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ECONOMIC CRIME UNIT

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ANNUAL REPORT

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ACQUISITIONS

The Economic Crime Unit of the Chief State's Attorney's Office completed its second full year of operation on October 1, 1977. The Office was established two years ago by Chief State's Attorney Joseph T. Gormley, Jr. to respond to the growing citizen demand for protection from the rising incidence of consumer fraud and white collar crime.

The Unit operates on a grant provided by the Law Enforcement Assistance Administration which is administered through the Connecticut Justice Commission. The Unit received \$138,000.00 in combined Federal and State funds in each of its first two years. The budget breaks down to \$125,000.00 in Federal funds and \$13,000.00 in State funds. The Office is staffed by three full time Inspectors, an Assistant State's Attorney, an Assistant Prosecuting Attorney, and a Clerical Assistant.

The Unit's operation is reflected statistically as follows:

<u>10-1-76 to 10-1-77</u>	<u>10-1-75 to 10-1-77</u>
Contacts: 10,968	Contacts: 22,513
Complaints: 220	Complaints: 778
Arrests: 36	Arrests: 86
Fines: \$7,892.00	Fines: \$14,417.00
Restitution: \$288,814.76	Restitution: \$354,847.51

Of the 36 arrests during the second year of operation, 23 individuals were charged with felonies and 13 were charged with misdemeanors. In our second year of operation, 29 cases have been disposed of, with 27 resulting in findings of guilty and 2 nolle; giving this Office a conviction rate of 93 percent.

Another important indication of the success of the Unit is the extraordinary amount of restitution that has been returned.

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to the victims of white collar crime through the efforts of the Economic Crime Unit. The Office, in its second year of operation, returned \$288,814.76 in restitution to Connecticut citizens. This brings the total restitution for the two years of operation to \$354,847.51. In addition, those convicted have been ordered by the courts to pay \$14,417.00 in fines to the general fund of the State of Connecticut. The combined total of fines and restitution from October 1, 1975 to October 1, 1977 is \$369,264.51. The total budget for the Unit for two years, including both Federal and State funds, was \$276,000.00. This means that the Unit has returned to the State of Connecticut \$93,264.51 more than the total cost of the operation of the Office. As these figures demonstrate, it is cost effective to operate an Economic Crime Unit in the State of Connecticut.

The arrests of the Unit in the second year have been widely distributed throughout the State. Eleven arrests were made within Hartford County; seven in Fairfield County; fourteen in New Haven County; three in New London County, and one in Tolland County.

The arrests the Unit has made in its second year of operation fall into the following categories: Home Improvement Fraud 11; Securities Fraud 6; Embezzlement 6; Other Types of Larceny 5; Insurance Fraud 4; Violation of the Home Solicitation Sales Act 2; Issuing a Bad Check 1, and Commercial Bribery 1.

The Economic Crime Unit was asked to apply to the Law Enforcement Assistance Administration Commission for Exemplary Project Status by the Connecticut Justice Commission. This year our application has progressed to the final stages of the evaluation process and we will receive our final evaluation in the month of December. We consider this a singular honor inasmuch as the other economic crime units, which had been so designated in the past, had a far larger budget and staff.

On October 13, 1977, the Office was asked by the Delaware Department of Justice to assist in the establishment of an economic crime unit for that state. The Attorney General's Office wished to establish a unit with state-wide jurisdiction similar to our Office and we have been asked to go to Delaware at their expense to assist them in starting their office.

In the two years this Office has been in operation, we have seen a steady progression in the type of cases we have been asked to investigate. The number of felonies which we

have filed in the last year were 23, with 13 misdemeanors. The cases have constantly increased in difficulty resulting in very time consuming investigations. For instance, in September an arrest was made on charges of larceny in the first degree and fraud in the sale of securities. The arrest resulted after a year long investigation, which was jointly conducted by this Office and the State Banking Commission. It is this type of investigation which has made it necessary to expand our staff, and in our third year we will be adding a fourth inspector.

