the country's founding ideals of liberty and justice.

Under federal law, human trafficking is defined as obtaining the labor or services, including sexual services, of another through force, fraud, or coercion; or sexually exploiting anyone under the age of eighteen, even if force, fraud, or coercion is not involved. The federal definition of human trafficking does not require that victims be moved or transported.

The International Labor Organization, a specialized agency of the United Nations, estimates there are 12.3 million people in forced labor or sexual servitude around the world. The Department of Justice reports that annually, in the U.S. alone, between 14,500 and 17,500 people are exploited through the sex trade, in sweatshops, on construction sites, or in agricultural settings. And, while many victims of human trafficking in the U.S. are illegal immigrants, others are legal immigrants or citizens by birth or naturalization.

People are stunned to hear that human trafficking occurs here in Minnesota. They assume the problem would be confined to big cities on the coasts. But, the truth is that slave laborers can be found in small, rural farm communities, and young women prostituted against their will can be found in suburban clubs and country brothels anywhere in the country.

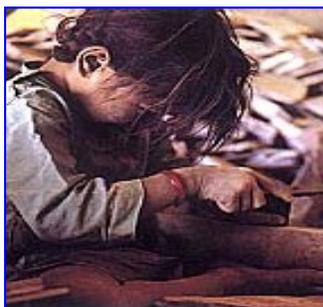
Human trafficking can lead to the decline and destruction of communities. It breeds crime, such as document fraud and money laundering; and the Justice Department

According to the U.S. Justice Department, the Minneapolis-St. Paul area is among the fifteen largest human trafficking centers in the U.S. The area is vulnerable because of its unmanned border with Canada, the international seaport at Duluth, the Minneapolis-St. Paul International Airport, and the good economy, which attracts people from all over the world.

Civil Society, a local group that assists trafficking victims, reports that in 2006 alone, it identified sixty-three new human trafficking victims here in Minnesota.



Continued on next page



A Multi-Disciplinary Approach to Success

The Gerald D. Vick Human Trafficking Task Force partners with Civil Society, a local victim-advocacy group that received a \$500,000 grant from the Justice Department in 2005 to provide services to victims of human trafficking here in Minnesota.

Those services are often provided through victim screening clinics, at which culturally and linguistically appropriate aid is offered. Last year, those clinics in Minnesota served 2,068 crime victims, of which 132 were international trafficking victims.

*“Human Trafficking,”
continued from previous page*

reports that human trafficking is routinely connected to organized criminal activity, with the groups engaged in human trafficking also often involved in the trafficking of drugs and firearms.

Prosecuting human trafficking cases is difficult. By its very nature, human trafficking is a hidden crime, perpetrated in private homes, brothels, and secret organizations, making victim identification

challenging. Moreover, victims are often poor and young; and cultural and linguistic barriers routinely exist that prevent them from escaping captivity or seeking help.

Furthermore, traffickers regularly use force, fraud, or coercion to control their victims; and even if victims do escape their captures, they may not know where to turn. Many victims come from countries where law

enforcement and government are corrupt, so they do not trust that people here genuinely want to help them. Finally, some victims fear deportation or criminal sanctions

Human Trafficking Case Highlights

- Darryl Taylor, of Nevada, was indicted by a Minnesota federal grand jury in February of 2007. The indictment alleged that between 1998 and 2005, Taylor and his two co-defendants trafficked women, including juveniles as young as fifteen, between Minnesota and Nevada, for the purpose of prostitution

During the fall of 2007, Taylor and the other two defendants in the case pled guilty to sex trafficking. In doing so, they admitted they had enticed their victims from locations throughout Minnesota and Wisconsin to come to the Twin Cities. Once here, the victims were taken to Las Vegas to serve as “exotic dancers” and “escorts.”

The defendants took the women’s identification and then provided them with false identification obtained in Chicago. The defendants used sexual assault, food deprivation, and violence to force the women to engage in commercial sex acts for the financial benefit of the defendants. All three men now await sentencing.

This case was investigated by the Hennepin County Sheriff’s Office.

- Daniel McNeal, of Burnsville, Minnesota, was also indicted by a federal grand jury in February, 2007. McNeal, who used aliases such as “Diamond” and “Daddy,” pled guilty in May to the sex trafficking of a minor and the transporting of a minor with the intent to

engage that minor in criminal sexual activity. Specifically, McNeal admitted that in August of 2006, he transported a sixteen-year-old girl from Minnesota to Iowa, intending to use her as a prostitute there. McNeal also admitted that while in Iowa, he engaged in sexual acts with the girl.

In September and October of 2006, McNeal took the girl to Texas and South Carolina, where he forced her into prostitution for his financial benefit.

On November 5, 2007, McNeal, who has an extensive and violent criminal record, was sentenced to 293 months in federal prison for the crimes he committed in this case. In imposing the

Continued on next page

“Case Highlights,” continued from previous page

sentence, U.S. District Court Judge David S. Doty said the sentence “reflects the seriousness of the offense” as well as the “public interest” in ending trafficking.

Attorney General Alberto Gonzales talked about McNeal in a June, 2007, speech. He said, “McNeal already had a long criminal record for assault, robbery, and prostitution offenses.... I wish we could have gotten to the girl quicker; that we could have saved her from more of the degradation and pain she suffered. But I’m glad we were able to rescue her and get this depraved man off the streets.”



This case was the result of an investigation conducted by the Hennepin County Sheriff’s Office, the FBI, ICE, and the Gerald D. Vick Human Trafficking Task Force.

- In May, twenty-five people were indicted for participating in a prostitution ring. They were charged with conspiracy, transporting a person to engage in prostitution, and coercion and enticement of another to travel in

interstate commerce to engage in prostitution, a federal crime.

The indictment alleged that Marisol Ramirez and her co-defendants operated a prostitution ring out of eight brothels in Minneapolis, West St. Paul, Richfield, and Austin, Minnesota. The women who worked as prostitutes included undocumented immigrants as well as legal U.S. residents who were enticed and coerced to come to Minnesota.

In this case too, the women’s identification documents were confiscated. Moreover, the women were subjected to brutal behavior. In fact, according to the indictment, two women were forced to service more than eighty men in a single night.

This ring operated from January of 2006 to May of 2007, when Ramirez and her co-conspirators were arrested. As of this date, twenty-one of the twenty-five defendants have been arrested, and twenty have pled guilty.

This case was investigated by Immigration and Customs Enforcement, the Minnesota Bureau of Criminal Apprehension, and the St. Paul Police Department, with the assistance of the police departments from Minneapolis, Richfield, and West

St. Paul. Assistance was also provided by the Gerald D. Vick Human Trafficking Task Force.

- In August, 2007, a federal indictment was returned against Justine Alex Reisdorf, age 19, charging her with one count of the sex trafficking of a minor and one count of using an interstate facility, namely, the Internet, to promote prostitution.



The indictment alleged that between November of 2006 and March of 2007, Reisdorf operated a prostitution ring out of her rented townhouse in Burnsville. She knowingly employed female students under the age of eighteen from Minnesota School District 191 to serve as her prostitutes. In addition, she advertised her business on the Internet, specifically through Craigslist.com.

On September 12, 2007, Reisdorf pled guilty to using an interstate facility to promote prostitution. She now is awaiting sentencing.

This case was the result of an investigation conducted by the FBI and the Eagan Police Department.

