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# Commerce Fraud Bureau Annual Report

## 2020

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Minnesota Department of Commerce  
Commerce Fraud Bureau  
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[mn.gov/commerce](https://mn.gov/commerce)

# Minnesota Department of Commerce

## **Mission**

Commerce protects all Minnesotans in their everyday financial transactions by investigating and evaluating services and advocating that they be fair, accessible and affordable.

## **With You Every Day**

Wherever you are in Minnesota, the Department of Commerce is with you every day. Whether you're filling up on gas, purchasing a home, working to reduce energy consumption or rebuilding after a disaster—we are with you, no matter what.

Commerce oversees more than 20 regulated industries, ensuring that Minnesota consumers are protected, and businesses are strong. Our mission is to protect the public interest, advocate for Minnesota consumers, ensure a strong, competitive and fair marketplace, strengthen the state's economic future and serve as a trusted public resource for consumers and businesses. Learn more at [mn.gov/commerce](https://mn.gov/commerce).

## **Annual report to the Minnesota State Legislature**

Pursuant to Minnesota Statute 45.0135, subdivision 5, The commissioner shall report annually over insurance issues as to the activities of the Commerce Fraud Bureau (CFB) and the cost-effectiveness of the programs it established. The CFB is a statutorily authorized law enforcement agency within the Minnesota Department of Commerce. This report gives insight into the activities of the Bureau to deter crime, investigate criminal activity and when necessary bring criminals to justice.

The year 2020 proved itself to be a difficult year for all of us. During 2020, the CFB transitioned to a remote working environment in accordance with Governor Walz's directives in response to the COVID-19 pandemic. CFB agents and analysts adopted to this change and maintained a continuity of operations so that we could continue pursuing justice for our victims.

During 2020, the CFB initiated investigations into 3,600 cases, representing an 11% increase over the 3,236 investigations conducted in 2019. Our criminal investigations resulted in prosecutions of individuals who were responsible for committing crimes that had an economic impact on Minnesotans totaling \$6,811,369.

The mission of the CFB is, "To protect Minnesotans from fraud by conducting aggressive criminal investigations in the pursuit of justice." This is not simply a statement in a book or a report. We live this each day, and this is the reason why our work is so important.

Minnesotans can rest easy knowing that they have a dedicated team of law enforcement professionals who are guarding their best interests and ensuring a competitive marketplace. The men and woman who work for the CFB are highly regarded by their peers and have accomplished much during this unprecedented past year.

I encourage you to review this report and learn more about what the Bureau has to offer. If you desire any additional information on the work of the CFB, please do not hesitate to contact me at 651-539-1602. Thank you for your continued support.

At your service,

Michael W. Marben  
Director & Chief Law Enforcement Officer  
Minnesota Commerce Fraud Bureau

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## RESULTS

- The work of the CFB is a key part of the state’s consumer protection and criminal justice systems.
- Commerce Fraud Bureau investigations resulting in the filing of state and federal criminal charges had an economic impact of \$6,811,369 in 2020.
- The number of incoming case referrals at the CFB in 2020 was 3,600.
- This represents an increase of 57% in case referrals over the past 5 years and a 11% increase between 2019 and 2020.
- The five largest areas of suspected fraud reported to the CFB during 2020 were:
  - Automobile Insurance
  - Health Care Insurance
  - Homeowners Insurance
  - Workers’ Compensation Insurance
  - Agent and Broker Fraud

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## RECOGNITION

On October 29, 2020, the U.S. Attorney’s Office honored Supervisory Special Agent Mark Stock of the CFB with an award for **Excellence in The Pursuit of Justice**.

The award was given to SSA Stock for his role in investigating a \$150 million investment fraud scheme that targeted victims worldwide. Many of the victims of the scheme perpetrated by Antonio Buzanelli of Coral Gables, Florida, were elderly and vulnerable and some of them lost their retirement savings. The CFB began the investigation after receiving a tip about a suspicious investment opportunity being offered to residents. Buzanelli and his co-conspirators claimed that investors in the scheme could make a 48 percent annual return on their money. Buzanelli subsequently plead guilty and is serving a 20-year sentence in federal prison.

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# COMMERCE FRAUD BUREAU

## INTRODUCTION

The CFB is the recognized leader in fraud and white-collar criminal investigations in the State of Minnesota.

The CFB is one of Minnesota's six state level law enforcement agencies. The CFB is housed inside the Minnesota Department of Commerce and is granted authority under Minnesota Statute 45.0135.

The CFB is Minnesota's primary law enforcement agency responsible for conducting criminal investigations into cases involving insurance fraud and related criminal activity. The CFB undertakes investigations that require a level of expertise that is usually beyond the scope, capacity or expertise of other more traditional law enforcement agencies.

There are many categories of criminal action tracked by the CFB. Senior scams, identification theft, medical ID theft, fraudulent health insurance claims, businesses illegally trying to avoid paying workers compensation premiums, cyber-crimes, property and casualty insurance schemes and funeral insurance fraud.

The range of investigations is broad and varied. Two examples: Staged-crash rings fleece auto insurers out of billions of dollars by billing for unneeded treatment of phantom injuries. Unlicensed and unscrupulous contractors seek to exploit often-traumatized homeowners into unnecessary and costly repairs after storms, severe weather events and natural disasters.

Fraud schemes continue to get more complex, and often involve multiple industries rather than solely insurance. An insurance investigation, for example, might reveal evidence of mail fraud, investment fraud and identity theft. As the fraud gets more complex, tools for identifying criminal activity also grows more sophisticated, advanced and complex.

To achieve its mission, the CFB collaborates with local, state and federal law enforcement agencies to bring criminals to justice and hold them accountable for their actions. Because criminal activity does not recognize local, national or international boundaries, CFB work can reach well beyond the state's borders.

Criminals investigated by the CFB often target seniors, vulnerable individuals and people desperate for help in times of dire need such as after a flood, storm damage, an auto accident or even when burring a loved one.

The work of the CFB is serious, meaningful and a key part of the state's consumer protection and criminal justice systems.

## PERSPECTIVE

During 2020, the CFB was staffed by 20 professionals: a director (Chief Law Enforcement Officer), two supervisory special agents, 13 special agents and four analysts.

CFB special agents are licensed peace officers with extensive law enforcement backgrounds, training and experience. CFB special agents are considered the leading experts in the field of insurance fraud. They are trained in criminal investigations and provide assistance as well as training for consumers, the insurance industry and statewide law enforcement partners.

CFB analysts are highly trained individuals who function in a non-sworn support role conducting research, analyzing data and producing reports in support of CFB special agents.

The CFB is the nation's sixth largest law enforcement agency charged with the responsibility of investigating insurance fraud. California is first with 297 full time law enforcement officers followed by Florida with 259, North Carolina with 40, Virginia with 25, West Virginia with 22 and Minnesota with 16.

## PURPOSE

- ✓ Uncovering insurance and associated fraud
- ✓ Providing education to avoid being a victim of fraud
- ✓ Partnerships to bring offenders to justice

The CFB conducts criminal investigations and enhances the effectiveness of law enforcement agencies throughout the State. Specifically, the unique skillset that CFB special agents possess facilitates the investigation of crimes that require technical expertise that is generally beyond the expertise or knowledge base of other law enforcement partners. Due to the lean, agile operating principles it employs, the CFB can efficiently and effectively deploy significant assistance to across the State, including in Greater Minnesota where investigative resources may be less readily available.

The CFB assists law enforcement partners by providing services such as:

- Computer forensic services
- Collection and analysis of evidence in financial crimes
- Surveillance support
- Technical expertise

## MISSION

To protect Minnesotans from fraud by conducting aggressive criminal investigations in the pursuit of justice.