One of the priority goals of the Economic Crime Unit has been the prevention of economic crime. To this end the Office has monitored the Business Opportunity sections and the Investment Capital sections of the State's major newspapers. It is in these sections that one finds the advertisements for business opportunity frauds and advance fee schemes. By constant monitoring of the newspapers, investigators from this Office are often able to spot potential frauds before their victims become numerous. Once a possible fraud scheme is observed, the investigator then answers the ad, without revealing his identity, in order to gather evidence for use in a prosecution.

Recently, the Office has gone even beyond this approach and with the cooperation of the classified ad managers for the State's major newspapers, has been able to keep many fraudulent ads out of the papers entirely. The Office contacted the classified ad managers and provided them with knowledge of the various types of economic frauds. In addition, a list of questions was provided for the classified ad manager to propound to the prospective advertiser. This list of questions sought to obtain detailed information on the prospective advertisers' business. The classified ad managers have found that many suspicious advertisers withdrew their ad request upon receiving this questionnaire. Since the initiation of this technique, there has been a marked decrease in complaints regarding business opportunity and advance fee schemes.

Another priority goal of the Economic Crime Unit has been to increase public awareness of the various types of economic crime schemes. We have attempted, through a program of speaking engagements and consumer alerts, to inform the public as to ways of protecting themselves from the economic criminal. To this end in our second year of operation we have given speeches at the following: American Association of Retired Persons, Milford Chapter, 85 in attendance; Sacred Heart University, 35 in attendance; Laurel Girl's State School, 250 in attendance; Remodeling Contractors Association,

40 in attendance, and the Annual Meeting, Station WELI, Call for Action, 50 in attendance.

The staff of the Economic Crime Unit has also embarked upon a program of education for other state agencies charged with investigating crimes. For instance, we have conducted seminars at the Banking Department, with 50 persons in attendance; The Connecticut State Police Academy, with 50 persons in attendance; The Annual Meeting Eastern Seaboard Interstate Cigarette Tax Group, and The Valley Detective Association, with 30 persons in attendance.

The Economic Crime Unit is unique in both subject matter and approach. It combines the investigative and prosecutorial function in one organization. This permits the investigator and the prosecutor to work together in compiling and evaluating the evidence necessary to present a case to the court. It is essential that this approach be taken inasmuch as economic crimes are usually extremely complex and require that the investigator have expert legal advice at all stages of his inquiry. This is an approach which has been taken in other jurisdictions having similar units, and it has been extremely successful.

The Economic Crime Unit has frequent communication with its affiliated offices throughout the country. Connecticut's Unit has been organized as an Associate Member of the National District Attorney's Association's Economic Crime Project Center, headquartered in Washington, D.C. This organization is comprised of 60 prosecutor's offices across America. As a member of the Project, Connecticut's Economic Crime Unit has actively prosecuted offenders engaged in schemes on a national or regional basis simultaneously with the other member offices of the Economic Crime Project. In September of this year, the Economic Crime Unit was asked to investigate a case of commercial bribery and embezzlement which took place in one of the major manufacturing concerns in the State of Connecticut. A wholesaler in Kentucky had bribed an employee of the Connecticut manufacturer in order to receive equipment without being billed for same. As a result, the Kentucky wholesaler received over \$350,000.00 worth of equipment and in return he paid the Connecticut employee \$100,000.00 in bribes. The Economic Crime Unit obtained a warrant for the arrest of the Connecticut employee and the case is presently pending in Superior Court. The Economic Crime Unit in Louisville, Kentucky investigated and as a result obtained an indictment against the wholesaler in Kentucky. This is just one example of the close cooperation that is taking place through the office of the Economic Crime Project.

An essential element in the success of the Economic Crime Unit has been its state-wide jurisdiction. The white collar criminal does not respect city and county lines, but spreads his fraudulent scheme far and wide. Unsuspecting victims are snared throughout the state by seemingly legitimate advertisements placed in the media. The Economic Crime Unit has conducted investigations and made arrests in schemes that have not only operated throughout Connecticut, but throughout the country. The only way a large scale fraud can be attacked is by an office that has the authority and capability to operate on a broad geographical front.