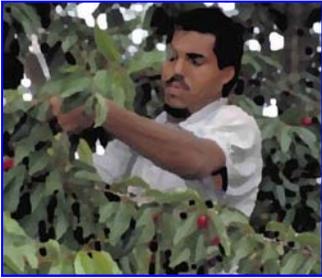
Why We Succeed in Prosecuting Human Trafficking Cases

This office works with the Gerald D. Vick Human Trafficking Task Force. That task force was established with a \$450,000 grant awarded by the Justice Department in March of 2006. The Task Force is named for a slain St. Paul police officer who dedicated his career to ending the trafficking of human beings.

The objectives of the Task Force include developing investigative and prosecutorial protocols regarding the crime of human trafficking, providing training to Minnesota law enforcement in the identification of traffickers and victims, as well as investigating, apprehending, and prosecuting traffickers.

The Task Force, which is led by the St. Paul Police Department, is comprised of local, state, and federal investigators, including representatives from the FBI, ICE, the Minneapolis Police Department, the Ramsey County Sheriff’s Office, and the Hennepin County Sheriff’s Office.





Assistant U.S. Attorney Erica MacDonald co-chairs the Minnesota Human Trafficking Task Force, which was created pursuant to 2006 legislation that called for the gathering of information and the development of a plan to combat human trafficking in Minnesota. Contact Ms. MacDonald, at (612) 664-5600, for more information.

Federal Human Trafficking Laws

In 2000, Congress passed the Trafficking Victim Protection Act, which, among other things, expanded the definition of trafficking so federal prosecutors would not be limited to prosecuting physical bondage cases.

Now, prosecutors can also bring suit against those who use psychological abuse and threats in an effort to hold their victims captive. In addition, the Act provided victims with a civil cause of action against their captors.

A number of other federal human trafficking statutes now also exist:

- The Peonage, Slavery, and Labor Trafficking statutes (18 U.S.C. 1581, 1583, 1584, 1589, and 1590) prohibit anyone from forcing another into involuntary servitude, forced labor, or labor to pay off purported debts.

- The Sexual Trafficking statute (18 U.S.C. 1591) prohibits participation in the sexual exploitation of children. It also prohibits the sexual exploitation of anyone by force, threats, coercion, or other non-physical tactics.

- The Document Servitude statute (18 U.S.C. 1592) authorizes penalties

against anyone who “destroys, conceals, removes, confiscates, or possesses” government-issued identification documents in an effort to further a trafficking crime.

As a result of these new federal law, U.S. Attorney offices nationwide saw the number of trafficking prosecutions rise by almost 300 percent between 2001 and 2005. During that same period, federal prosecutors collectively obtained convictions against 109 sex traffickers and 59 labor traffickers.



Project Safe Childhood Offering Assistance to State Prosecutors

parents and children about Internet safety.

Under federal law, a “child” or “minor” is any person under the age of eighteen. Furthermore, under federal law, child pornography is defined as a visual depiction of any kind, including a drawing, cartoon, sculpture, painting, photograph, film, video, or computer image or picture, whether made or produced by electronic, mechanical, or other means, of sexually explicit conduct, where it depicts a minor:

- engaging in sexually explicit conduct and is

- obscene, or
- depicts an image that is, or appears to be, of a minor engaging in graphic bestiality, sadistic, or masochistic abuse, or sexual intercourse, including genital-to-genital, oral-genital, anal-genital, or oral-anal, whether between persons of the same or opposite sex, and such depiction lacks serious literary, artistic, political, or scientific value.

While child pornography is a crime in all states, it is also a federal crime when

federal jurisdiction can be established. Such jurisdiction is created when:

- prosecutors can show that the child porn was produced using materials that traveled in interstate or foreign commerce, including via computer; or
- prosecutors can show that the image itself moved in interstate or foreign commerce, including via computer; or

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Project Safe Childhood, or “PSC,” as it is commonly known, is a national initiative to encourage U.S. Attorneys to work with multi-jurisdictional task forces to investigate and prosecute cases involving the sexual exploitation of children over the Internet. PSC also urges that law enforcement efforts be complemented by community campaigns to assist child pornography victims and educate

*“Project Safe Childhood,”
continued from previous page*

- prosecutors can show that the defendant knew, had reason to know, or intended the image to move in interstate or foreign commerce, including via computer.

With the advent of Project Safe Childhood, the U.S. Attorney’s Office in the District of Minnesota altered its intake guidelines in an effort to accept all types of child porn cases, including possession, production, and distribution. In the past, the Office only accepted possession cases when the offender had a prior conviction for a crime

against a child. In reviewing referrals now, however, the Office looks at the crime, the offender’s criminal history, the number of victims, the relationship between the offender and the victims, the possible federal sentence, the offender’s ties to the community, and the community impact of the crime, among other things.

The Office is available to take cases that are difficult to try at the state level. For example, by prosecuting a production case at the federal level, a county attorney may not have to file state assault charges against the offender, which would require the child

victim to testify. No such testimony is necessary in federal court.

Moreover, federal grand jury subpoenas, available only in federal cases, may prompt the receipt of computer and other electronic information unavailable in state cases. Conversely, cases involving juvenile offenders are usually handled most effectively in state court.

Call the U.S. Attorney’s Office, at (612) 664-5600, and talk to Assistant U.S. Attorney Nate Petterson, Chief of the Major Crimes Section, about possible referrals.

Have questions about how to keep children safer on the Internet? Visit the free site, www.NetSmartz411.org, an information service provided by the National Center for Missing and Exploited Children.

A recent *American Medical Association Journal* reported that 89 percent of sexual solicitations directed at minors now occur online.

The Federal “Hammer” for Child Porn Cases

Production

18 U.S.C. § 2251

- 15-year mandatory minimum (with no criminal history against children)
- 25-year mandatory minimum (1 prior)
- 35-year mandatory minimum (2 priors)

Distribution

18 U.S.C. § 2252(a)(1)

- 5-year mandatory minimum (with no criminal history against children)
- 15-year mandatory minimum (any priors)

Receipt

(affirmative act as opposed to possession)

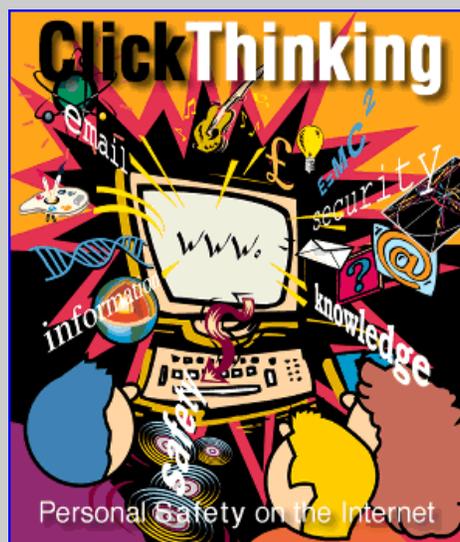
18 U.S.C. § 2252(a)(2)

- 5-year mandatory minimum (with no criminal history against children)
- 15-year mandatory minimum (any priors)

Possession

18 U.S.C. § 2252(a)(5)(B)

- No mandatory minimum (with no criminal history against children)
- 10-year mandatory minimum year (any priors)



United States Attorney General Michael B. Mukasey recently praised the cooperation exhibited among law enforcement in the Betcher child pornography case. He said, "The case began in Atlanta, where federal agents investigating another case found numerous images of child pornography on a seized computer. They sent the pictures to the National Center for Missing and Exploited Children for help in identifying the victims.

"In one explicit picture of a young girl, a Brownie uniform could be seen in the background, draped over a chair. Computer forensics were able to identify enough of the troop number to fix a general location. This and other evidence placed the victims in the Twin Cities area.