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# ACTIONS

## INVESTIGATIVE REQUESTS

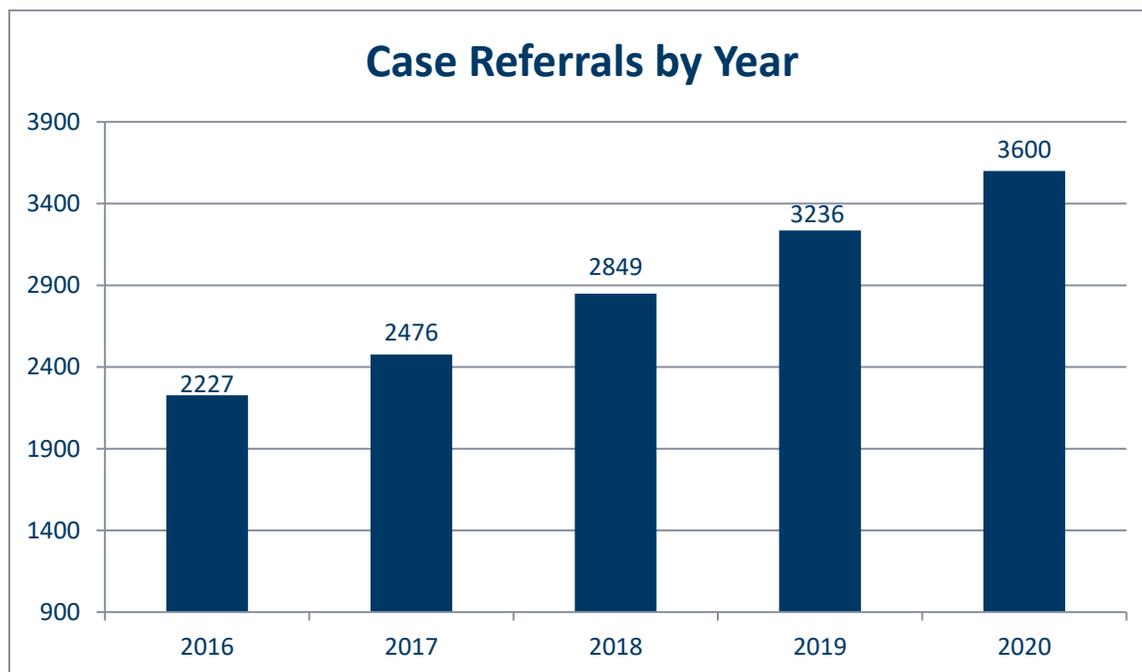
The CFB conducts criminal investigations into insurance fraud. Fraud occurs when someone knowingly lies to obtain a benefit or advantage to which they are not otherwise entitled or someone knowingly denies a benefit that is due and to which someone is entitled.

Cases for investigation are referred to the CFB from four (4) major sources:

- the general public
- insurance companies
- law enforcement agencies
- other governmental regulatory agencies

The subject of the referrals varies from individuals to businesses suspected of committing insurance fraud. Each incoming case is carefully reviewed to determine if the information submitted articulates a sufficient basis for the CFB to initiate a criminal investigation into the fraud allegation.

The following graphic represents the number of cases referred to the CFB for investigation during each of the previous five years.



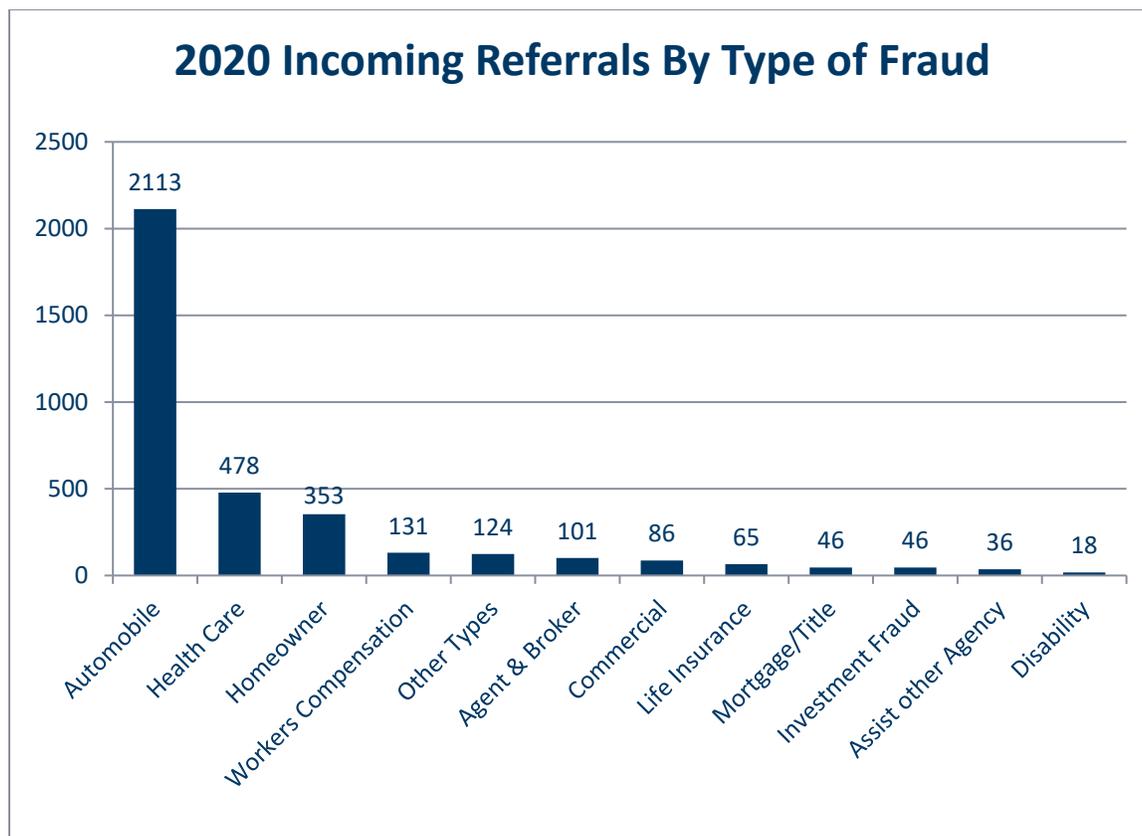
In 2020, the number of incoming case referrals increased to 3,600.

The increase in case referrals from 2019 to 2020 was 11% percent. Looking back five years, the CFB has seen an increase of 57% in case referrals.

## TYPE OF FRAUD CASES

As noted in the chart below, the five largest areas of suspected fraud reported to the Bureau during 2020 were:

- Automobile Insurance
- Health Care Insurance
- Homeowners Insurance
- Workers' Compensation Insurance
- Agent and Broker Fraud

