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United States Postal Inspection Service
Crimes Against the Elderly

Before the
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Mr. Chairman and members of the Committee: thank you for holding this hearing on the topic of crimes against the elderly. I appreciate the opportunity to discuss the subject, and the role of the United States Postal Inspection Service in combating it. Before I begin, I'd like to acknowledge one of the most important working partners we have in our efforts to protect consumers, particularly older Americans, the Federal Trade Commission. We have partnered with the FTC on numerous crime prevention efforts, training initiatives, legislation, and enforcement actions. Together our agencies have joined in the battle to protect older Americans.

Role of the Postal Inspection Service

The U.S. Postal Service delivers more than 206 billion pieces of mail a year, containing money, messages, and merchandise, to 142 million addresses at some of the most affordable postage rates in the world. U.S. Postal Inspectors are mandated to safeguard all of it—including the people who move it and the customers who use it.

Congress empowered the Postal Service “to investigate postal offenses and civil matters relating to the Postal Service.” Through its security and enforcement functions, the Postal Inspection Service provides assurance to American businesses for the safe exchange of funds and securities through the U.S. Mail; to postal customers of the “sanctity of the seal” in transmitting correspondence and messages; and to postal employees of a safe work environment.

There are approximately 1,900 Postal Inspectors stationed throughout the United States who enforce roughly 200 federal laws covering investigations of crimes that adversely affect or fraudulently use the U.S. mail and postal system. Approximately 300 Postal Inspectors conduct mail fraud investigations, including those that target the elderly.

The Mail Fraud Statute and Its Use

There are countless illegal schemes that violate the nation's first consumer protection law—the Mail Fraud Statute, enacted in 1872. This statute is the most effective fraud enforcement weapon and U.S. Postal Inspectors have been using it for over 100 years. Last year, Postal Inspectors investigated 3,242 fraud cases and our analysts prepared more than 82,000 letters in response to mail fraud complaints. In 2004, Postal Inspectors arrested 1,446 mail fraud offenders, and 1,245 were convicted. As a result of these investigations, there was more than \$1.2 billion in court-ordered and voluntary restitution.

Crimes Against the Elderly Investigated by U.S. Postal Inspectors

The most common examples of mail fraud against consumers investigated by Postal Inspectors are internet action fraud, illegal contest and sweepstakes schemes, foreign lotteries, phony billing scams and work-at-home schemes. Older citizens, the physically challenged, and "shut-ins" conveniently receive many of their purchases by mail. Sadly, that makes them easy prey for mail fraud operators. The problem is compounded by operators who sell the names and addresses of their victims to other criminal elements, resulting in the repeated victimization of many elderly citizens.

Americans receive thousands of unsolicited phone calls from telemarketers each year trying to sell a variety of products, with older citizens often the target. By definition, telemarketing involves the use of the telephone. But calls are often preceded or followed by a postcard or letter. In most business transactions, including fraudulent ones, it is difficult not to use the mail.

Many offers are legitimate, but unscrupulous telemarketers can be the smoothest of operators. Losses attributed to telemarketing fraud are estimated to exceed \$40 billion per year.

Tactics Used by Fraudulent Operators

Many senior citizens are vulnerable to being victims of telemarketing and mail fraud scams. Fraudsters recognize that many of these seniors are widowed and feel isolated. A telephone call from anyone is greeted with open arms. Experienced con artists understand elderly citizens' vulnerabilities and know what buttons to push when they have them on the telephone.

In searches of telemarketers' places of business, we have discovered the files they maintained on their victims. The files contained intimate details of the victims' health, the names of their children, vacation and travel memories, and even information on deceased spouses. Telemarketers, in particular, use this personal information when they call their victims. They mention family names, inquiring solicitously about their health, and very effectively portray themselves as being caring and knowledgeable. For the victims, these telephone calls may be their only regular contact with other people, and the victims actually value the interaction with someone willing to talk with them. Victims often even defend the fraud operators in the continued belief that they are "friends" who are trying to help them win a sweepstakes or manage investments. Some victims will even acknowledge that the fraud operator is taking advantage of them, but explain that they had no one else who showed interest in them.

