

Mail Fraud



A Florida Inspector interviewed a man who had solicited donations for “Victims of WTC.” Although he claimed he would forward checks received at his post office box to a charity, he signed a Voluntary Discontinuance of his operation, and the Inspection Service issued a Withholding Mail Order to ensure such mail would be returned to senders.

The Mail Fraud Statute is the oldest and most effective of the consumer protection laws, and the Postal Inspection Service is the federal law enforcement agency mandated by Congress to enforce it. To increase their efficiency in investigating suspected mail fraud, Postal Inspectors lead and participate in several joint law enforcement and consumer group initiatives aimed at safeguarding the public’s confidence in the U.S. Mail. Educating the public on fraud schemes that involve the mail is an essential component to meeting this goal.

Postal Inspectors work cooperatively on joint task force investigations with other law enforcement agencies to take advantage of the expertise of each agency and to leverage resources. Of the more than 1,900 Postal Inspectors across the nation, about 300 are assigned to mail fraud investigations. Inspectors investigated 3,475 fraud cases this past fiscal year, and Inspection Service analysts responded to approximately 66,000 mail fraud complaints. During FY 2001, Postal Inspectors arrested 1,691 mail fraud offenders, and 1,477 were convicted as a result of Inspection Service investigations.

Mail Fraud Against Businesses

Postal Inspectors work diligently to protect the business community from being victimized by mail fraud. Examples of Postal Inspection Service case activity in FY 2001 follow.

◆ An Illinois doctor and a hospital he controlled agreed to pay the United States and the state of Illinois \$14 mil-



Photo by Scott Heckel, The Canton Repository

After state and local investigators in several states couldn’t nail a man they believed was a serial killer, Ohio Postal Inspectors arrested him for a \$5,075 case of mail fraud, resulting in a 30-year prison term.

lion to settle allegations that he and the hospital defrauded Medicare and Medicaid over an eight-year period. It was the second-largest settlement for health care fraud ever recorded in Chicago. Postal Inspectors and FBI agents uncovered a scheme in which the doctor paid kickbacks to conspirators, who submitted false claims for services that were either medically unnecessary or improperly reported.

◆ A Postal Inspection Service investigation resulted in the sentencing of two former employees of one of the world’s largest petroleum and chemical product handlers, located in Trenton, NJ. Their bid-rigging scheme relied on kickbacks to fraudulently obtain \$30 million worth of construction contracts, for which they overbilled clients by approximately \$3.3 million. One man was sentenced to three years and 10 months in prison, three years’ probation and \$1.2 million in restitution; the second was sentenced to two years and

nine months in prison, three years' probation and restitution of \$900,000.

◆ New York Postal Inspectors joined at least 100 law enforcement officials on a task force investigation that resulted in the arrests of nine suspects. The team targeted a criminal enterprise involved in numerous fraud schemes that reaped more than \$4.5 million from insurance companies, the Internal Revenue Service and other entities. The ring used an elaborate web of false IDs and more than 100 addresses in the United States and Canada to insulate themselves from detection and rented boxes at commercial mail receiving agencies (CMRAs) to increase their anonymity.

◆ A Kansas man was sentenced to three years and five months in prison and ordered to pay \$1.5 million in restitution to victims of his scheme. Postal Inspectors found that, while running a title company, the man cheated home mortgage holders and real estate investors out of more than a million dollars, using the money entrusted to him for personal gain.

◆ Postal Inspectors in Cheyenne, WY, obtained guilty pleas from two defendants who defrauded automobile dealerships and their customers through a gasoline voucher incentive program. The dealers mailed fuel vouchers worth up to \$500 to their customers; they had purchased the vouchers from the defendants for about 10 percent of actual fuel costs, believing the vouchers were approved by major oil companies. None of the customers received reimbursement, and the scammers took in approximately \$3 million from 1,300 businesses.

◆ In Minnesota, the central figure in an extensive insider trading and securities fraud and his two sons pled guilty and agreed to criminal fines and forfeiture of approximately \$6 million in July 2001. The defendants used their positions of trust to obtain and illegally use non-public information in transactions with publicly traded companies. The defendants

admitted they profited personally by using "inside" information. Postal Inspectors conducted the investigation with agents from the IRS and FBI.

◆ Two Pennsylvania suspects entered guilty pleas, one for mail fraud and the other for tax evasion, for a scheme to submit more than 800,000 unredeemed manufacturers' coupons to a coupon clearinghouse for repayment. As part of a plea agreement, one of the suspects agreed to pay \$400,000 in restitution, \$300,000 of which will be distributed to members of the Coupon Information Corporation, which comprises local, state and federal law enforcement agencies.