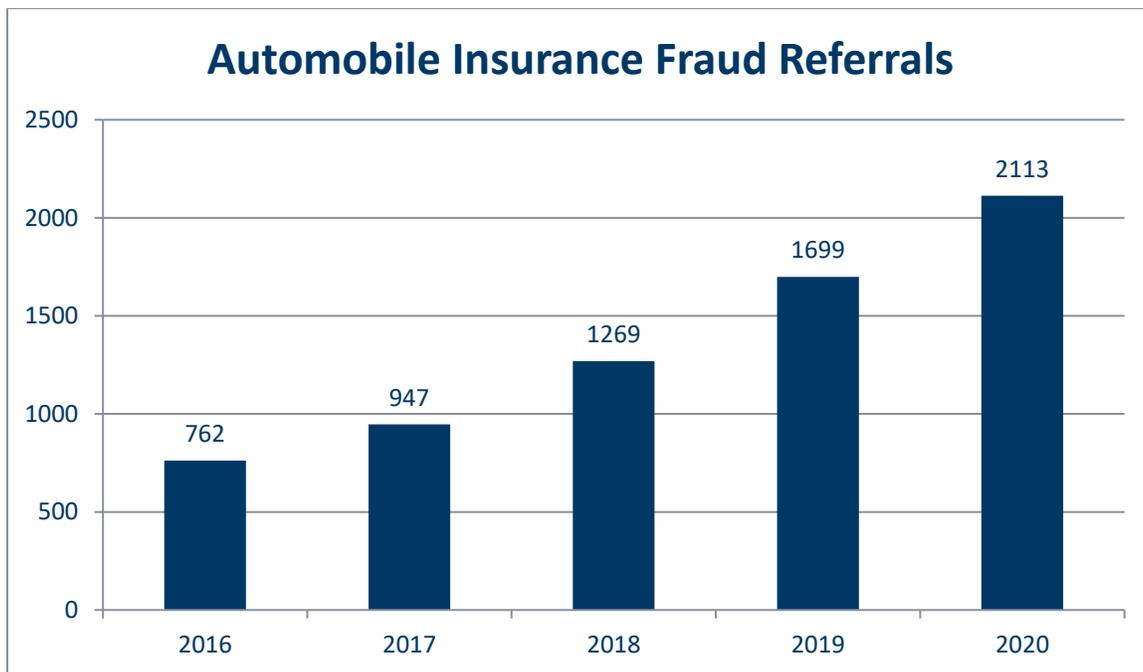


## AUTO INSURANCE FRAUD

Auto insurance fraud may be attempted in a variety of deceptive ways. For example:

- Staged accidents
- Windshield replacement rip-offs
- False claims for damage that already existed
- Towing scams
- Auto insurance premium evasion
- False reports of stolen vehicle
- Driving without insurance or with limited insurance coverage
- Material misrepresentation occurs when the insured makes an untrue statement about coverage

The following charts depict the changes in the number of automobile insurance fraud referrals received during the previous five years.



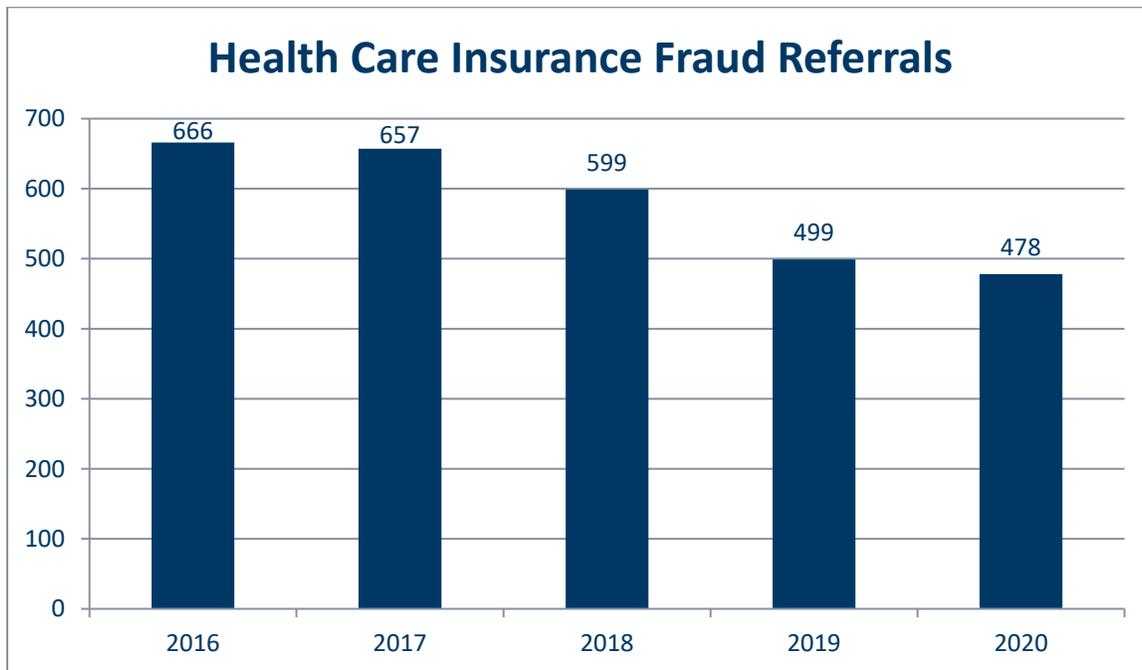
The number of automobile insurance fraud cases referred to CFB is increasing. During the five years from 2016 to 2020, case referrals have increased 177%.

## HEALTH CARE INSURANCE FRAUD

Health care insurance fraud may be attempted in a variety of deceptive ways. For example:

- Filing claims for services or medications not received
- Forging or altering bills or receipts, misrepresenting dates and/or location of service
- Using someone else's coverage or insurance card
- Billing for services not actually performed
- Falsifying a patient's diagnosis to justify tests, surgeries or procedures that aren't medically necessary
- Staged auto accidents with fictional injuries and fraudulent inaccurate claims for injury treatment

The following charts depict the changes in the number of health care insurance fraud referrals received during the previous five years.



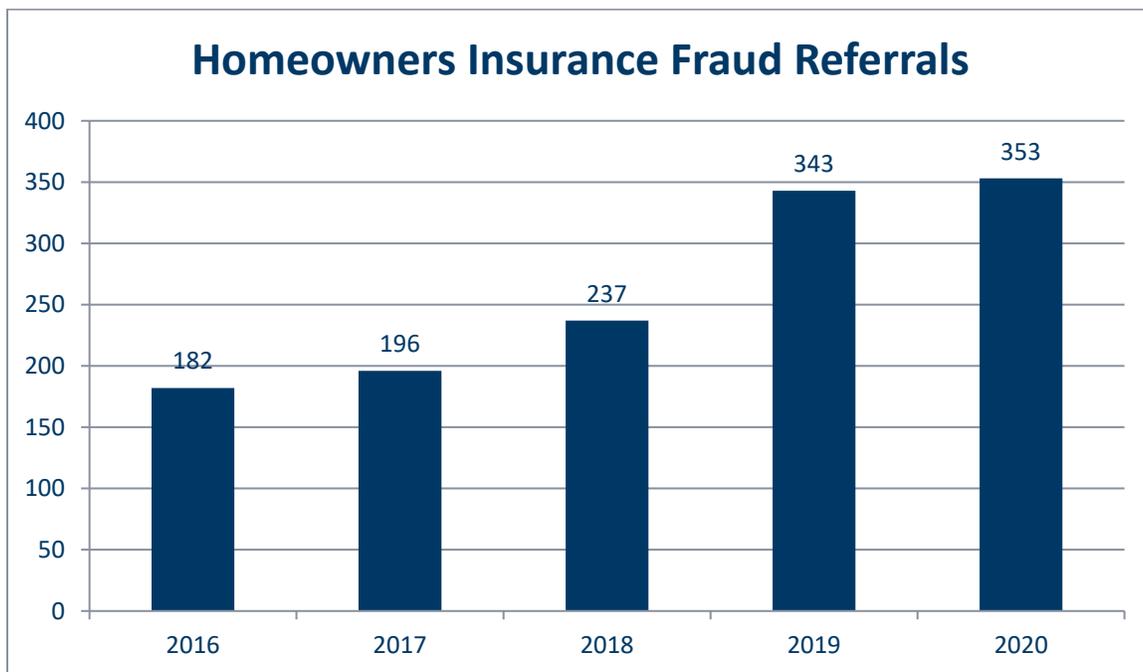
The number of health care insurance fraud cases continued to trend downward. Since 2016, cases referred to CFB have decreased 28%.