"Agents called in the Minnesota Internet Crimes Against Children Task Force in St. Paul, and they began canvassing the leaders of all Brownie troops in the area until they were able to identify the first of the victims. Within forty-eight hours of getting the images, agents had identified five victims, ranging from nine to twelve years old, and soon after that they had the suspect in custody."

We agree with the Attorney General that this case represents the best of interjurisdictional teamwork.

Project Safe Childhood Case Highlights

In the last year, the U.S. Attorney's Office has accepted close to three dozen PSC cases, with several of them resulting in huge prison sentences. For example:

- On December 14, 2006, Jeffrey Berg, of St. Paul, was sentenced to thirty years in prison for receiving and distributing child porn over the Web. The case was investigated by ICE, with the aid of the Minnesota Internet Crimes Against Children ("MICAC") Task Force.

- On May 7, 2007, Bruce Betcher, of Burnsville, was sentenced to a total of 750 years in prison after being convicted of 24 counts of production of child pornography, one count of receipt of child pornography, and one count of possession of child porn.

In imposing Betcher's sentence, Chief Judge James M. Rosenbaum called Betcher's crime "an utterly unconscionable act."

This case was the result of an investigation led by ICE, with assistance from the Burnsville Police, the Dakota County Sheriff's Office, and the MICAC Task Force.

- On July 25, 2007, Todd Hammond, of Cass County, was sentenced to thirty years in prison for producing child pornography.

Hammond had met his child victim through a community mentoring program. He sexually abused the child and used the webcam on his computer to live stream the abuse over the Internet to others who receive sexual gratification from sex with children. The child victim in this case was nine years old when he met Hammond and eleven and twelve when the abuse occurred.

This case was investigated by the MICAC Task Force, the Anoka County Sheriff's Office, the Cass County Sheriff's Office, and the FBI.

- On August 6, 2007, Lyle Paton, of St. Paul, was sentenced to five concurrent life terms in federal prison for producing child porn.

In this case, Paton enticed five minors to engage in sexually explicit conduct for the purpose of having that conduct photographed. In return, Paton gave the minor boys food, clothing, money, and toys.

A search of Paton's home yielded, among other things, 114 images of child pornography on computer memory cards and four images of child porn on a computer. The investigation also led to the identification of more than twenty-five victims of sexual abuse or exploitation.

At sentencing, U.S. District Court Judge Patrick J. Schiltz said that Paton had spent over a quarter century being convicted, incarcerated, treated, and supervised for child exploitation offenses but still refused to believe he had caused harm to his victims.

The case was investigated by the St. Paul Police, the Predatory Offender Task Unit, the FBI and its Violent Crimes Fugitive Task Force, the U.S. Secret Service, and the Sheriff's Office in Collier County, Florida, with assistance from the MICAC Task Force.

- In another case, Richard Alan Lang, of Iowa, was recently indicted for the crime of traveling to Minnesota with the intent to engage in sexually explicit conduct with a minor.

Lang allegedly met a young Minnesota boy on line and offered to "teach" him about sex by engaging in sexual activity with him. However, when Lange arrived for his scheduled meeting with the boy at a popular children's restaurant in Robbinsdale, Minnesota, law enforcement officers arrested him.

The case was investigated by the MICAC Task Force and the Robbinsdale Police Department.



Let's Keep Children Safe on the Internet

A Message from United States Attorney Rachel K. Paulose

More than 20,000 images of child pornography will be posted on the Internet this week. For some people, the term "child pornography" congers up inappropriate but benign images. They view child porn as more distasteful than adult porn but still a victimless crime.

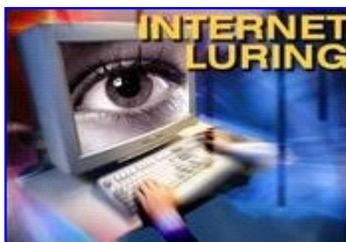
Of course, child pornography is not a victimless crime, and the images are far more than just "dirty pictures." Consequently, the U.S. Supreme Court ruled decades ago that child pornography, unlike adult pornography, is not protected under the First Amendment.



Child pornography is a visual depiction of actual crime scenes—a visual record of one of the cruelest forms of child abuse—and its young victims are re-victimized every time the images are viewed. In addition, those images are becoming more graphic and the victims, increasingly younger. Child porn on the

Internet now often involves toddlers and even infants.

The Internet was undoubtedly one of the greatest inventions of the twentieth century, but it also created new problems or, at least,



exacerbated some existing ones, and the sexual exploitation of children is among them. During the past six years, reports of Internet child porn have increased thirty-fold, which is particularly alarming given the strong correlation between possessing or distributing child porn and committing sexual-conduct crimes against children.

The Internet provides sexual predators with anonymity and a market that validates their behavior. As a result, fifty thousand predators surf the Web at any given time, and one in thirty-three children receives an aggressive online sexual solicitation each year.

To fight child porn and the sexual predators who target children online, Congress passed the PROTECT Act in 2003. The Act created

stiff mandatory minimum sentences for offenses related to child pornography. Then, in 2006, Congress passed the Adam Walsh Child Protection and Safety Act to enhance those sentences. Thus, federal prison time for producers of child porn has more than doubled over the past decade, and a federal civil commitment process is now available for use against extremely dangerous sex offenders.

I believe no sentence is long enough for someone who robs children of their innocence, so I am pleased



with these tough penalties, which we in the United States Attorney's Office now routinely seek. But, we still need your help in spreading the word to parents and children about Internet safety.

Parents

- Keep computers in areas where they can be easily monitored;
- Determine with your children proper networking sites;
- Ask your children to tell you about improper online encounters or photos;
- Report inappropriate pictures or encounters to your Internet provider; and
- Report evidence of online sexual exploitation or attempted exploitation to the CyberTipline, at 1-800-843-5678, or call your local police.

Children

- Don't download from unknown sources;
- Don't open unknown or unsolicited e-mails;
- Don't "instant message" people you don't know in person;
- Don't allow access to your networking "spaces" or "profiles" to people you don't know in person;
- Don't post your full name, address, phone number, or school;
- Don't post inappropriate pictures of you or your friends.

MEET 10-YEAR-OLD BECKY'S 12-YEAR-OLD INTERNET FRIEND.



The internet is a great place to find friends, but it can also be a dangerous place. Be careful who you talk to online. Don't give out your name, address, or phone number. Don't meet anyone you meet online in person. If you are worried about someone you talk to online, tell a trusted adult. At the National Center on Missing & Exploited Children, we have resources to help you stay safe online. Call 1-800-THE-CLOUT or visit www.missingkids.com

WE'RE HERE BECAUSE THEY'RE OUT THERE.

To become part of the Minnesota Internet Crimes Against Children Task Force, or to receive aid from it, call Commander Neil Nelson at (651) 266-5882.

The Minnesota Internet Crimes Against Children Task Force Working Together to Stop the Sexual Exploitation of Children

In Minnesota, Project Safe Childhood is successful in large part because of its affiliation with the Minnesota Internet Crimes Against Children Task Force. That task force was established in 2000 through a \$450,000 U.S. Justice Department grant to the St. Paul Police Department.

Today, the Task Force is one of fifty-nine federally funded task forces in the country dedicated to investigating the online sexual exploitation of children. Collectively, these task forces have made over 10,000 arrests since their inception a decade ago.