One particular technique used by fraudsters is to target those who are ill or in early stages of dementia. It is known as "the check is in the mail." The telemarketer will call a senior posing as a representative of a local business or hospital and ask if they have paid their bill, invoice, etc. Since the senior's memory might be poor, the victim often thinks they have forgotten about this bill and will promptly write a check and put in the mail. Telemarketers target seniors also because they know they have large savings and or retirement funds they can withdraw if they choose. These large retirement accounts are attractive targets of con artists.

"You have won" schemes target elderly victims who have previously participated in lotteries, sweepstakes, and other prize winning opportunities. Seniors are told that they have won—however, either administrative fees, taxes, or membership fees must be paid before the prize check can be mailed. Foreign telemarketers are notorious for this type of scam. They are aggressive and fearless since they are in a different country, and they understand how difficult extradition can be to the United States. This is why the Postal Inspection Service is one of the leading agencies in the Cross-Border Fraud Investigative Initiatives and work closely with Canadian law enforcement.

Another tactic utilized by con artists is to tell a senior that they have won a large cash prize and then ask them to verify their identification by providing a credit card or bank account number so

they can verify they have the right winner. These telemarketers are very persuasive and once they obtain the personal financial information of a victim, they can clean out their accounts.

One of the most notorious scams against seniors is what is known as the "reload." When fraud operators are successful in obtaining money from a victim, they often make an attempt to gain even more. This is the reload. In a typical reload, the fraud operator contacts the victim again and builds upon the original scam by adding a new twist to it, or pitches an entirely new scam. Sweepstakes "winners" may be told that their prize winnings have increased, but that additional fees are necessary to claim the new amount. Victims of fraudulent investment schemes may be convinced to invest even more money, or to convert their original investment to another market product which is invariably worth even less than what the victims were sold before. Fraudulent telemarketers also often network with each other. They sell each other the names of people they have successfully ripped off. The con artists refer to these lists as "mooch lists" or "sucker lists." If a telemarketer knows a particular senior has fallen victim to several scams, the telemarketer will call the senior posing as an attorney or law enforcement officer and advise that they have recovered the victim's money and it is either in a state fund or being held by the courts. The telemarketer will then request an administrative or bonding fee to release the funds, and in doing so steal from the victim again.

Fraudulent telemarketers have the same capability as legitimate businesses to buy lead lists. They can request lists of specific demographics such as the names of people over 60, widowed, handicapped, prior investments over \$10,000, etc. The companies that compile and sell lists may or may not know the intentions of the buyer. It is difficult to hold these companies accountable without hard evidence they had knowledge what the lists would be used for.

Impact on Victims

Illegal telemarketing and mail fraud schemes continue to target senior citizens who are often the most vulnerable and trusting. Many senior citizens have been robbed of their hard-earned life savings and frequently pay an emotional cost, losing not only their money, but also their self-respect and dignity. Postal Inspectors have interviewed victims who claimed they could not remember sending anything to the operators, or, out of embarrassment, minimized the level of victimization they experienced.

Interagency and Industry Cooperation

To increase efficiency in investigating suspected mail fraud, Postal Inspectors lead or participate in several law enforcement and consumer group initiatives aimed at safeguarding the public's confidence in the U.S. Mail, and protecting consumers. Listed below are some of our major cooperative efforts.

Health Care Fraud Working Group

Chaired by the Department of Justice (DOJ) Fraud Section, this interagency group seeks to share investigative strategies, prevention and training programs and develop best practices in fighting health care fraud affecting those dependent on health care, mostly seniors. Members include DOJ, the FBI, Health and Human Services Office of the Inspector General, state attorneys general offices, various health care groups and the Postal Inspection Service.

Telemarketing and Internet Fraud

The Telemarketing and Internet Fraud Working Group is chaired by DOJ and as the name implies, focuses on the large problem of telemarketing and the dramatically increasing use of the Internet in fraud schemes. It served as a catalyst in the development of the Cross-Border Crime

Forum (see below). Members of this group include DOJ, the FBI, Federal Trade Commission, Secret Service, state attorneys general offices, and the Postal Inspection Service.