## HOMEOWNERS INSURANCE FRAUD

Homeowners' insurance fraud may be attempted in a variety of deceptive ways. For example:

- Intentionally damaging property to make a claim
- Overstating value of stolen items
- False documents or false statements of coverage
- Concealing that a residence is used as a rental or in a commercial business
- Claiming old damage as new damage
- Kick back from a contractor inflating a claim to cover a deductible

The following charts depict the changes in the number of homeowner's insurance fraud referrals received during the previous five years.



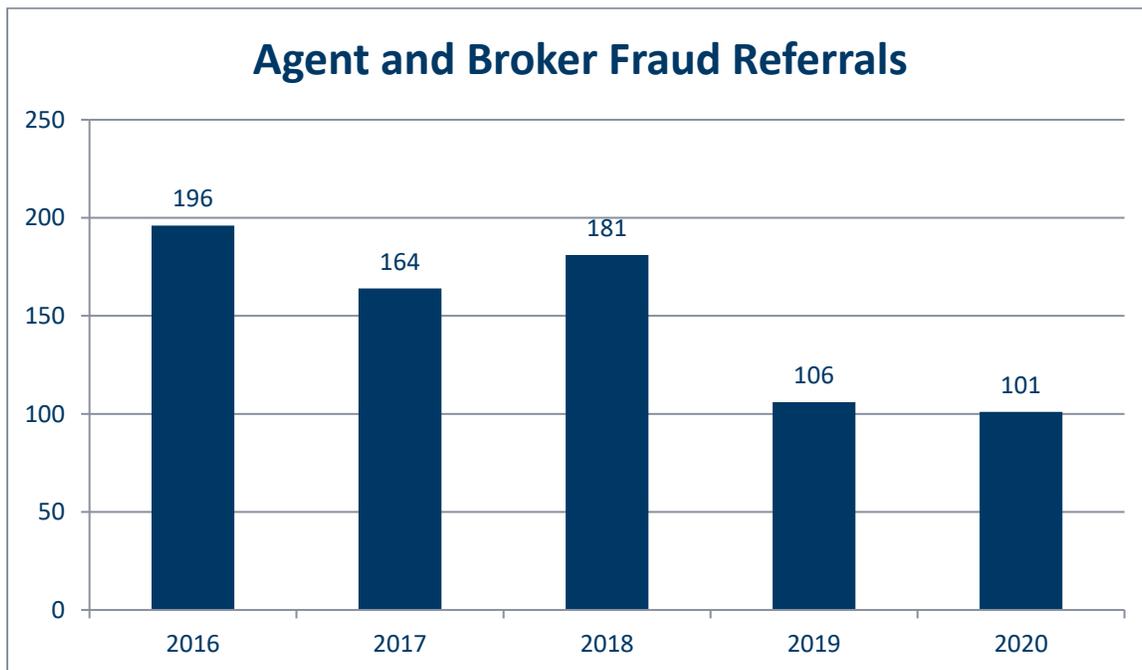
Homeowners' insurance fraud cases have experienced an increase of 94% between 2016 and 2020.

## AGENT AND BROKER FRAUD

Agent and broker insurance fraud may be attempted in a variety of deceptive ways. For example:

- Failure to provide appropriate disclosures
- Misrepresenting a material fact about a property or structure
- Licensing violations
- Mortgage fraud
- Misrepresenting a buyer’s credit report, salary or employment history in order to qualify for a home loan
- Criminal conduct by an agent or broker

The following charts depict the changes in the number of referrals for agent and broker fraud received during the previous five years.



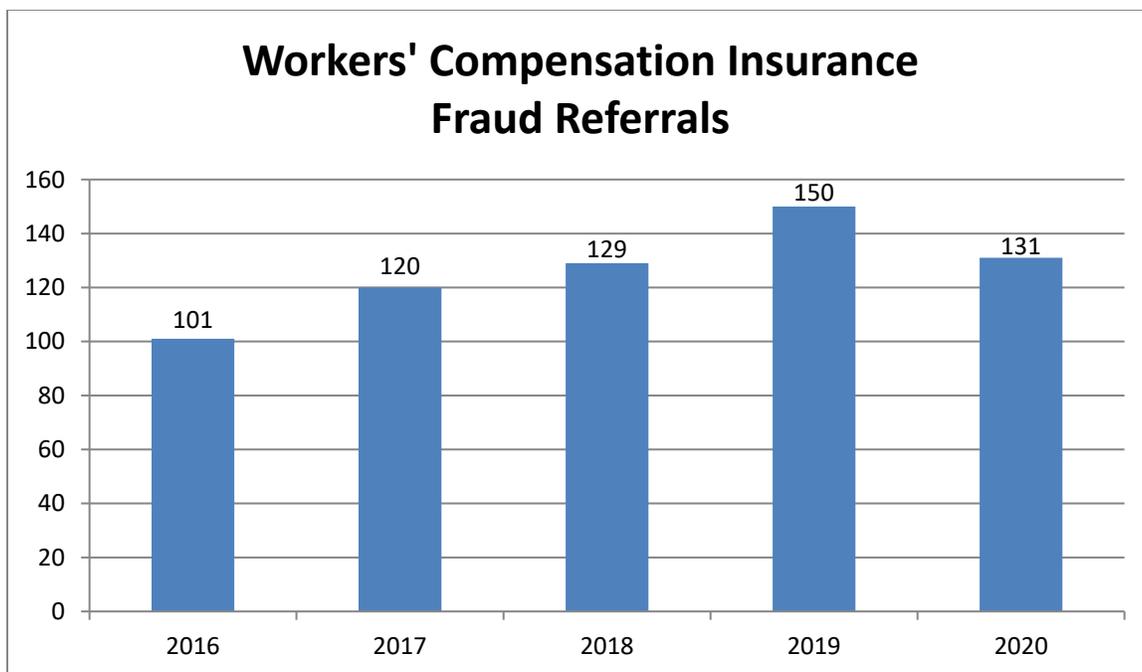
The number of Agent and Broker fraud cases submitted to the CFB declined slightly in 2020, with a five year decline of over 48%.

## WORKERS' COMPENSATION INSURANCE FRAUD

Workers' compensation insurance fraud may be attempted in a variety of deceptive ways. For example:

- An employer misclassifies employees to avoid having to pay a workers' compensation insurance premium
- An employee fakes a job injury or illness and uses his or her workers' compensation benefits to receive a payment for medical costs
- A health care provider, clinic or hospital bills for a service that was not performed
- Fraudulent certificates of insurance

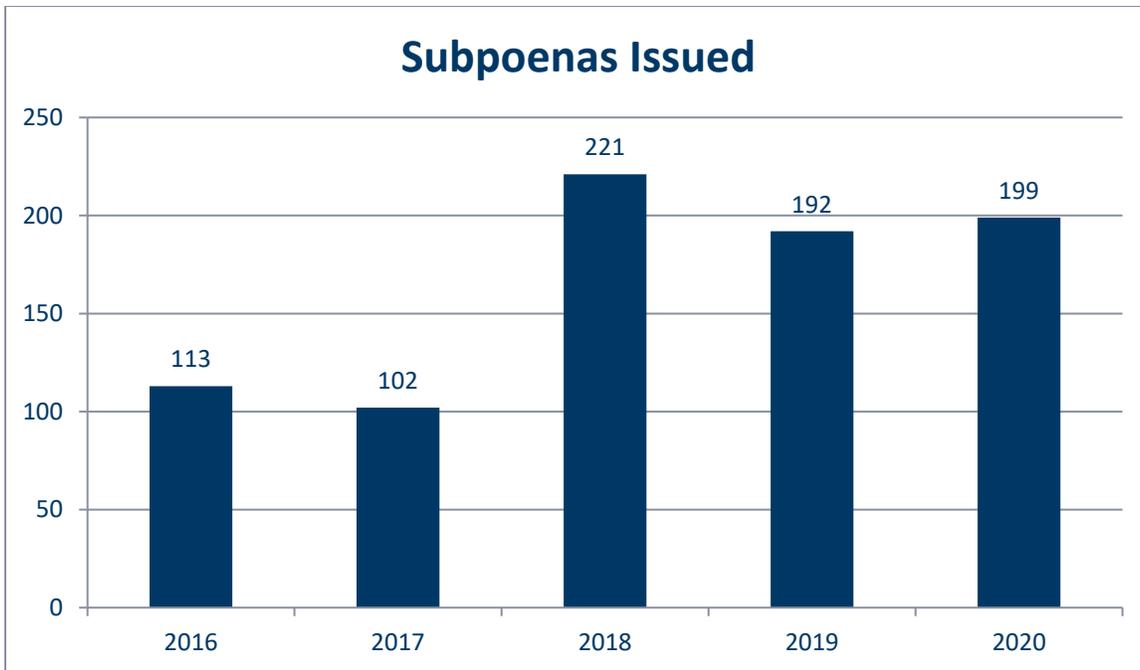
The following charts depict the changes in the number of referrals received for workers' compensation fraud during the previous five years.