Since 2000, the Minnesota Task Force has grown to

more than twenty local, state, and federal members and enjoys a national reputation for its dedication to this issue. The agencies represented on the Task Force include the U.S. Attorney's Office, the Minnesota Bureau of Criminal Apprehension, the FBI, the Secret Service, the Postal Inspection Service, and Immigration and Customs Enforcement.

The Task Force also includes the police departments from Minneapolis, St. Paul, Baxter, Burnsville, Fergus Falls, Hutchinson, Mankato, Moorhead, White Bear Lake, Woodbury, and Hermantown. In addition, it has representatives from

the sheriff's department from each of the following counties: Anoka, Crow Wing, Dakota, Hennepin, Polk, Ramsey, and Rice.

Furthermore, the Task Force has the support and cooperation of every County Attorney in the state, the Minnesota Attorney General's Office, the Midwest Children's Resource Center, the Family Advocacy Center of Northern Minnesota, the Minnesota Chiefs of Police Association, the Minnesota Sheriffs Association, the Jacob Wetterling Foundation, Target Corporation, and Qwest.

Violence in U.S.

The U.S. continues to have the highest homicide rate of any industrialized country in the world. In particular, the rate of U.S. gun murders is alarming, at 63 times that of England. Our handgun murder rate is 175 times that of England.

The number of gangs in America is hard to determine, but the Metro Gang Strike Force estimates that about 450 gangs exist in Minnesota.



Project Safe Neighborhood

In 1999, 12,658 murders occurred in this country. Two-thirds were shooting deaths. In response, the Justice Department, in the year 2000, created a national initiative, Project Safe Neighborhood.

Project Safe Neighborhood, commonly referred to as "PSN," focuses on reducing gun and gang violence and related crime by encouraging cooperative, multi-jurisdictional law enforcement and crime prevention efforts. To date, approximately \$1.5 billion in federal dollars has been spent on local, state, and federal PSN efforts.

Minnesota's PSN initiative was launched in 2003. Since that time, prosecutors in the U.S. Attorney's Office have worked diligently with local, state, and federal investigators, often through task forces, to combat gun and gang crime. As a result of PSN efforts, federal gun prosecutions increased nationally by seventy-three percent between 2000 and 2005. In Minnesota, federal gun prosecutions have increased one hundred percent in the last twelve months alone.

The continuation of PSN is imperative here in Minnesota. The city of Minneapolis is experiencing a surge in gang activity and related gun violence that must be addressed; and Minneapolis is not alone. The U.S. Attorney's Office receives gang and gun cases from all regions of the state.

PSN Case Highlights

A member of the Red Lake Band of Chippewa Indians was sentenced in July of 2007 to 292 months in federal prison for a September, 2006, murder on the Red Lake Indian Reservation. Jacob John Lussier, also known as Jacob John Martin, had earlier pled guilty to one count of second-degree murder in connection to the shooting death of Harley James Sayers.

Court documents in the case indicated that on September 30, 2006, the Red Lake Department of Public Safety received a call that someone had been shot at a home on the reservation. When officers arrived at the scene, they were directed to the back of the residence. There, they found a deceased man on the ground, the apparent victim of a fatal gunshot. That man was later identified as Sayers. In entering his guilty plea in February of this year, Lussier admitted he had shot Sayers twice with a twelve-gauge shotgun.

The case was investigated by the FBI and the Red Lake Department of Public Safety.



PSN Works!

Nationally, in 2005, 10,841 federal cases, involving 13,062 defendants, were filed under 18 U.S.C. 922 or 924 (the gun statutes). Ninety-one percent of those defendants were convicted; ninety-four percent of those convicted went to prison; and seventy-four percent of them were sentenced to three or more years.

We're Here to Help

County Attorneys are encouraged to contact the U.S. Attorney's Office about gun cases that may benefit from federal prosecution.



Terrorism Watch

Minnesota is a state with immense diversity in infrastructure and land. Many of the features that bring pride to Minnesotans, however, may also attract terrorists. For example, the Mall of America is the most visited shopping mall in the world, and the Mayo Clinic is a renowned medical facility.

In addition, Minnesota's northern border stretches for approximately 700 miles, with about 550 of those miles comprised of wilderness. Moreover,

150 miles of that border consists of Lake Superior shoreline, with the lake-side city of Duluth being home to one of the world's busiest inland ports.

Additionally, Interstate 35 runs through Minnesota, making vehicle access to and departure from any region of the state very easy. The Minneapolis-St. Paul International Airport, headquarters for Northwest Airlines, is also one of the busiest airports in the United States.

Furthermore, the state serves as a leader in agriculture and food produc-

tion. Cargill, a maker of agricultural products and the nation's second-largest privately owned company, is located here.

Thus, the threat of terrorism must remain a concern for Minnesotans, and preventing terrorism, a priority. So, under an umbrella known as the Minnesota Joint Terrorism Task Force, the local FBI works with the Minnesota Joint Analysis Center, coordinated through the Minnesota Office of Homeland Security and Emergency Management and the Minnesota Bureau of Criminal Apprehension to provide

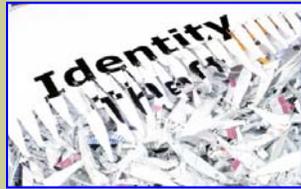
training, promote information sharing, and assist in developing terrorism response plans.

Joint Terrorism Task Forces exist in one hundred cities nationwide. Collectively, they have 3,723 members, including 838 local and state law enforcement officers. The Task Forces have been instrumental in breaking up terrorist cells and tracing sources of terrorist funding.

For more information about the Minnesota Joint Terrorism Task Force, call your regional FBI office.

Task Force Information

Immigration and Customs Enforcement (“ICE”) leads a document and benefit task force, which has aggressively and effectively targeted identity theft, document trafficking, and benefit fraud. For more information about this task force, contact ICE Group Supervisor John A. Weess, at (612) 348-1300, Extension 321.



Identity Theft and Document and Benefit Fraud

Identity theft and document and benefit fraud are growing concerns. A survey conducted by the Federal Trade Commission in 2003 found that about 9.91 million American adults, or 4.6 percent of the population, become victims of identity theft each year. Moreover, about \$53 billion was lost by victims and businesses in 2004 due to identity theft.

Identity theft and document and benefit fraud also pose a threat to our nation’s security. Using identification documents or information stolen from American citizens, terrorists can easily enter and remain in this country to carry out their terrorist plots. Or, they can access

the bank accounts of citizens and use the money they steal to support terrorist cells and training here and abroad.

The Identity Theft and Assumption Deterrence Act of 1998 makes identity theft a federal crime, with a maximum penalty of up to twenty-five years in prison, when someone: ***“knowingly transfers or uses, without lawful authority, a means of identification of another person with the intent to commit, or to aid or abet, any unlawful activity that constitutes a violation of federal law, or that constitutes a felony under any applicable state or local law.”*** (See 18 U.S.C. 1028.)

The Act also directs the Federal Trade Commission to refer identity-theft complaints to the appropriate law enforcement entities, including local agencies, for action.

Congress passed the Identity Theft Enhancement Act in 2004, which, among other things, established a new crime known as “aggravated identity theft.” That crime occurs when someone commits identity theft during and in relationship to any of an extensive list of federal felonies. In such cases, the offender gets a two-year mandatory prison term (a five-year term in terrorism-related cases) in addition to any sentence for other offenses.

Identity Theft and Document and Benefit Fraud Case Highlights

- During the fall of 2007, ten defendants pled guilty to federal charges related to operating an identity theft ring that had targeted the Twin Cities since April of 2006. Those charges included aggravated identity theft and conspiracy to commit mail, wire, and bank fraud.