Mail Fraud Against Consumers

Americans receive thousands of unsolicited phone calls from telemarketers each year trying to sell a variety of products. Most are legitimate, but unscrupulous telemarketers can be the smoothest of operators, successfully swindling the public out of millions of dollars. Older citizens are often targeted by these scammers. Indeed, those on fixed incomes who fall prey to these schemes can lose their entire life savings. Telemarketing fraud costs Americans an estimated \$40 billion each year.

The Postal Inspection Service emphasizes the importance of consumer awareness and prevention as the best protection for consumers, but many people still "take the bait." Examples of Postal Inspection Service case activity in FY 2001 follow.

◆ Three defendants were convicted for operating two illegal telemarketing operations in California that defrauded 2,200 mostly elderly victims of more than \$1.2 million. They ran a bogus business that induced victims to order magazines by promising them valuable prizes. Most victims received nothing at

all, while others received cheap watches or magazines worth far less than what was advertised.

◆ Project Colt, a cross-border telemarketing fraud task force of Postal Inspectors and other U.S. and Canadian law enforcement officers, disrupted a Canadian prize-recovery scheme after an intense three-month investigation. Telemarketers posing as lawyers, court officers, law enforcement or other government officials telephoned victims of previous prize promotions—principally elderly Americans—falsely claiming they had leads to substantial sums of money that rightfully belonged to the victims. Victims paid large sums of money to the operators as a "recovery fee," but received nothing.

◆ An investigation by Postal Inspectors in Massachusetts, Florida and Michigan ended a multi-state telemarketing operation that scammed 20,000 victims of \$12 million. Timeshare owners were enticed by offers to trade their timeshares in return for a \$400 property appraisal. They were mailed "appraisals" printed from a database at a cost of roughly \$25 each.

◆ The operator of a multi-state, telemarketing advance-fee promotion was indicted by a federal grand jury in Denver, CO, on 22 counts of mail fraud. Postal Inspectors found the defendant had promised his victims that, for a \$25 advance fee, they could become market research analysts, earning money by testing new products and providing feedback to participating companies. More than 45,000 people lost an estimated \$1.3 million.

Other types of fraud conducted through the mail that may victimize postal customers are described in the cases that follow.

◆ Four individuals in Florida received sentences of two to 27 years in prison for running a Ponzi scheme. Postal Inspectors determined the four had solicited contributions from individ-

uals and church groups via the mail by promising to double their victims' money through investments in gold certificates. More than 18,000 victims mailed the operators an estimated \$448 million. Only the operators got rich.

◆ A scheme uncovered by Postal Inspectors in Illinois resulted in guilty pleas and an agreement to pay a fine of \$27.5 million. After a nationally known battery manufacturer signed a contract with a major battery retailer, the manufacturer found it was ill-equipped to meet the retailer's needs. Roughly 750,000 batteries were rushed through production, resulting in obvious, as well as latent, defects. Manufacturing officials knew of the defects prior to their rollout, but remained silent. When the defective batteries hit the market, the retailer was met with an avalanche of customer complaints and returned batteries.

◆ An Oregon cattle fraud scheme investigated by Postal Inspectors was cited as the largest case of financial fraud in the state's history, robbing 4,500 investors from 41 states of more than \$100 million. The scam involved fraudulent cattle breeding and Individual Retirement Account (IRA) investments. The sentencing judge stated that the scheme's kingpin was the "craftiest criminal" he had sentenced in 38 years on the bench, ordering him to spend 19 years and seven months in prison and pay \$102 million in restitution. Five other defendants were sentenced to a total of 13 years and six months in prison and ordered to pay more than \$198 million in victim restitution. Total restitution to victims exceeds \$300 million.

◆ Postal Inspectors in Philadelphia investigated two men who were sentenced in federal district court for a phony AIDS treatment scam that promoted the use of ozone gas to treat people infected with the virus. One man was sentenced to five years in prison and ordered to pay \$168,152 in victim restitution, and the other was ordered

to serve three months in prison.

◆ The chairman and chief executive officer of a New York company that designs and sells women's shoes pled guilty in the Southern and Eastern districts of the state. Postal Inspectors found he was involved in 23 fraudulent initial public offerings (IPOs) underwritten by two now-defunct broker-dealers. Under the terms of a plea agreement between the company and the government, the defendant faces a potential sentence of 41 to 51 months in prison and victim restitution of approximately \$5 million.