The CFB experienced a decrease in the reported number of workers' compensation insurance fraud cases of 13% between 2019 and 2020.

## SUPOENAS

One of the most important aspects in conducting investigations into complex fraud cases is evidence gathering. A large amount of the evidence required to obtain a successful prosecution of an offender relies upon securing evidence via the subpoena powers granted to the Commissioner of the Minnesota Department of Commerce. The following chart represents the number of subpoenas issued pertaining to investigations conducted by the CFB during each of the previous five years.



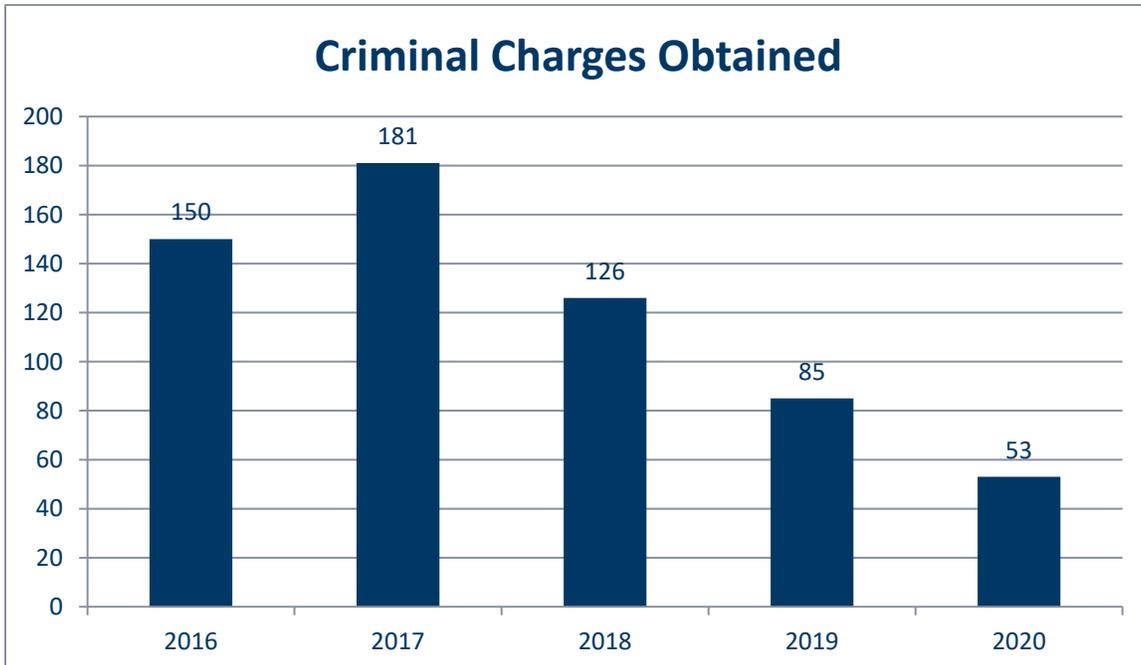
## PROSECUTION

After gathering evidence and completing an investigation into a referral, the CFB submits the results of those investigations for criminal prosecution. These investigations are referred to either a County Attorney's Office, the Minnesota Attorney General or to the United States Attorney's Office, depending on the jurisdiction and criminal violations applicable to the investigation.

Due to the nature of insurance fraud investigations, the number of cases referred in a calendar year are separate from and independent of the number of cases charged or settled. In other words, cases investigated by the CFB can remain open and ongoing for more than one calendar year.

During 2020, CFB investigations resulted in the filing of 53 state and federal criminal charges against defendants. During the previous five-year period, the CFB obtained an average of 119 criminal charges against defendants annually.

The COVID-19 pandemic had a major impact on the court system, which resulted in major delays in obtaining criminal charges based upon CFB investigations. As of December 31, 2020, the CFB had 30 cases that had been referred for criminal charging awaiting prosecutorial review. These delays in charging are directly attributable to the COVID-19 pandemic.



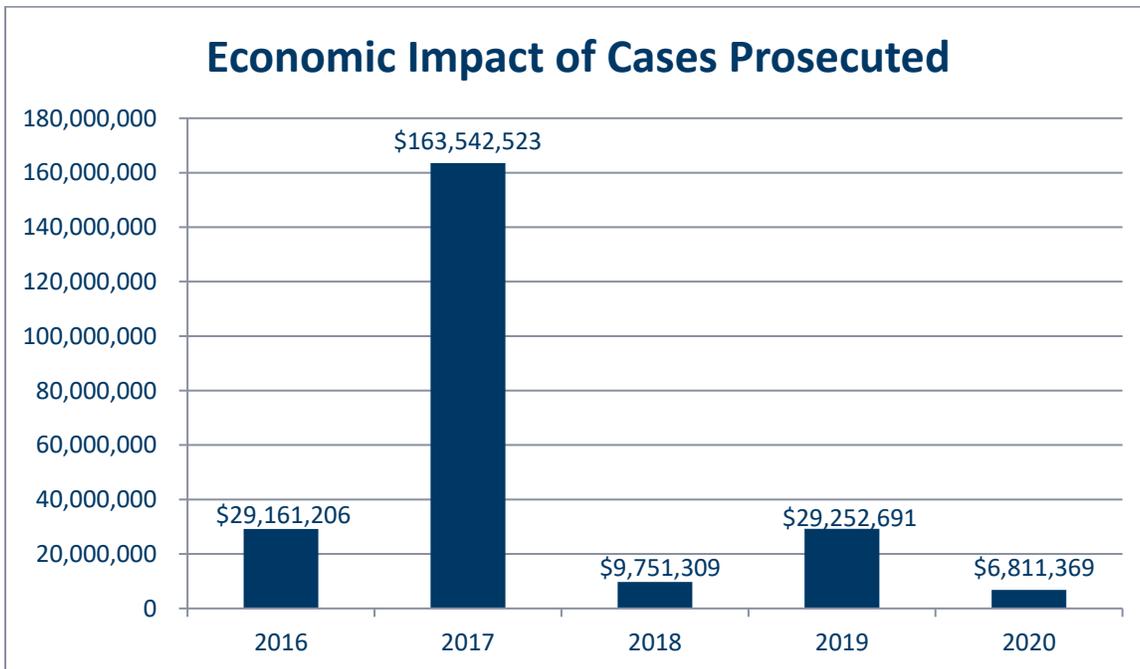
## ECONOMIC IMPACT

In 2020, Commerce Fraud Bureau investigations that resulted in the filing of criminal charges had an economic impact of \$6,811,369.

The COVID-19 pandemic had a major impact on the court system, which resulted in delays in obtaining criminal charges based upon CFB investigations.