The defendants were charged in a 35-count indictment that alleged they had assumed the identities of others to

obtain thousands of dollars in cars and car loan funds.

The indictment stated that three of the defendants stole files from Twin Cities’ finance companies. They and other defendants then used identification information from those files to finance and secure the vehicles. Ten defendants have pled guilty.

The case was investigated by the U.S. Postal Inspection Service, the Ramsey

County Sheriff’s Office, and the Woodbury Police.

- Ronnie Wagner recently was sentenced to sixty-one months in prison for bank fraud and aggravated identity theft.

Between August of 2005 and January of 2006, Wagner executed a scheme to bilk financial institutions by using the identification of others, without their knowledge, to apply for and obtain

student loan funding, which he then used for his personal benefit.

The case was investigated by the U.S. Postal Inspection Service and the Prior Lake Police Department.

- Issa Sanad Beiruti was recently sentenced to sixty-one months in federal prison for crimes related to aggravated identity theft.

Continued on next page

“Case Highlights,”

continued from previous page

Between October of 2006 and January of 2007, Beirut used the Social Security number and other identification documents of someone else to open bank accounts and credit card accounts and to buy items from, among other places, Home Depot, Osterman Jewelers, and Nordstrom’s. He also used

another person’s identification in an attempt to withdraw funds from that person’s bank account.

This case was investigated by the U.S. Postal Inspection Service.

- Jaime Hernandez-Najera was recently sentenced to thirty-four months in prison for aggravated

identity theft and trafficking Social Security cards and birth certificates.

In a related case, Adan Aguilar Alarcon pled guilty to aggravated identity theft and document trafficking and was sentenced to sixteen months in prison.



Man Who Committed Marriage Fraud to Stay in Country is Convicted

Mohamad Kamal Elzahabi, also known as Abu Kamal al Lubnani, age 44, of Minneapolis, has been convicted of possessing fraudulent immigration documents. On August 3, 2007, a federal court jury returned its verdict after a four-day trial.

Evidence presented at trial indicated that on September 6, 2001; September 21, 2001; and February 7, 2002, Elzahabi used an alien registration receipt card, commonly referred to as a “green card,” as evidence of his eligibility to work in this country. That card, however, was obtained by fraud.

Specifically, the card was issued because of Elzahabi’s 1984 marriage to a U.S. citizen. That marriage occurred, however, only after Elzahabi paid a dancer at the Pink Pussy Cat Club in Houston, Texas, to become his bride for the sole purpose

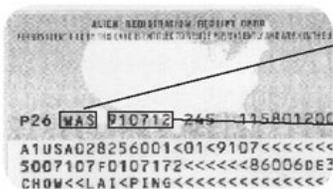
of evading immigration laws and obtaining an alien registration card. Elzahabi never lived with the woman as her husband, but he made such statements on his immigration petition.

Elzahabi faces a maximum potential sentence of five years in federal prison on each of three counts of

possession of false immigration documents. He is now awaiting sentencing.

This case was the result of an investigation conducted by the FBI, ICE, Citizenship and Immigration Services, the Minneapolis Police Department, the Boston Police Department, and the Matagorda County Sheriff’s Office in Texas.

After the conviction, U.S. Attorney Rachel Paulose said, “The integrity of our immigration and citizenship documents must be maintained. In this post-9/11 world, the security of our country depends on it. The U.S. Attorney’s office will prosecute those, like Mohamad Elzahabi, who commit fraud to obtain immigration documents.”

	FRONT	BACK	
“A” — number			This card does not have Port-of-Entry on it.
Date you became a Permanent Resident (November 1, 1997)			
“A” — number			Date you became a Permanent Resident (April 3, 1980)
Port-of-Entry or office where you were granted adjustment of status			Port-of-Entry or office where you were granted adjustment of status
“A” — number			Date you became a Permanent Resident (July 12, 1991)

Metro Drug Trends

- Opiate-related accidental overdose deaths outnumbered those for any other illicit drug during 2006. Such deaths increased by nine, to 69, in Hennepin County between 2005 and 2006.
- Marijuana use accounted for entry into more treatment programs than any other illicit drug during 2006, with 3,702 admissions, representing 18.3 percent of total admissions.
- Meth abuse and addiction declined in 2006. Eight percent of admissions to metro treatment programs were for meth, compared with twelve percent in 2005.

Narcotics Section

The Importance of the Fight Against Drug Trafficking in Minnesota

The abuse and trafficking of illegal drugs is a serious problem in the United States today. While only about five percent of Americans use illegal drugs, drug abuse



costs the U.S. around \$200 billion each year in missed work, reduced job performance, treatment, law enforcement, injuries, and death.

In a 2002 survey of local jail inmates across America, researchers found that approximately sixty-eight percent of them abused drugs. A 2004 national study concluded that thirty-two percent of state inmates and twenty-six percent of federal prisoners committed their current offenses while under the influence of illegal drugs.

The picture appears less bleak in Minnesota. The 2003-2004 National Survey on Drug Use and Health determined that only three percent of the adults in Minnesota used illegal drugs during the previous year. Yet, approximately twenty-five percent of Minnesota's state prison inmates were serving sentences for drug crimes, up from just six percent in 1989.

Increasingly, the trafficking of drugs is becoming the main business of organized street gangs, in this state and across the nation. That is of particular concern here in Minnesota, where the number of suspected street gang members has risen to 12,000 and continues to climb.

While most of Minnesota's street gangs are based in the Minneapolis-St. Paul metropolitan area, a recent law enforcement report out of the northwestern region of the state indicated that

115 of the people arrested in that area between June of 2004 and December of 2005 had gang ties. Those arrests provide evidence that drug traffickers are expanding their operations to small communities around the state. They are doing so in hopes of establishing new markets while flying below the radar of local law enforcement.

The U.S. Attorney's Office has brought some of Minnesota's most violent and dangerous drug traffickers to justice. Through initiatives, such as OCDETF (Organized Crime Drug Enforcement Task Forces), it will continue to partner with federal, state, and local law enforcement in an effort to disrupt drug trafficking rings and pursue and prosecute violent drug traffickers where they will receive the harshest sentences for their crimes.



OCDETF Makes a Difference

OCDETF (Organized Crime Drug Enforcement Task Forces) is a federal initiative through which large, violent drug trafficking gangs are targeted for investigation and prosecution. The Justice Department reports that OCDETF investigations increased thirty-seven percent nationally between Fiscal Year 2005 and Fiscal Year 2006. The U.S. Attorney's Office in the District of Minnesota reports that it is currently prosecuting about 125 people from thirty different OCDETF operations.

Narcotics Section Case Highlights

Leader of Shotgun Crips Gang Sentenced to Nine Years

Over the past two years, ten members of the Shotgun Crips street gang have been tried in federal court or have pled guilty to federal charges stemming from a Twin Cities' drug trafficking operation. On January 18, 2007, the last of those defendants, Lemarc John Harrell, of Minneapolis, was sentenced to 108 months in federal prison for his part in that criminal enterprise. Specifically, Harrell, a purported leader of the violent street gang, pled guilty in late 2006 to one count of conspiracy to commit money laundering in connection to cocaine trafficking.

Following the sentencing, U.S. Attorney Rachel K. Paulose said, "We are pleased with the sentence imposed in this case. Disrupting drug trafficking enterprises operated by violent street gangs is a priority of the Justice Department, and these large-scale organizations are especially suited to federal prosecution."