◆ Two men doing business as a commercial tax service were indicted in Florida in August 2001 on mail fraud charges. Their scheme related to the Economic Growth and Tax Relief Reconciliation Act of 2001, which directed the U.S. Treasury to mail tax rebate checks to a majority of Americans. The company mailed about 25,000 solicitations to consumers promising that, for \$17.95, it would identify how much tax credit the consumer was entitled to receive and "ensure proper delivery." To protect consumers, Postal Inspectors requested a Withholding Mail Order and a False Representation Order for all mail sent to the Boca Raton address, which was a commercial mail receiving agency. The case was the subject of a House Ways and Means Committee hearing, and the investigation is continuing to determine if other suspects were involved.

Fraud on the Internet

Cybercrime presents unique challenges to law enforcement groups. Postal Inspectors investigate Internet fraud when the U.S. Mail is used as part of the scam.

Traditional mail fraud schemes are rebounding with new success on the Internet, expanding the victim base and

1947

Jesse M. Donaldson, the Chief Postal Inspector, is appointed Postmaster General.

1954

Inspectors are renamed "Postal Inspectors" to reflect their relationship to all phases of postal services and the U.S. Mail, instead of only to post offices.



1958

Owners of the Hope Diamond send the priceless jewel to the Smithsonian Institution by U.S. Mail. Postal Inspectors ensured that the gem arrived safely at its destination.



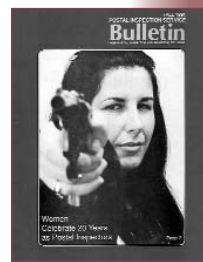
1970–1971

With the Postal Reorganization Act of 1970 (effective 1971), the Bureau of the Chief Postal Inspector becomes the "United States Postal Inspection Service." A uniformed security force is added to assist in carrying out the Inspection Service's mission.



1971

The U.S. Postal Inspection Service becomes one of the first federal law enforcement agencies to hire female agents.



providing increased anonymity. In response to this growing threat, the Postal Inspection Service formed the Internet Mail Fraud Initiative, which trains Postal Inspectors across the country on specialized techniques and strategies that target cyberscammers. Postal Inspectors also work with analysts at the Internet Fraud Complaint Center, the Federal Trade Commission's Consumer Sentinel and the Postal Inspection Service's Fraud Complaint System (FCS), soliciting and receiving fraud referrals for investigative attention. A major outcome of the Internet Mail Fraud Initiative was that FCS was enhanced to receive online complaints directly from Internet users.

In May 2001, the Postal Inspection Service worked with the FBI on Operation Cyber Loss, a national task force tar-

geting fraud schemes on the Internet. Designed to increase public awareness of this rising trend, the results of the task force's efforts were announced at a press conference held in Washington, DC, on May 23, 2001, with the Department of Justice and the FBI. Operation Cyber Loss resulted in approximately 61 investigations of fraud schemes, 30 searches and seizures, 64 arrests and convictions and 96 indictments. Altogether, investigators identified 57,662 victims of fraud who had lost a total of more than \$118 million through Internet fraud schemes. Other examples of Inspection Service cases in this area follow.

◆ Postal Inspectors and recording industry officials arrested a Miami man who was using the Internet and U.S. Mail to sell pirated compact discs, cassettes and videos. He only accepted payments mailed to his post office box in the form of credit cards, money orders or cashier's checks. After

establishing a Postal Service customer account, he used more than 700 domestic and Global Priority Mail envelopes and mailers each month. The defendant was sentenced to one year of probation in April 2001.

◆ Postal Inspectors arrested a Nashville, TN, man on charges of defrauding Internet customers of approximately \$200,000. His auction Web site offered computer laptops to the highest bidder, but none of the "winners" who mailed money to the CMRA address controlled by the defendant received their merchandise.

Mail Fraud Against State, Local and Federal Agencies

Government agencies and health care groups that fall prey to mail fraud scams are afforded the same protection under the Mail Fraud Statute as consumers and businesses. Examples of investigations in FY 2001 follow.

◆ A Utah man was convicted in Newark, NJ, on charges of mail fraud and conspiracy to defraud the United States. Postal Inspectors revealed the man tried to sell, redeem and pass a counterfeit \$100 million Federal Reserve note and bond (supposedly from 1934) as collateral for a \$20 million cash advance, using brokerage firms in New York and New Jersey. Postal Inspectors determined the Federal Reserve never issued a public note for more than \$100,000, and the Bureau of Public Debt never issued a \$100 million bond in 1934.