As of December 31, 2020, the CFB had 30 cases that had been referred for criminal charging awaiting prosecutorial review. When a charging decision is reached on a case, the data from that case is reflected on that year's data, as opposed to the year that the criminal activity occurred. The data listed for 2020, reflected charged that were obtain in 2020 even though some of the cases were reported in 2016, 2017, 2018 and 2019.

The economic impact amount represents the actual cash loss that occurred as a result of the criminal activity. This is the amount that a prosecutor can charge in their complaint. Oftentimes, this amount is less than what was actually stolen due to the statute of limitation issues encountered in multi-year investigations.



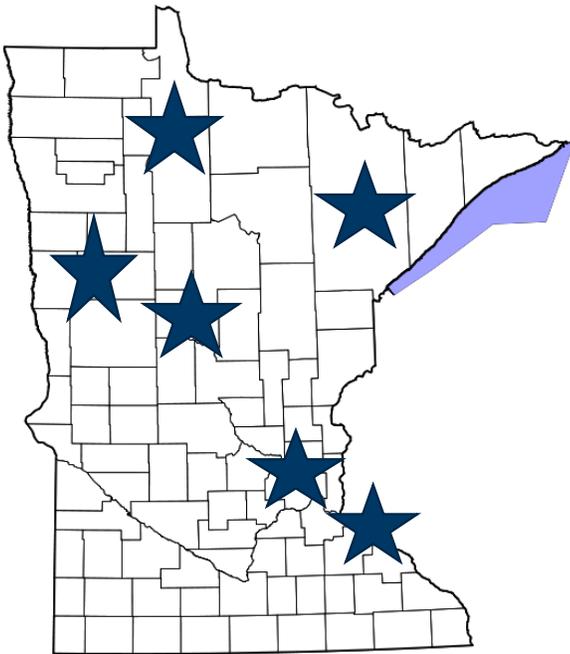
**Note:** In 2017 the CFB charged a \$150 million fraud case, known as the Providence case. The Providence case is one that had a significant impact on CFB's economic impact calculation due to the large amount of money that was invested and lost by consumers.

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## PARTNERS

The CFB works in collaborative partnership with local, state and federal law enforcement agencies to bring criminals to justice and hold them accountable for their actions.

In 2020, the CFB had seven cases charged in greater Minnesota. The County Attorney Offices that charged CFB cases were Becker, Beltrami, Dodge, Kandiyohi, Rice, Saint Louis and Wadena counties.



In 2020, investigations by CFB resulted in 25 cases charged in Minnesota. Prosecuting partners included the United States Attorney (3), greater Minnesota County Attorney Offices (6) and the remainder (16) by Twin Cities metro area County Attorney Offices.

## OUTREACH AND PREVENTION

In 2020, the CFB's outreach efforts were severely restricted due to the COVID-19 pandemic. All in-person seminars were postponed during the pandemic. In prior years the CFB has conducted training seminars for law enforcement, the United States Attorney's Office, the Federal Reserve Bank of Minneapolis, financial institutions, insurance companies, industry groups and educational institutions.

## TASK FORCE OFFICER PROGRAM

During 2020, the CFB continued its partnerships with the Drug Enforcement Agency, Homeland Security Investigations, United States Postal Inspection Service and the United States Secret Service in their respective Task Force Officer (TFO) programs.

The TFO program is essentially a force multiplier leveraging CFB resources with law enforcement partners. This program enables several of CFB agents to be cross designated as a Federal Law Enforcement Officer, which allows the agents access to various federal law enforcement data systems, personnel and other resources. This enables the Commerce Fraud Bureau to gain additional expertise and competency in conducting complex criminal investigations. Participation in this program continues to elevate the CFB in the eyes of Minnesotans and law enforcement peers.



Because of a combination of internal expertise and reliable partners, the CFB continues to be a recognized leader and expert in the law enforcement community.

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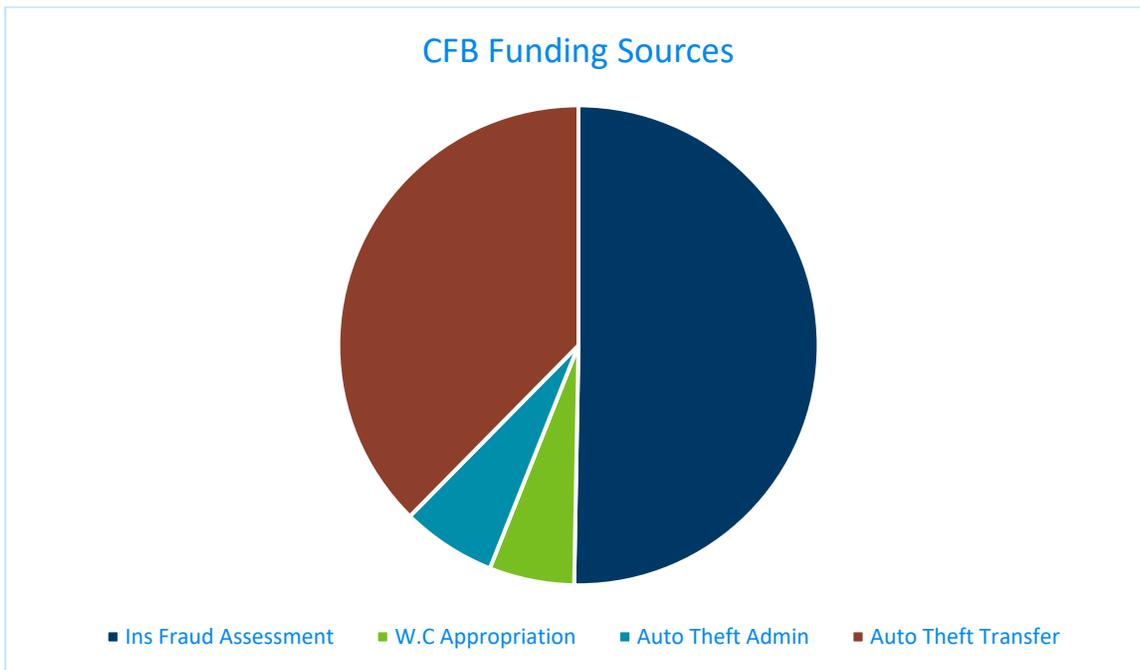
## BEHIND THE SCENES

The CFB is the largest white-collar crime unit in the Upper Midwest. Bureau investigations combat those who seek to scam and defraud Minnesotans. The information below provides a behind the scenes look into the CFB.

### FUNDING SOURCES

Annual funding for the CFB comes from four major sources, which are described in more detail below:

- An insurance fraud assessment on insurers.
- A legislative appropriation from the Minnesota Department of Labor and Industry to conduct investigations concerning workers' compensation fraud.
- An administrative fee to offset the costs associated with managing the Auto Theft Prevention Grant Program.
- A \$1.3 million appropriation from the Auto Theft Prevention Grant Program.



## INSURANCE FRAUD ASSESSMENT

The largest portion of the operating funds utilized by the CFB is generated through an annual assessment authorized under Minnesota Statute 45.0135, subdivision 7. The assessment is levied on insurers that have been authorized to sell insurance in Minnesota. Currently 1,136 companies pay this assessment.