It became apparent in the early stages of this Unit's development that the most effective approach to many forms of economic crime would be to attack the problem through a "cooperative approach" with other state and federal agencies. Consequently, in order to facilitate this and to establish coordinated investigations and informational sharing, the Economic Crime Council was organized. The Economic Crime Council consists of the following agencies: the Department of Motor Vehicles; Consumer Protection Department; Labor Department; Department of State Police; Banking Department; State Tax Department; Insurance Department; the Attorney General's Office, and the Federal Bureau of Investigation. All of the agencies represented in this Council have statutory investigatory authority in the area of economic crime and some of these agencies have investigators who have the power to make arrests. Other agencies merely have civil enforcement authority, but have the power to issue investigatory subpoenas for persons and documents and to hold hearings and examine witnesses. We have found that by combining these powers with those of the Economic Crime Unit a powerful weapon in the fight to control white collar crime has been forged. The Economic Crime Council meets on the first Wednesday of each month in the Office of Motor Vehicle Commissioner Benjamin Muzio.

In addition to the agencies represented, the Economic Crime Unit has established a close working relationship with the following agencies: The Federal Trade Commission; The Securities and Exchange Commission; The Federal Postal Inspectors; The Insurance Crime Prevention Institute; The Interbank Corporation; The American Express Corporation, the various Better Business Bureaus and other organizations from around the state. This type of cooperation has allowed the Economic Crime Unit to greatly extend its reach and effectiveness despite its limited staffing.

The importance of prosecuting economic crime cannot be overemphasized. First, an economic crime scheme usually victimizes a large number of people. In one recent opportunity fraud which operated in Connecticut for a period of only four months, some thirty people fell victim to the lies of the promoters. These thirty citizens lost approximately \$111,000.00. The same is true in the area of securities fraud and in just one such fraud which operated in Hartford County there were over sixty victims. This scheme resulted in the arrests of two individuals. None of these citizens were wealthy individuals who could afford to loose their investment. The money they entrusted to the promoters came from their life savings that they had accumulated for such things as retirement or the college education of their children. The combined depredations of white collar criminals fleece the taxpayer and tax collector alike of an estimated amount in excess of \$40 billion annually according to a recent analysis by the U.S. Chamber of Commerce. That figure is probably conservative, since it reveals only the initial cost and not the ripple affect such losses can produce.

These losses affect all segments of our society. While economic criminals are selective in choosing victims, almost no group escapes their attention. Young and old, black and white, laborers and managers, business and industry, each is a fertile producer of victims. Targets of opportunity for the white collar criminal are plentiful . . . the soon-to-retire worker is a target for those who peddle investment schemes. The ambitious undereducated striver is a target for business opportunity frauds. The technologically unsophisticated are targets for auto repair, appliance repair and home improvement frauds. The middle income citizen is a target for vacation and resort property frauds. Senior citizens are target for retirement community and nursing home frauds and various health and welfare frauds.

Economic criminals are planners, some are master planners. Economic crime schemes are intricate and artful and often incorporated with the mask of legitimate business. Economic criminals use the law as they use business custom and practice to their advantage. The best schemes remained buried deep within an avalanche of ledgers, annual reports, and register statements. These paper trails are difficult to follow, let alone find.

At the start of this project our goal was to restore the faith of the general public in the ability of the Connecticut criminal justice system to protect them from the criminal acts of the white collar criminal. Thus, this Office has been vigorously prosecuting those who in defrauding the public hurt both private citizens and the reputation of the honest businessmen. We wish to demonstrate that the white collar criminal, who steals with a pen instead of a gun, is just as subject to the criminal law as the violent criminal. It is imperative that an effort of this type be undertaken if the public trust in our free enterprise system and in our criminal justice system is to be maintained. We feel that in the first two years of our operation we have moved significantly closer to this goal.

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