Corporate Fraud Task Force

Created in the wake of the Enron scandal to address the corporate criminal mismanagement, the corporate fraud task force was initiated by a Presidential Directive. Although the term "corporate fraud" implies a business fraud, the vast majority of the victims are the consumer investors who trusted the integrity of the firm. Many seniors have lost their life savings through this wave of corporate greed. The members of the group include several United States Attorneys in districts where the problem appeared, the Treasury Department, the Labor Department, the Securities and Exchange Commission (SEC), the Commodity Futures Trading Commission (CFTC), Federal Energy Regulatory Commission (FERC), Federal Communications Commission (FCC) and the Postal Inspection Service.

Council on White Collar Crime

Chaired by the Attorney General and his staff, this working group meets once a year and includes all the major agencies involved in combating white collar crimes, both civilly and criminally.

Securities and Commodities

Chaired by DOJ to focus on fraud in the stock market, its members include the Postal Inspection Service, the FBI, the SEC, the IRS, the Secret Service and various U. S. Attorneys.

Bank Fraud Working Group

Chaired by the DOJ to focus on fraud against the banking industry, its members include FBI, FDIC, Secret Service, and the Postal Inspection Service. The group meets several times per year to discuss these issues.

Cross-Border Crime Forum

Established by another Presidential Directive, the Cross-Border Crime Forum meets once a year to address problems and solutions to cross-border crimes. Members include DOJ, the FBI, FTC, Customs, the Postal Inspection Service and our Canadian counterparts. The Inspection Service's focus on combating Canadian-based cross-border fraud has expanded considerably through this bi-national working group and the interagency relationships. We are currently involved in the following cross-border task forces: Atlantic Partnership (Nova Scotia), Project Colt (Quebec), Toronto Strategic Partnership (Ontario), Project Emptor (British Columbia), Vancouver Strategic Partnership (British Columbia), and the Alberta Partnership (Alberta).

Consumer Education and Fraud Prevention Initiatives

Criminal prosecution is an important element in our fraud program, but it is not the only tool. Arrests are not the only solution. The Postal Inspection Service works to protect consumers by educating them about current fraud schemes so they don't become victims. For years, Postal Inspectors have led fraud prevention projects and participated with consumer protection agencies and other groups to help citizens protect themselves before they become victims of fraud.

Project kNOw Fraud

Responding to the proliferation of telemarketing fraud cases, the Postal Inspection Service led an interagency group of law enforcement and consumer organizations in what was named Project kNOw Fraud, one of the most ambitious fraud prevention initiatives ever undertaken. In 1999,

Project kNOw Fraud sent a postcard to every household in America—more than 123 million addresses.

National Fraud Against Senior Citizens Awareness Week

In June 2001, the Inspection Service initiated another project. In this effort, we reached out to senior citizens to help prevent fraud in this population who had become prime targets for telemarketing schemers. *National Fraud Against Senior Citizens Awareness Week* was established to raise the awareness of older citizens about illegal telemarketing and mail fraud schemes. In support of the effort, the Senate passed a resolution, introduced by Senators Carl Levin and Susan Collins, designating the week of August 25, 2002, as “National Fraud Against Senior Citizens Awareness Week.”

An immediate success of the campaign was declared when, during its first week, a woman in her 80s went to a small Post Office near Pittsburgh, Pennsylvania, to mail a \$2,200 cashier's check to Canada, telling the postmaster she needed the money right away because her husband had won \$162,000 in a Canadian sweepstakes. She had to mail the check to pay for taxes on the winnings before she could receive the prize money. The postmaster, educated by the Postal Inspection Service's campaign, told her “Don't mail him anything. It's a scam.” And it was. The venture was being investigated by Postal Inspectors and our Canadian counterparts.

Operation: *Identity Crisis*

In September 2003, the Postal Inspection Service, in conjunction with the U.S. Postal Service, the Federal Trade Commission (FTC), and the U.S. Secret Service unveiled Operation: *Identity Crisis*. This campaign focused on the ease with which identity theft occurs unless consumers take steps to prevent it. Even though this crime affects all age groups, including older Americans, the percentage of seniors as a victim group rose from 17 percent to 21 percent in 2004, according to the complaints received by the FTC.