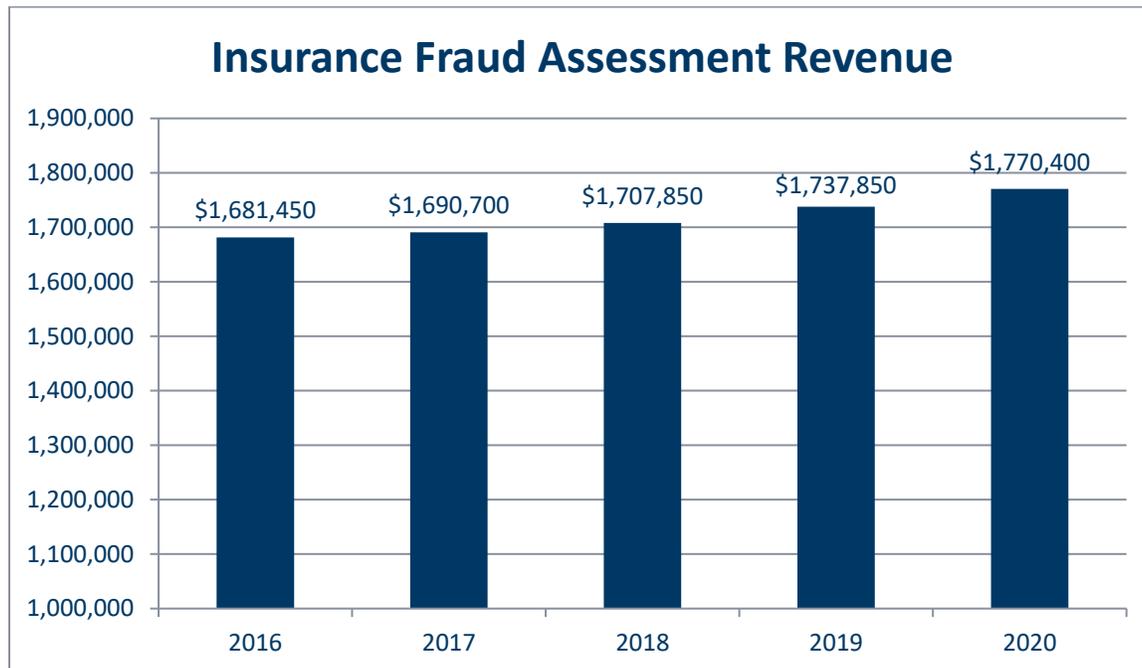
The assessment formula has remained unchanged since its inception in 2004. The assessment is calculated under the following formula:

<b>Total Assets</b>	<b>Assessment</b>
Less than \$100,000,000	\$ 200
\$100,000,000 to \$1,000,000,000	\$ 750
More than \$1,000,000,000	\$ 2,000

<b>Minnesota Written Premium</b>	<b>Assessment</b>
Less than \$10,000,000	\$ 200
\$10,000,000 to \$100,000,000	\$ 750
More than \$100,000,000	\$ 2,000

For example, an insurance company that has \$150,000,000 in assets and writes policies that carry \$90,000,000 in premiums would pay a total assessment of \$1,500 (\$750 + \$750). It is important to note that the assessment is levied on the insurance company, not individual agents.

The following chart depicts the revenue generated by the assessment for the past five years:



The five-year average of revenue obtained through this assessment is \$1,717,650. In 2020, the assessment was collected from 1,177 insurance companies conducting business in the State of Minnesota. These companies paid in on average \$1,504 in support annually for CFB operations.

### **WORKERS' COMPENSATION INVESTIGATIONS**

Minnesota Statute 176.181, subdivision 2, requires Minnesota employers to either purchase workers' compensation insurance to provide benefits to their employees for work-related injuries or they must obtain approval from the Minnesota Department of Commerce to self-insure if they have the financial ability to do so.

Individuals who collect workers' compensation benefits to which they are not entitled are committing insurance fraud. Through a legislative appropriation, the CFB receives \$198,000 in funding to offset costs associated with conducting investigations into workers' compensation fraud.

### **AUTOMOBILE THEFT PREVENTION PROGRAM ADMINISTRATION**

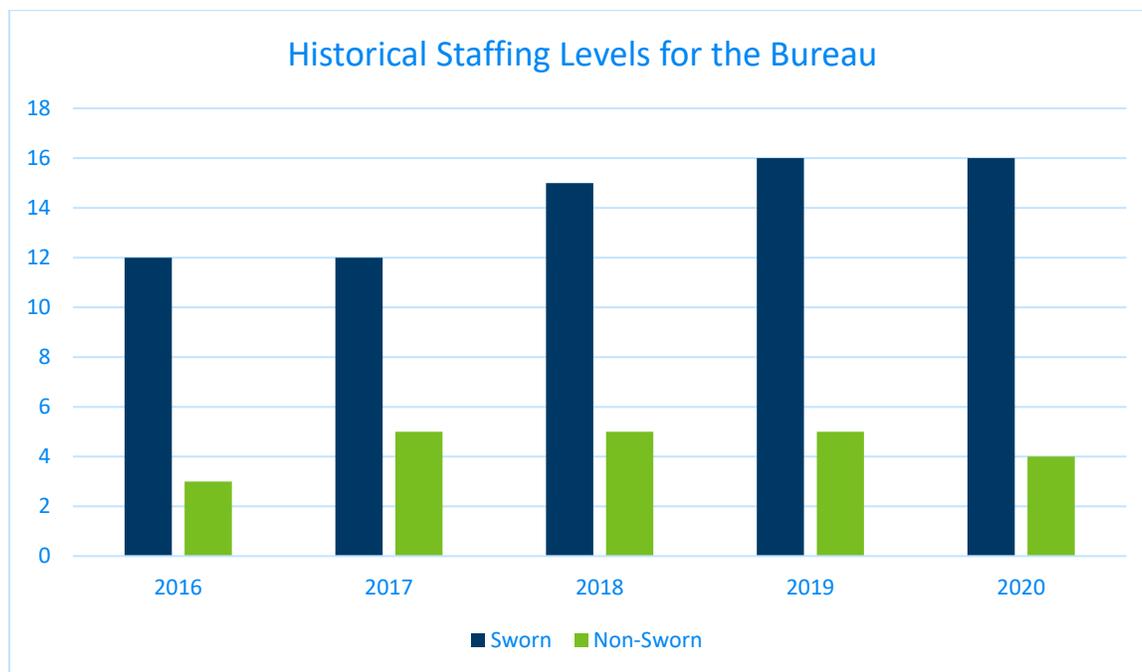
In 1996, the Minnesota Legislature enacted Minn. Stat. § 65B.84 which created the Automobile Theft Prevention Program (ATPP). Funding for the program comes from a surcharge collected from automobile insurance carriers that provide comprehensive insurance coverage issued in Minnesota. The amount of the surcharge is 50 cents per vehicle for every six months of coverage. Using this funding, the program makes money available through a competitive grant process for activities that address the problem of auto theft. Since 2009, the CFB has managed this program.

This statute allows the CFB to retain up to 10% of the funds collected under the ATPP to pay for the costs of administrating the program. In 2019, the CFB received \$220,000 under the ATPP for program administration.

In 2017, the Legislature passed a change to Minn. Stat. § 65B.84 which requires the transfer of \$1,300,000 each year to the insurance fraud prevention account to assist in the funding of the CFB.

## HISTORICAL STAFFING LEVELS

The following graph represents the historical staffing levels of the Commerce Fraud Bureau as of December 31 of each year.



## **MAJOR CASE HIGHLIGHTS**

The following cases represent a portion of the investigations conducted by the CFB during 2020 or were the result from cases that went to trial during 2020.

### **JOHN DAVID PAULSON, MAIL FRAUD AND ESTIMATED \$500,000 STOLEN FROM CLIENT VICTIMS**

In June 2020, the CFB received a request for assistance from the Wadena County Attorney's and Sheriff's offices to investigate what appeared to be a large-scale insurance fraud situation. The Sheriff's office had received complaints about John David Paulson who was a licensed insurance agent and owner of David Paulson Agency, Inc., an independent insurance agency in Wadena. The David Paulson Agency Inc. sold insurance policies offered by a wide variety of insurance carriers. Paulson also sold workers compensation insurance policies.