◆ After a task force of 65 law enforcement officers, including Postal Inspectors from Cleveland, was formed to address fraud in government programs, members arrested four individuals who were part of an organized group that illegally redeemed food stamps at grocery stores, as well as vouchers issued by the Women, Infants and Children (WIC)

The screenshot shows a news article on MSNBC.com. The headline is "The Internet's John Dillinger" and the sub-headline is "Auction scam artist on the run, bilking users out of hundreds of thousands of dollars". The author is Bob Sullivan. The article text begins with "June 7 — Federal authorities are calling Jay Nelson 'the Internet's John Dillinger' and 'Public Enemy No. 1' for online auctions. They say he's scammed auction bidders out of hundreds of thousands of dollars in the past two years, thumbing his nose at law enforcement along the way. Now a fugitive who has skipped bail, Nelson is scamming his way around the country, authorities say — and they just can't catch him."

One of the Postal Inspection Service's Most Wanted fugitives was arrested as a result of a Kissimmee, FL, stamp and coin shop dealer's positive ID, made after she recognized one of her frequent customers from a Wanted poster on the Inspection Service's Web site. The suspect was indicted in February 2001 on charges related to the unauthorized use of credit cards obtained from Internet auction sites. Postal Inspectors had received complaints that the

suspect used dozens of fake online personas to scam hundreds of thousands of dollars at Internet auction sites, taking victims' money but failing to mail their merchandise. The news story shown here was one of several posted by MSNBC.com after a reporter interviewed the Northeast Division case Inspector about the fugitive, naming him "the Internet's John Dillinger."

group. The Food Stamp Program lost \$15.3 million over five years.

◆ Postal Inspectors in New Jersey investigated 13 individuals who were convicted in a Medicare fraud scheme that netted in excess of \$13 million. To date, 10 of the defendants have received prison terms of up to seven years and three months and were ordered to pay more than \$10.5 million in restitution.

Rebate Mail Fraud

The Postal Inspection Service has worked closely with members of the rebate industry for nearly a decade to combat fraud and establish new strategies to increase the security of their operations. A major result of these partnerships was the creation of the Rebate Data Center (RDC), which captures and analyzes rebate fraud data for dissemination to pertinent investigative and industry groups nationwide.

A rebate fraud scam that began in 1998 ended with the successful prosecution of four individuals who operated a chain of supermarkets in New York. The defendants illegally redeemed manufacturers' coupons for a profit of more than \$5 million. In addition to bringing prosecutive action, Postal Inspectors initiated forfeiture proceedings. That action led to the October 19, 2000, presentation of a \$3 million check to the Inspector in Charge of the New York Metro Division, representing the Postal Inspection Service's equitable share of the net proceeds of the forfeiture.

Viatical Fraud

Viatical settlement fraud occurs when material misrepresentations are made on life insurance applications, hiding the fact that the applicant has been diagnosed with a terminally ill condition, a practice known as "clean sheeting."

Due to an increase in viatical settlement fraud, the Postal Inspection Service and the Federal Bureau of Investigation formed Operation Clean Sheet, a joint effort aimed at aggressively pursuing criminal prosecution and establishing preventive strategies that protect the insurance industry and consumers from fraud. Operation Clean Sheet investigators brought to justice a San Francisco man who was convicted of conspiracy to commit mail fraud. Acting on behalf of a viatical settlement company, he bought life insurance policies from terminally ill individuals who had lied about their illnesses on insurance applications. He brokered more than \$8 million worth of life insurance policies to the viatical settlement company, for which he was paid a 2 percent commission.

Administrative Actions Related to Mail Fraud

In addition to criminal prosecution, Postal Inspectors frequently rely on civil or administrative actions to deter mail fraud. Below is a list of actions taken in FY 2001 to help stem losses from various fraud schemes

| Action | FY 2001 |
|--|---------|
| Complaints filed by the Law Department | 65 |
| Consent Agreements signed | 30 |
| Cease & Desist Orders issued | 35 |
| False Representation Orders issued | 39 |
| Withholding Mail Orders issued | 109 |
| Temporary Restraining Orders issued | 0 |
| Voluntary Discontinuances signed | 361 |
| Civil Injunctions | 3 |

Work-at-home scams target those who need money but are unable to work outside their residences. The scams usually promise big earnings and do not require prior job experience.

1972

Postal Inspectors and Postal Inspection Service forensic scientists prove that a handwritten note giving Clifford Irving exclusive rights to write Howard Hughes' biography was a fraud.

1984

The passage of the Child Protection Act gives Postal Inspectors additional powers to focus on the peddlers of child pornography.

1987

Investigations by Postal Inspectors reveal widespread white-collar crime on Wall Street, including insider trading and a massive check-kiting scheme.

1989

Postal Inspectors arrest televangelist Jim Bakker, co-founder of the Praise the Lord (PTL) Club. Inspectors proved Bakker committed mail fraud after he scammed believers by using \$178 million of their mailed-in money for personal gain. He is sentenced to 45 years in prison.