The case against Lemarc John Harrell was the result of

a two-year OCDETF investigation. In the end, Harrell admitted that between 2000 and 2006, he had conspired with others to conduct financial transactions involving money obtained through the unlawful sale of cocaine and marijuana. Specifically, he and others purchased real estate in Brooklyn Center, Brooklyn Park, and Minneapolis in an effort to conceal their drug proceeds.



Harrell agreed to forfeit to the U.S. government properties in Brooklyn Park and Minneapolis. In addition, he agreed to forfeit a 2005 Land Rover, \$11,405.00 in cash, and jewelry valued at more than \$250,000. Harrell admitted the real and personal property was subject to forfeiture because it was involved in, traceable to, or purchased with proceeds

from his drug trafficking activity.

The other members of the Shotgun Crips prosecuted in federal court over the past two years in connection to the gang's drug operation have either pled guilty or have been convicted of a number of charges related to the possession and distribution of cocaine and marijuana. Collectively, they are responsible for the distribution of at least 100 kilograms of cocaine and marijuana throughout the metro area during the past six years. At the present time, they are serving federal prison sentences ranging from two years to thirteen years.

The Harrell case resulted from the additional cooperative efforts of investigators from the IRS, Criminal Investigation Division; the DEA; the FBI; the ATF; the Minneapolis Police Department, Violent Offender Task Force; and the Hennepin County Sheriff's Office.



Repeat Offender Sentenced to Eighteen Years in Prison

In January of 2007, Michael Rojas, a habitual criminal from St. Paul, Minnesota, was sentenced to 218 months in prison after earlier pleading guilty to possession

with the intent to distribute methamphetamine.

Court documents in the case indicate that during April of 2006, the Metro Gang Strike Force began investigating

the drug trafficking activities of Rojas.

On April 10, 2006, as part of that investigation, law enforcement arranged to

Continued on next page



“Narcotics Case Highlights,” continued from previous page

make a controlled buy of cocaine from Rojas. Following the transaction, investigators asked St. Paul police to stop the vehicle Rojas was driving. Rojas, however, fled the officers, speeding through three stop signs and into an alley before crashing his car into two garages.



Rojas was then apprehended. A search of him and his vehicle resulted

in the discovery of approximately 258 grams of cocaine as well as some meth. A search warrant executed on his residence yielded \$4,700 in currency; a scale commonly used to weigh narcotics; bottles of Inositol, regularly used to cut narcotics; and a small amount of meth.

Reportedly, Rojas had been dealing significant amounts of meth and cocaine prior to his arrest. Before being convicted in federal court in this

case, Rojas also had been convicted in state court on six separate felony charges over a fifteen-year period. Three of those charges were related to illegal drugs and two were for criminal sexual conduct.

This case was the result of a multi-jurisdictional cooperative investigation conducted by the DEA, the Metro Gang Strike Force, and the St. Paul Police Department.

Faribault and Duluth Drug Rings Point to New Trend

In June of 2007, fourteen people were arrested in Faribault, Minnesota, after an eight-month narcotics investigation dubbed “Operation Rolling Rock.” The investigation was conducted by the Violent Offender Task Force, which is a multi-jurisdictional group of law enforcement officers focused on apprehending violent criminals throughout the state.



Those arrested in this case were charged with violating federal drug and gun laws, including conspiracy to distribute and possession with the intent to distribute cocaine base, conspiracy

to possess firearms during and in furtherance of a drug trafficking offense, and possessing and discharging a firearm in furtherance of a drug trafficking offense.

This case exemplifies a disturbing trend Minnesota law enforcement and community leaders have witnessed over the past few years; that is, the expansion of drug trafficking operations beyond the Twin Cities’ metropolitan area. Street gangs and independent traffickers are moving to smaller communities across Minnesota in hopes of establishing new markets in areas with a limited law enforcement presence.

As further evidence of this trend, twenty-eight people in the Duluth area were arrested on July 24, 2007, for violating federal drug laws. They were indicted on charges related to the

possession and distribution of cocaine and crack cocaine, including the charge of conspiracy, which carries a maximum potential penalty of life in prison.

In the Duluth case, investigators believe that Bernard Vann, the owner of Hot Gear Cold Grills & Beauty Supply, was the head of a drug operation and the supplier to thirty-plus distributors who made up the ring. Vann is also suspected of using his store as a front for criminal activity, including the distribution of cocaine and crack cocaine.

Investigators believe that over the past two to three years, the members of this drug ring were responsible for the sale and distribution of between forty and sixty kilograms of cocaine and crack cocaine in the Duluth, Minnesota, and Superior,

“Let us not forget who we are. Drug abuse is a repudiation of everything that America is.”

President Ronald Reagan



Continued on next page

“Drug Rings,”

continued from previous page

Wisconsin, areas, making their operation one of the region’s largest known to date.

This case was the result of an investigation conducted by the Lake Superior Drug and Gang Task Force, the Duluth Police Department, and the ATF. Assistance was also provided by the Minnesota Bureau of Criminal Apprehension.

The Faribault case was investigated by the Violent Offender Task Force, comprised of investigators from the Minneapolis Police Department, the Hennepin County Sheriff’s Office, ATF, and the FBI. Assistance was provided by the State Patrol, the Rice County Sheriff’s Office, the Faribault Police, and the South Central Drug Investigations Unit.



Duluth, Minnesota, where, at a press conference following the July 24, 2007, arrest of the twenty-eight members of a Duluth drug ring, U.S. Attorney Rachel Paulose said, “These arrests are good news for the citizens of Duluth. As with the fourteen-defendant indictment last month involving a drug dealing organization in Faribault, the message today is that drug dealers who think they can avoid federal prosecution by setting up shop in greater Minnesota are mistaken.”

Helping Local Prosecutors Combat Drug Crime

The U.S. Attorney’s Office is pleased to assist local prosecutors in combating drug crime in Minnesota by federally prosecuting major drug cases or cases involving dangerous drug trafficking organizations. Federal prosecution of drug cases may be appropriate in the following instances:

- Marijuana, where at least 100 kilos or 100 plants are involved;
- Cocaine, where at least 500 grams are involved;
- Crack cocaine, where at least 50 grams are involved;
- LSD, where at least one gram, which is about 2,500 hits, are involved;
- Meth, where at least five grams of pure meth or 50 grams of any mixture containing meth are involved;
- Heroin, where at least 100 grams are involved; and
- Ecstasy, where at least 1,000 tabs are involved.

Federal prosecution may be appropriate in other drug cases if aggravating circumstances are present. Those circumstances may include the presence or use of a firearm, the level of violence demonstrated during the commission of the criminal act, the offender’s criminal history, the use of juveniles in the commission of the criminal act, the offender’s affiliation with a structured criminal organization or gang, or the criminal act’s proximity to a school. In addition, federal prosecution may be appropriate in cases where a meth lab is present, a dangerous booby trap is found, or money laundering is involved

Gun counts (924c) will usually be included in federal drug indictments if the offender was found in possession of a firearm during a drug transaction, when attempting to collect a drug-related debt, or when apprehended. Such charges will also be included in drug indictments if the gun was fired or used as the basis of a threat. Generally, gun counts will not be included if a firearm was merely found in the closet of a home, the trunk of a car, or some other place.

Normally, simple drug possession cases will not be prosecuted federally. However, those matters will be considered if extenuating circumstances surround the offense or if prosecution is directed by the Justice Department.



“We must not rest until the day when justice rolls down like waters, and righteousness like a mighty stream.”