The Inspection Service recognizes the need to increase our efforts to educate consumers, especially elder Americans, who are increasingly targeted in identity crimes. Prevention efforts must focus on the key risk factors that play the greatest role in identity compromise. Unfortunately, the traditional way to steal personal information has not changed. Obtaining lost or stolen wallets, checkbooks, or credit cards is still the ‘favorite’ method according to CQ Research. And while this is a challenge, it pales in comparison to the 52 million identities that have been compromised through electronic means since the beginning of this year. That is why prevention of this crime is a priority for the Inspection Service.

Dialing for Dollars

In October 2004, the Inspection Service launched a campaign to raise awareness about investment fraud and help consumers avoid becoming victims of fraud. This campaign called *Dialing for Dollars* included a video created by the Inspection Service portraying an investment scheme that targets older Americans.

Work-at-Home Scams: They Just Don't Pay!

In February 2005, the Inspection Service teamed up with the Postal Service's Consumer Advocate office and other federal, state, and local consumer protection agencies and launched a campaign to inform consumers how to avoid work-at-home schemes. A multimedia approach conveyed the message with ads placed in newspapers and magazines reaching over 45 million readers.

Current Projects

Last month, the U.S. Postal Inspection Service and the Direct Marketing Association announced a nationwide consumer education initiative educating Americans on how to avoid being scammed by fraudulent sweepstakes. In August, a foreign lottery campaign is planned to protect the public from scams that take their money with the purchase of “tickets” or charge a fee to collect fictional winnings.

Crime Doesn’t Pay... or Does It? The Establishment of the Consumer Fraud Fund

We recognize that the success of the fraudulent operator depends heavily upon the victim’s participation. Fraud is a crime that can be reduced or prevented by educating the general public and specific groups, like the elderly. Accordingly, the Postal Inspection Service established the Consumer Fraud Fund to augment fraud prevention programs. The fund was created with monies received from criminal fines and forfeitures in cases where victims could not be identified.

Enhanced Enforcement

In those instances where the crime does not meet federal prosecutorial guidelines, Postal Inspectors take their cases to local prosecutors or seek alternative solutions. Regrettably, most frauds target those who can least afford it—the elderly, the poor, the disadvantaged, or the ill. These frauds most often result in relatively small monetary loss and are not always prosecutable under federal guidelines. Although the loss is significant to the victim, it is often not significant enough to support a federal criminal action.

In these cases, we seek alternative resolution whenever the crime is certain, but lacks criminal prosecutive appeal. Alternative resolutions consist of civil or administrative actions – investigative tools unique to the Postal Inspection Service. In instances where the criminal activity does not meet federal or state prosecutive guidelines, yet the scam affects a large number of consumers, often the most disadvantaged, Postal Inspectors take quick action to withhold mail or to encourage the promoter to voluntarily discontinue the fraud. Over the past decade, envelope stuffing, chain letter and coupon fraud scams have been halted in this manner. We have achieved similar success in combating illegal foreign lottery mail. Since 1994, nearly 11 million envelopes containing foreign lottery material have been destroyed.

Withholding Mail Order

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 to conduct or assist with activity that violates lottery, mail fraud or use of a fictitious name or address statutes.

Temporary Restraining Orders and False Representation Orders

The Postal Service has unique remedies for civil/administrative relief under the postal false representation and lottery statutes, Sections 3005 and 3007 of Title 39. Temporary Restraining Orders (TROs) and False Representation Orders (FROs) enable Postal Inspectors to stop mailed-in responses (most of which contain checks) before they reach the operator of a fraud scheme.

FROs are often used to combat illegal lotteries, both foreign and domestic. Lottery promotions usually involve the purchase of a share in a foreign lottery pool and promise large winnings for little effort. They often target senior citizens who are most vulnerable to such scams.