1991

The Postal Inspection Service breaks up a worldwide art-fraud ring that marketed bogus paintings purported to be by such renowned artists as Salvador Dali, Joan Miro and Pablo Picasso.

Postal Inspectors take pride in putting the scammers out of business. The Postal Inspection Service conducted 47 such investigations during FY 2001 and reported 14 arrests, three Cease & Desist Orders, two False Representation Orders and 20 Voluntary Discontinuance Agreements.

A Withholding Mail Order (Title 39, USC 3003) enables the Postal Service to withhold an addressee's mail if they are using a false or assumed name, title or address to conduct or assist with activity that violates 18 USC 1302 (lottery), 1341 (mail fraud) or 1342 (use of a fictitious name or address), until proper identification is provided and the person's right to receive the mail is established. Under 39 USC 3004, the Postal Service may withhold mail if the address is not a person's residence or business address, allowing them to remain anonymous.

Examples of Postal Inspection Service case activity related to administrative actions in FY 2001 follow.

◆ A company advertised "Super-activated Asparagus Tablets" as a diet remedy, claiming they would help people lose weight without dieting. Postal Inspectors learned that mail was being returned to the company's rented commercial mail receiving agency (CMRA) address at a rate of 20 to 40 packages a day. One customer returned a package with a note claiming the product made her sick. Expert testimony from forensic specialists confirmed the pills were useless. A False Representation Order halted further sales and ensured customer refunds.

◆ A Civil Injunction issued in February 2001 against a company and its operator stopped use of the mail, wire or Internet to market, sell or dispense a combination of aloe vera and cesium as a treatment, cure or prevention for cancer or AIDS, and instructed the operator to cease representing himself as a doctor. Postal Inspectors pre-

sented at a hearing patients who paid \$12,000 for treatment, as well as witnesses who testified that their relatives died during or shortly after the treatment. The operator had not earned a Ph.D and had no medical training.

◆ Withholding Mail Orders, directing that all mail to an addressee be returned unopened to the sender, were used in two investigations to prevent further consumer losses. In one case, a Canadian used a CMRA address to operate a confidence and fortune-telling scheme via the mail. About 200 to 450 pieces of mail arrived at his box daily; the CMRA owner was under instructions to forward it to another CMRA address, thus preserving the fraudster's anonymity. The persistent schemer is the subject of several similar Postal Inspection Service investigations.

◆ A False Representation Order was issued in April 2001 against a man who mailed a flyer advertising a "Black Inheritance Tax." Respondents were told that, by mailing him \$51 if they filed single tax returns or \$102 if they filed as a married couple, he would help them collect reparation checks from the government—allegedly earned by their ancestors who were held in slavery. Single filers were promised \$40,000 checks and married filers were promised \$80,000 checks. The Internal Revenue Service stated there are no such provisions in the tax code.

Fraudulent Foreign Lottery Mail

During FY 2001, 26 False Representation Orders (FROs) were issued against foreign lottery promoters. FROs enable Postal Inspectors to stop lottery mail—most of which contains checks—

If you believe you've been victimized by fraud conducted through the mail, notify Postal Inspectors at 1-800-FRAUD-IS (1-800-373-8347), or through our Web site at www.usps.com/postalinspectors.

from leaving the United States and return mail to senders, thereby preventing victim losses.

Two Withholding Mail Orders were issued by the Postal Service's judicial offi-

cer, one for a CMRA address in Phoenix, AZ, that collected remittances for a foreign lottery promotion and another in Arlington, TX. The promotion stated that European lottery pools were soliciting funds for a mutual lottery and participants could win huge amounts of money within 21 days for a fee ranging from \$13 to \$38. Due to quick action by Postal Inspectors, more than 7,800 First-Class letters were successfully detained and returned to senders under Withholding Mail Orders.

To further combat illegal foreign lotteries, Postal Inspectors are working with U.S. Customs Service officials to stop such offerings from entering the U.S. mailstream. Customs agents contact Postal Inspectors when they find such mail during border searches. Inspectors detain the mail and provide samples to the Postal Service's Law Department to determine if they meet mailing standards. If the pieces are considered nonmailable, the mailer is notified that the material is subject to destruction and may appeal the notice. If the mailer fails to appeal or loses the appeal, the detained mail is destroyed upon the issuance of a Destruction Order. During this reporting period, 817,442 pieces of foreign lottery mail were destroyed prior to entering the mailstream. Since the initiative began in 1994, approximately 11.5 million pieces have been destroyed.