Dr. Martin Luther King



“Each time a man stands up for an ideal, or acts to improve the lot of others, or strikes out against injustice, he sends forth a tiny ripple of hope... and crossing each other from a million different centers of energy and daring those ripples build a current that can sweep down the mightiest walls of oppression and resistance.”

Former U.S. Attorney General Robert Kennedy

Civil Division

The Civil Division, led by Assistant U.S. Attorney Greg G. Brooker, represents the United States in federal and state court civil actions.

Civil Division attorneys, with the aid of paralegals and legal assistants, enforce federal civil statutes in cases involving discrimination in housing or violations of

other civil rights, environmental violations, health care fraud, and program and procurement fraud.

Civil litigators also defend the U.S. in employment disputes, federal tort claims, immigration cases, and actions challenging the constitutionality of federal statutes and regulations.

Moreover, they represent the interests of the United States in bankruptcy proceedings, mortgage foreclosures, land condemnations, and commitment actions of mentally ill and dangerous inmates.

The Financial Litigation Unit and the Asset Forfeiture Unit are also in the Civil Division.

Civil Rights

The Declaration of Independence, signed in 1776, stated, “We hold these truths to be self-evident: That all men are created equal....” Yet, for many Americans, liberty, justice, and equality have been elusive. People of African heritage, for example, continued to be enslaved in this country until passage of the Thirteenth Amendment to the U.S. Constitution in 1864. Moreover, the “equal protection clause” of the Fourteenth Amendment prohibits any state from denying “any person within its jurisdiction the equal protection of the laws.” Yet, women were not recognized as being covered by that clause until 1971, when the U.S. Supreme Court did so in the case of Reed v. Reed. Furthermore, the Fifteenth Amendment, adopted in 1879, made it illegal to deny citizens the right to vote based on race, but literacy tests and poll taxes were commonly used to keep people of color from voting until the Voting Rights Act was passed in 1965.

After the Civil War, segregation became commonplace in this country, particularly in the south, as did acts of violence toward African Americans and other minorities. Even here in Minnesota, discrimination led to hate-filled behavior. In 1920, Duluth residents lynched three African American circus workers accused of raping a white woman. Then, on the eve of World War II,

Minnesota was the site of the gatherings of the national leaders of the Silver Shirts movement. The movement’s founder, William Dudley Pelley, referred to himself as the “American Hitler”; and his followers attacked Jews in the most virulent anti-Semitic terms.

Over the years, however, most Minnesotans, like most Americans, have opposed these acts of violence, hatred, and injustice. In fact, Minnesotans have often been at the forefront of the fight against discrimination. In the 1940's, the Minneapolis City Council passed the nation’s first open-housing law, which became the model for the Civil Rights Act of 1964. Moreover, it was Minnesota’s own Hubert H. Humphrey who, in 1948, challenged the nation to “Get out of the shadows of states’ rights and walk forth-rightly into the bright sunshine of human rights.”

Litigators in the Civil Division of the U.S. Attorney’s Office work hard to enforce the Civil Rights Act as well as all other federal civil rights laws.

Red Wing Landlords Settle Discrimination Suit Against Them

During the fall of 2007, the U.S. Attorney's Office announced that Red Wing, Minnesota, landlords Thomas and Dawn Fischer agreed to pay \$240,000 to settle a federal lawsuit alleging that Thomas Fischer had sexually harassed female tenants in violation of the Fair Housing Act, which is Title VIII of the Civil Rights Act of 1968.

Specifically, the government alleged that Fischer's conduct included unwanted verbal sexual advances, unwanted sexual touching, and entering the apartments

of female tenants without permission or notice. The lawsuit also alleged that Fischer's wife, Dawn, as co-owner of the properties, was liable for Fischer's discriminatory behavior.

Under the terms of the settlement, the Fischers will pay \$210,000 to six former tenants and \$30,000 in civil penalties to the United States. The settlement agreement also requires the Fischers to retain an independent manager for their properties.

The federal Fair Housing Act prohibits discrimination

in housing on the basis of race, color, religion, sex, familial status, national origin, and disability. Since, January 1, 2001, the Justice Department's Civil Rights Division, in partnership with U.S. Attorney Offices across the country, has filed 240 cases to enforce the Fair Housing Act.

This case is only one of many civil rights enforcement cases brought by the Civil Division during 2007. Civil litigators are currently handling ten civil rights actions.



Report Housing Discrimination

People who believe they have been victims of housing discrimination or know of discriminatory practices should call the Housing Discrimination Tip Line, at 1-800-896-7793, or the Department of Housing and Urban Development, at 1-800-669-9777.

Civil Health Care Fraud

As stated in this report's Criminal Division, Health Care Fraud section (Page 10), many federal statutes exist to aid in the fight against health care fraud. Historically, prosecutors have employed the Federal False Claims Act, codified at 31 U.S.C.



3729, to penalize civilly or criminally those who make false claims or present false statements to the government. That statute, commonly known as the "whistle blower" statute, also allows private citizens to sue on behalf of the government through "qui tam" actions and share in any proceeds recovered.

The False Claims Act, sometimes called "Lincoln's Law," has been around in one form or another since 1863, when it was initially enacted by Congress to respond to entrenched fraud that the U.S. Justice Department was reluctant to prosecute. The first cases brought under the statute involved the sale of sick horses and mules as well as rancid rations to the Union Army by unscrupulous defense contractors.

Now, the False Claims Act is the primary tool for use in the recovery of health care losses incurred by the federal government due to fraud.

While criminal prosecution under the False Claim Act may be preferred against a medical professional who may benefit from prison time, civil litigation may be more appropriate when dealing with an institution. After all, civil litigation provides for monetary penalties for each violation as well as for treble damages.



False Claims Act





“There is no kind of dishonesty into which otherwise good people more easily and frequently fall than that of defrauding the government.”
Benjamin Franklin



Health Care Fraud Case Highlights

During 2007, the lawyers in the Civil Division of the U.S. Attorney’s Office obtained health care fraud settlements totaling \$1.48 million, as outlined below:

- **Abbott Northwestern Pharmacy, \$800,000**—Michael Smith was employed by Allina as a pharmacy buyer. Following the arrest of another individual on unrelated drug charges, law enforcement officers questioned Smith about the diversion of controlled substances from the Medical Office Building Pharmacy. Smith admitted he had used his position as a pharmacy buyer to divert hundreds of thousands of doses of hydrocodone, a powerful and addictive painkiller. Smith traded the hydrocodone for cocaine. After Smith’s arrest, DEA officials audited the pharmacy’s transaction records and found over 483,000 doses of controlled substances missing. Abbott Northwestern paid the settlement to compromise the claimed violations of federal regulations that require strict accounting for receipt and disbursement of controlled drugs.
- **U.S. ex rel Thomas v. Parker Hughes Cancer Center, \$150,000**—In this qui tam action, a former employee alleged various violations of law related to health care services. The clinic filed Chapter 11 bankruptcy protection during the pendency of the suit. The matter was resolved as an agreed claim in bankruptcy for violations of regulations regarding the use of one physician’s unique identifier by another physician in the submission of reimbursement claims to the federal government for services rendered.
- **U.S. ex rel Radjenovich v. Stanley Gallagher, \$110,000**—This qui tam lawsuit was brought by a physician against another physician, who alleged fraud in the admission of patients to the Wheaton Community Hospital and the subsequent submission of claims for the physician’s services to those patients. The claim against the physician for physician services (Part B of Medicare) was settled, but the hospitalization claims (Part A of Medicare) remain pending.
- **U.S. v. EXP, \$430,000**—EXP is a California company that provides pharmaceutical “reverse distribution” services to various military bases. “Reverse distribution services” involve returning pharmaceuticals purchased by the military. Between February 1, 2005, and September 30, 2006, EXP’s services generated \$429,818.95 in net return value. The proceeds of this account were then stolen by an employee and never returned to the military. EXP agreed to repay one hundred percent of the loss to the U.S. Department of Defense. (The settlement amount is stipulated, but the settlement is not yet final.)