Reporting Fraud Complaints

Each year the Postal Inspection Service responds to thousands of consumer fraud complaints received through our toll-free mail fraud hot line, online complaint system, or by mail. In addition, we receive numerous complaint referrals from federal, state and local law enforcement agencies, prosecutors, and industry and consumer groups. Nearly all of these complaints question the legitimacy of promotional offers they received in the mail. Postal Inspectors urge consumers to report incidents of potential mail fraud. Information that is collected by complainants is input to the Postal Inspection Service's Fraud Complaint System, which helps identify violators of the Mail Fraud or False Representation Statutes.

Civil Asset Forfeiture Reform Act

The Civil Asset Forfeiture Reform Act (CAFRA) of 2000 was of great help to Postal Inspectors resolving fraud cases. Prior to CAFRA, when the best or the only way to seize proceeds of a fraud was forfeiture, the requirements of forfeiture were such that it was very difficult to provide victim restitution. Moreover, it was only possible to pursue forfeiture in mail fraud cases when money laundering could be proven. CAFRA changed all of that. Now forfeiture of assets in mail fraud cases can be accomplished by showing the property is a proceed of the crime. Further, restitution to identified victims is through a much more efficient and simplified process.

Deceptive Mail Act

In another success, working closely with the Senate Permanent Subcommittee on Investigations, Postal Inspectors helped craft legislation that addresses fraudulent sweepstakes and other deceptive mailings. As a result, the Deceptive Mail Prevention and Enforcement Act was passed and became law in April of 2000. The law protects consumers, especially seniors, against deceptive mailings and sweepstakes practices by:

- establishing standards for sweepstakes mailings, skill contests and facsimile checks,
- restricting government look-alike documents, and
- creating a uniform notification system allowing individuals to remove their names and addresses from all major sweepstakes mailing lists at one time.

Mailings must disclose in clear and prominent language that no purchase is necessary to enter a sweepstakes and that a purchase will not improve consumers' chances of winning a prize. The law also creates strong financial penalties for companies that do not disclose all terms and conditions of a contest.

Frequently Asked Questions About Mail Fraud and Prevention Tips

Below are frequently asked questions about mail fraud schemes, as well as tips and suggestions to assist consumers in identifying a potential fraud.

Which schemes generate the most complaints?

1. *Internet auction fraud.* Buyers place bids for items on an auction Web site. Successful bidders "win" the auction and pay via the U.S. Mail. They're scammed when the seller doesn't deliver the goods after receiving payment, delivers something other than the advertised item, or doesn't disclose relevant information about the item. Inspectors investigate Internet fraud when the mail is used as part of the scam.
2. *Contest and sweepstakes fraud.* A consumer is told he or she is a guaranteed prize winner, but the "free" prize could end up costing hundreds of dollars, and often the victim never receives a thing.
3. *Foreign lotteries.* Any lottery involving a foreign country and conducted through the mail is illegal; they may also be fraudulent. You may not even be entered to play.
4. *Phony billing scams.* These target businesses and professionals, using unsolicited calls or letters offering Yellow Page ads, copy machine supplies, specialty advertising items and

other overpriced products. They may imply they are your regular supplier offering a special discount.

5. *Work-at-home schemes* promise work stuffing envelopes or assembling products. The only *real* work is selling the program to dupe others into falling for the scheme.

Other common types of mail fraud include advance-fee loans, credit repair offers, business opportunities scams, home improvement schemes and supplemental health insurance frauds, to name a few.

Are the fraudulent schemes directed at any particular group?

Sophisticated con artists target older citizens who often live alone, have sizable savings accounts and may be disarmed by convincing salespeople. Favorite schemes include sweepstakes scams, guaranteed prize promotion investments and foreign lotteries. Many seniors are victimized repeatedly through the sale of victim lists. Other operators offer to help recover victims' previous losses—for a fee, only to scam them all over again.

How do people avoid being scammed?

A consumer's good judgment is the last line of defense against the con artist. Consumers should be skeptical of any offer that sounds too good to be true. The following questions can help consumers evaluate questionable offers:

- Do I have to pay to receive a "prize" or enter a sweepstakes?
- Do I have to provide personal or financial information?
- Am I a "guaranteed" winner or told "no risk is involved?"
- Am I pressured into responding right away?
- Do they ask for advance payment or accept cash only?