The allegations from several victims were that they had paid insurance premiums to Paulson over several years that Paulson was supposed to have forwarded to various insurance companies. Due to Paulson's failure to forward the premium payments the victims either had their insurance policies cancelled, over-paid for policies or discovered after attempting to make a claim that their policies had lapsed.

The CFB investigation along with the Wadena County Sheriff's office focused on interviewing victims, obtaining records from various insurance companies and the careful analysis of bank records. The bank records showed that from approximately 2011 thru 2018 Paulson had failed to forward the victims premium payments to the appropriate insurance companies and instead converted over the money for his own personal use such as making his mortgage payments and paying personal bills such as credit card payments.

The investigation showed that Paulson made false statements to the victims and sent some of them fraudulent billing invoices to induce the victims to continue to make insurance payments. During the period involved, Paulson stole an estimated \$524,000 from his clients.

For his actions, Paulson was Federally indicted in November 2020 by the United States Attorney's Office for the District of Minnesota and charged with two counts of mail fraud. Each count of mail fraud carries a sentence of fine and imprisonment of up to 20 years. Additionally, any criminal proceeds are subject to forfeiture.

### **EDWARD PETER VASEY & DAVID JOHN THORSELL, FUNERAL HOME THEFT BY SWINDLE & INSURANCE FRAUD**

In September 2018, the CFB received a complaint from the Minnesota Department of Health, Mortuary Science Unit about two individuals identified as Edward Vasey and David Thorsell who were the past owners and operators of Maple Oaks Funeral Home Inc. in Maplewood, MN. Vasey had been the CEO and a licensed insurance agent and Thorsell had been the businesses CFO.

As part of the services offered by the funeral home, Vasey and Thorsell offered a "pre-need" product to clients wherein the client essentially pre-paid for future funeral services by purchasing a life insurance product from Vasey, which in the event of death would cover funeral services. Or the client could pre-pay for future services, in which case, according to State law, the client's funds would be held in a trust account by the funeral home.

Vasey and Thorsell retired and sold the funeral home in 2017 at which time the business was in great financial stress.

Not long after purchasing the funeral home, the new owner received a call from the family of one of the pre-need clients. The client died and the family was requesting funeral services. It was at this time the initial discovery was made by the new owner that Vasey had failed to submit the client's insurance premium payment to the insurance company. There was in fact no policy in effect. After receiving calls from family members of other pre-need clients, the owner found no insurance policy in effect for those clients either and then reported the situation to the Minnesota Department of Health.

Following the preliminary investigation by the Minnesota Department of Health, the CFB initiated an investigation that included obtaining information from the current owner, reviewing insurance and bank records and interviewing Vasey and Thorsell. The investigation showed that while the business was in financial distress Vasey and Thorsell were also having financial trouble. The two used clients' pre-need funds to pay expenses.

Vasey and Thorsell both confessed to converting the client funds for their personal use and to try to keep the business afloat. Both were charged by Ramsey County Attorney's Office with multiple counts of insurance fraud and theft by swindle.

#### **KYLE DAVID RANDALL, EXAGGERATED TREATMENT COUNT IS INSURANCE FRAUD**

In October 2019, the CFB received a complaint from Travelers Indemnity Company (Travelers) of an insurance fraud incident involving Kyle Randall. In December 2018 Randall and his wife were involved in a car accident. For several months following the accident Randall submitted numerous invoices to Travelers for reimbursement for medical treatments for him and his wife.

From approximately January 2019 thru June 2019, Randall submitted 18 invoices to Travelers for reimbursement for Craniosacral Therapy treatments he and his wife allegedly received. The treatments were allegedly provided by an acquaintance of the Randall's who worked at a Boutique Spa.

The CFB investigation consisted of obtaining records from Travelers, examining bank records, interviewing the provider from the spa and conducting a search warrant at the Randall's home. On the day of the search warrant the Randall's were independently interviewed and a laptop computer belonging to Kyle Randall was seized as evidence.

Kyle Randall confessed that he and his wife had only received six Craniosacral Therapy treatments. He admitted using his computer to take an actual invoice from the provider and create multiple fraudulent invoices that he submitted to Travelers. A computer forensic examination conducted at the CFB forensics lab showed the fraudulent invoices created by Randall as well as other electronic evidence of fraud.

As a result of the actions of Randall, the loss amount to Travelers was \$22,230. In March 2020, Randall was charged by Hennepin County Attorney's Office with one felony count of insurance fraud.

## **JOYCE AND LEROY MEHR, WORKERS COMPENSATION INSURANCE FRAUD**

In January 2020, the Hennepin County Attorney's Office charged Joyce and Leroy Mehr, owners of Merit Drywall, with one count of theft and two counts of insurance fraud stemming from their intentional misrepresentation of the number of workers Merit Drywall employed.

On February 5, 2016, the couple submitted a worker's compensation application to their insurance provider, Federated Insurance. Four months later, Federated Insurance audited Merit Drywall to review their workers' compensation policy. Joyce Mehr provided Federated with records which falsely claimed their business had 11 employees, while in actuality, dozens of workers were independent subcontractors.

In 2017, CFB started investigating Merit Drywall through the use of confidential informants. The first informant noted that he did not need to provide identification or personal information prior to starting work with Merit Drywall and was always paid in cash. The second informant reported that Joyce Mehr set him up with a company email address and created a business for him by registering a company name with the Minnesota Secretary of State.

During the execution of a search warrant in August 2017, CFB agents were unable to find contracts between Merit Drywall and many of the purported independent contractors. What was found were invoices from employees who Merit Drywall classified as independent contractors. Analysis of Merit Drywall's payroll showed that subcontractors were not independent contractors as many of those were actually full-time employees paid hourly or on a piece-work basis.

Federated Insurance determined that Merit Drywall's premium should be \$310,000 more, a sum Leroy and Joyce Mehr circumvented paying by misclassifying its workers.

## **GARY JOHN BOGATZ, CHARGED WITH BURGLARY, ARSON AND INSURANCE FRAUD**

In July 2020, the Becker County Attorney's Office charged Gary John Bogatz with first-degree arson, insurance fraud and second-degree burglary. According to the criminal complaint, on September 22, 2018, Detroit Lakes Police and Fire Departments were dispatched to a fire at The Refuge Christian Outreach Center in Detroit Lakes. Based on an initial investigation conducted by the Minnesota State Fire Marshal Division (SFMD), the cause of the fire was deemed to be intentional. The Detroit Lakes Police, the SFMD and the CFB conducted a joint investigation to determine who was responsible for the fire.

Investigators located a fingerprint on a door handle that was used by the individual who gained access to the interior of The Refuge on the night of the fire. Fingerprint analysis matched the print to Gary John Bogatz.

In April 2020, a Detroit Lakes Police investigator and CFB special agent conducted an interview with Bogatz where he eventually admitted to involvement in the arson. Bogatz told investigators he was asked by a board member of The Refuge and another individual with connections to The Refuge to start the fire. Bogatz said the individuals told him The Refuge would have to be shut down unless "something happened." Bogatz said the individuals told him they have "a lot of fire insurance" on the building, and he was instructed to make it look like

a burglary and burn the place down. Bogatz said he and another man later kicked in the back door of The Refuge and gasoline was used to start the fire.

## Learn more about the Commerce Fraud Bureau

Criminal complaints and indictments stemming from CFB investigations are posted online. A criminal complaint is merely an accusation and a defendant is presumed innocent until and unless proven guilty.

## Commerce is here to help

If you have a question or concern about a possible scam or fraud scheme, contact the Minnesota Department of Commerce's Consumer Services Center at [consumer.protection@state.mn.us](mailto:consumer.protection@state.mn.us), 651-239-1600 or 800-657-3602.