The I-35 Bridge Collapse

Two weeks after the August 1, 2007, collapse of the I-35 bridge in Minneapolis, civil litigators in the U.S. Attorney’s Office represented the National Transportation Safety Board (“NTSB”) in federal court in an effort to keep a local personal injury law firm from obtaining access to the bridge site, which the NTSB controlled.

Less than an hour after oral arguments in the matter, U.S. District Court Judge Patrick J. Schiltz denied the law firm’s petition, stating, “The government has an urgent interest in recovering the bodies of the victims, clearing the site of unstable and dangerous wreckage, reopening the Mississippi River to commerce, and

beginning the rebuilding of the bridge as soon as possible. These challenges are daunting enough without the Court turning loose dozens of lawyers, expert witnesses, and investigators on the site.”



Violation of Federal Clean Water Act Addressed in Court

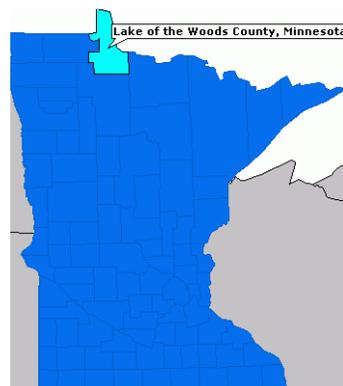


Earlier this fall, the U.S. District Court in Minneapolis ordered an injunction requiring Gary Bailey to restore to its original condition a parcel of wetland in Lake of the Woods County, Minnesota.

Court documents in the case indicate that Bailey owns a thirteen-acre site in that county, some of which is officially designated wetlands. He wanted to plat the land for residential lake-lot development and sale. Therefore, in the spring of 1998, he hired a company to construct an access road through the site. He did so, however, without first obtaining a permit.

The company cleared a 66-foot-wide roadway that ran about a quarter of a mile. The company also dug a ditch on each side of the road and installed culverts beneath its northern and southern ends. The road was then covered with about 2,000 square yards of gravel.

Officials from the local Soil and Water Conservation District, the County, the Environmental Protection Agency, and the U.S. Army Corps of Engineers informed Bailey that the roadway was not authorized, and construction should stop until the proper permits were granted. Despite those warnings, Bailey continued work on the road until it was completed.



The Importance of Wetlands

We need wetlands for animal habitats, water filtration, and floodwater storage. But, over the past 100 years, half of the wetlands in the U.S. have been lost to development and farming. Thus, federal legislation has been enacted to manage remaining wetland areas. The Clean Water Act is the primary law governing wetland use. It requires that permits be obtained before some acts, such as road construction, can occur in federally designated wetlands.



Lead-Based Paint Project

In 2007, the Civil Division completed its five-year project of enforcing federal lead paint disclosure laws. In seven consent decrees issued by the federal district courts, civil litigators successfully sued landlords and property management companies that failed to warn tenants of potentially dangerous lead hazards in their rental units.

The seven cases were part of a broad compliance review conducted by the U.S. Attorney's Office in the District of Minnesota, the U.S. Department of Housing and Urban Development, and the U.S. Environmental Protection Agency.

Through this process, the leases and supporting documentation of approximately forty property owners and management companies were reviewed for compliance with federal lead paint disclosure laws.

The consent decrees have resulted in the removal of

lead hazards in thousands of rental units in Minneapolis. Moreover, they have prompted the payment of civil monetary penalties to the United States for the violations.



The Lead-Based Paint Poisoning Prevention Act, as amended (42 U.S.C. 4822), is the basis for federal regulations regarding lead-based paint. The Act directs HUD to establish procedures to eliminate "as far as practicable" lead paint hazards in housing assisted by federal funds. Lead-based paint projects were developed across the nation as a result.

External Relations Division

The External Relations Division, led by Jeanne F. Cooney, is responsible for community outreach, networking with other law enforcement entities, and implementing special programs and projects.



events as well as worked on special projects and programs, such as Weed



During 2007, the External Relations Division helped prepare speeches and presentations for many public



and Seed, Project Safe Neighborhood, and Project Safe Childhood.



St. Paul, Minnesota's State Capitol



Law Enforcement Officer of the Year

On September 28, 2007, St. Paul Police Officer Troy Greene and Sgt. Kevin Moore were presented with the eighth annual U.S. Attorney's Office Law Enforcement Recognition Award. These two law enforcement professionals played major roles in the St. Paul Police Department's efforts to rid that city of the Latin Kings, one of the country's most violent street gangs.

with local, state, and federal law enforcement in 2004 in an effort to disrupt the gang's leadership. In February of 2006, a federal grand jury returned a secret indictment against twenty-six Latin Kings, charging them with drug and gun crimes.

year veteran of the St. Paul police force, arranged controlled drug buys and otherwise coordinated law enforcement operations. Sgt. Moore, who has been in law enforcement for twenty-eight years, developed search warrants and interviewed offenders.

The FBI reports that the Latin Kings operate in thirty-four states, with an estimated national membership of between 25,000 and 50,000. The gang's primary source of income is drug trafficking. Gang members are known to be violent toward rival gangs, correctional officers, and those within their own ranks who defy orders. In Minnesota, the gang is responsible for violent crime while focusing on importing meth and dealing in firearms.

In March, more than 350 federal, state, and local law enforcement officers simultaneously executed eight search warrants and twenty-seven arrest warrants throughout the Twin Cities. The "take down," led by the St. Paul Police Department, ended with twenty-five arrests. Information from the March arrests prompted additional indictments, and thirty-four gang members were ultimately charged with federal crimes.

Since the "take down," St. Paul Police Chief John M. Harrington reports a fifty-percent drop in crime on St. Paul's west side, the gang's primary target area.

"Both of these men have extensive experience working drug and gang cases, and it is that expertise, as well as their tireless dedication that led, in large part, to the recent disruption of the Latin Kings street gang. In the end, thirty-four of the most violent members of the Latin Kings gang were charged with federal crimes, making the case the largest single prosecution in 2006 for the U.S. Attorney's Office."

U.S. Attorney Rachel Paulose at Officer of the Year ceremony

All those arrested have now pled guilty, and eighteen have been sentenced. The remaining defendants are expected to be sentenced shortly.

During this investigation, Officer Greene, a thirteen-



St. Paul Chief of Police John M. Harrington discusses St. Paul crime trends following the "take down" of the Latin Kings gang.

Administrative Division

The Office's Administrative Division, led by Mary Nelson, is responsible for planning and executing a comprehensive range of



services, such as information technology and computer support, litigative support and administrative assistance, victim and witness assistance, office budgeting and procurement, human resources and personnel assistance, and facility management.

Whether they are recruiting and hiring the Office work force, providing



salary and benefit information, procuring equipment, assisting crime victims, or helping attorneys prepare for trial, the people who work in the Administrative

Division always strive to reach their goal of prompt and effective service in support of the employees and programs of the United States Attorney's Office for the District of Minnesota.

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