If the answer is "yes" to any of these questions, consumers should be wary. Consumers should ask that all statements about the product or service be provided in writing, and check the offer with the consumer protection agencies, the Better Business Bureau (BBB), State Attorney General, or the National Fraud Information Center, at 1-800-876-7060.

The Postal Inspection Service's Web site, www.usps.com/postalinspectors, offers more tips on postal-related crimes and allows consumers to submit a mail fraud complaint online. Fraud complaint forms are also available at every Post Office. In addition, the Postal Inspection Service offers several publications and videos to assist consumers in preventing mail fraud.

Summary of Recent Fraud Investigations by U.S. Postal Inspectors

Two men were investigated by the Postal Inspection Service for their role in an insurance fraud scheme that conned investors, mostly elderly, out of over \$20 million. The operators purchased fractional interests in "life settlement" contracts, known as viatical contracts, without the investor's knowledge. The men induced at least 250 individuals to invest in what the suspects represented as "FDIC insured, CD-like" investments with a guaranteed return. Instead, the money was used to purchase high risk viatical contracts and make questionable real estate transactions. Misrepresentations to investors included illegal diversion of investor funds to viaticals, and diversion of money to personal use. \$5 million of investor's funds were converted in the form of commissions. One suspect was sentenced in May to 96 months in prison and ordered to pay \$23 million in restitution.

An Illinois man was sentenced to 71 months in prison for his role in an insurance scheme that defrauded elderly victims out of over \$1 million. Victims were told that their funds were being invested in a 5-star annuity account and in some cases investor funds were withdrawn without the investor's knowledge. In fact, the money was diverted for the suspect's personal benefit. The Illinois man received the maximum sentence with the judge stating that he wished he had the

power to sentence him to three times the amount of imprisonment based on the vulnerable victims in this case.

A man in California was sentenced in March to 12 years and four months in prison and over \$49 million in restitution for his role in an investment scheme where 50% of the investors were senior citizens. The scheme involved inducing over 3,000 investors to invest in 12 internet based malls and internet service provider companies. The companies were marketed by telemarketers as being a "low-risk" investment that used state of the art software. In reality, the only thing the investors received was a return of 15% of their investment and the names of individuals who could help them build the promised projects. The remaining 85% of the investor's money was paid to the promoters, owners, and telemarketers as commissions.

Another recent example highlights an 86-year-old widower and World War 2 veteran from Pennsylvania who was the victim of a sweepstakes fraud. Mr. Karinch over the course of two years lost his entire life savings to con artists who repeatedly promised him \$850,000 in prize money provided he pay in advance a series of customs fees, taxes and legal fees. In addition to his savings account, Mr. Karinch used his social security income and sold his stock shares to cover the purported processing fees. He never received any of the promised cash prizes.

Steven Karinch was targeted by telemarketers in at least two Canadian Provinces, (Quebec and British Columbia) and possibly other countries. This was determined incident to our investigation based on the telephone numbers contained in the victim's personal notes, and the payout locations on the Western Union, MoneyGram and bank transfers.

This intelligence information has been referred to two cross-border law enforcement partnerships, specifically Project Colt (Montreal) and Project Emptor (Vancouver). Based on the financial paper trail, the primary investigative attention has been devoted to British Columbia activity. The Inspectors assigned to the case have requested Project Emptor assistance in this matter, and have submitted a request to obtain British Columbia bank records. Ultimately, we will seek an indictment in the Middle District of PA.

In addition to the Inspection Service, the investigation is being assisted by the FBI, federal prosecutors in the Central District of CA, and the Royal Canadian Mounted Police in Vancouver.

Conclusion

Older Americans trust the U.S. Mail. They rely on the mail system as a trusted communication device perhaps more so than any other age group. They place their confidence in the mail and conduct a large part of their financial and personal service through the mail. For this reason, the Inspection Service will continue to ensure that the mails are secure and trusted for this important part of our population.

Our mission is clear – to protect the U. S. Postal Service, its employees and its customers from criminal attack and protect the nation's mail system from criminal misuse. We take this mission seriously. We will continue to protect seniors from fraudsters and scam artists and ensure the American public continues to have confidence in the mail.