Financial Fraud and Identity Theft Investigation and Prosecution Program

Report of Progress, Task Forces and Recommendations (RCW 43.330.300)

Report to the Legislature Rogers Weed, Director
ACKNOWLEDGEMENTS

Washington State Department of Commerce
Dan McConnon, Deputy Director, Community Services and Housing Division
Richard Torrance, Managing Director, Public Safety Unit
Valerie Grigg Devis, Financial Fraud and Identity Theft Program Manager
J. Harvey Queen, Report Writer and Editor

Greater Puget Sound Financial Fraud and Identity Theft Task Force
Melinda J. Young, King County Prosecutor’s Office, Task Force Chair

Spokane County Financial Fraud and Identity Theft Task Force
Captain James Goodwin, Spokane County Sheriff’s Office, Task Force Chair

Washington State Department of Commerce
Public Safety Unit
1011 Plum Street SE
P.O. Box 42504
Olympia, WA. 98504-2525
www.commerce.wa.gov/
Financial Fraud and Identity Theft Investigation and Prosecution Program

EXECUTIVE SUMMARY

The Financial Fraud and Identity Theft (FFIT) Crime Investigation and Prosecution Program was created to combine state, county, and local law enforcement with financial industry investigators to reduce financial fraud and identity theft in Washington State. Financial fraud and identity theft crimes are defined in RCW 43.330.300 as check fraud, chronic unlawful issuance of bank checks, embezzlement, credit/debit card fraud, identity theft, forgery, counterfeit instruments such as checks or documents, organized counterfeit check rings, and organized identification theft rings. This document meets the statutory requirements for program progress reporting, program recommendations including expansion and, progress of the task forces, to the Legislature by December 31st each year.

The Department of Commerce established the two regional FFIT Task Forces; The Greater Puget Sound FFIT Task Force, and; the Spokane County FFIT Task Force. These task forces are comprised of representatives of local law enforcement, county prosecutors, representatives from the office of the Attorney General, financial institutions and, other state/local and federal law enforcement.

The Greater Puget Sound FFIT Task Force has conducted xx investigations in the calendar year 2011, caused xx arrests resulting from xxx counts, and has; xxx convictions for the calendar year 2011.

Spokane County FFIT Task Force has conducted 384 investigations this year, caused 195 arrests resulting from 414 counts and has 68 convictions for the calendar year 2011.

Financial Fraud and Identity Theft Task Forces continue to be the first of their kind in Washington State and have a variety of trained and experienced members including industry members and representatives from prosecutors and law enforcement all across their populations.

The Department is supporting the identification and targeting of top offenders by using an intelligence led model of investigation and prosecution supported by investigative analyst and prosecution resources. The impact of financial fraud and identity theft crime has continued to escalate nationwide.

According to the 2010 Identity Fraud Survey Report by Javelin Strategy & Research the number of identity fraud victims in the United States increased 12 percent to 11.1 million adults in 2009. This represents 4.8 percent of the U.S. population, adding up to a projected $54 billion in crime. This program will expire on July 1, 2015.

PROGRESS AND OUTCOMES

The Department funded 12-month contracts for the two FFIT Task Forces in July 2010 and again in July 2011. Contracts were funded from UCC surcharges from prior collections. As of July 2011, the contracts are now synchronized with the state’s fiscal year. Each Task Force has continued to investigate financial fraud and Identity theft cases with emphasis of larger, more complex regional, multijurisdictional cases with multiple suspects. Reporting on the performance of the two task forces will continue to be month-to-month as the funded periods are based on monthly distributions from fees deposited into the UCC account.
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Task force meets regularly to share information regarding key suspects, crime trends, investigation status, and other important data. As a result, a number of significant FFIT cases are being investigated and prosecuted.

The Task Forces are directing most of their time and effort towards larger and more complex cases. Most of their grant funds are directed towards law enforcement, investigation, and prosecutorial staff dedicated to financial fraud and identity theft cases. New methods of cooperation and best practices for this growing field of criminal investigation have emerged. Outcomes for the 12 months preceding this report (October 2010 through September 2011) include:

<table>
<thead>
<tr>
<th>12-MONTH PROGRAM OUTCOMES</th>
<th>Q4 2010</th>
<th>Q1 2011</th>
<th>Q2 2011</th>
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<tbody>
<tr>
<td>INVESTIGATIONS</td>
<td>252</td>
<td>235</td>
<td>217</td>
<td>161</td>
<td>865</td>
</tr>
<tr>
<td>ARRESTS (Cases)</td>
<td>108</td>
<td>95</td>
<td>85</td>
<td>80</td>
<td>368</td>
</tr>
<tr>
<td>ARRESTS (Counts)</td>
<td>337</td>
<td>339</td>
<td>195</td>
<td>271</td>
<td>1142</td>
</tr>
<tr>
<td>CONVICTIONS</td>
<td>31</td>
<td>26</td>
<td>30</td>
<td>59</td>
<td>146</td>
</tr>
</tbody>
</table>

TABLE 1: FFIT Program Outcomes (October 2010 through September 2011)

There were 865 investigations conducted in the preceding 12 months beginning October 2010, and an increase of 310 (55.8%). The task forces made arrests in 368 cases involving 1142 counts for just 35 fewer than the previous year. The most striking change is in the number of convictions; 146 this year compared to 80 last year for an increase of 66 (45.2%).

PROGRAM RECOMMENDATIONS

The Department of Licensing had considered recommending amendments to the State Uniform Commercial Code (UCC) in 2012 but indicated to the Department of Commerce that because of the current economic environment, there will be no recommendations for amendments to the UCC.

The Statute requires that Commerce provide program recommendations in this report. Commerce does not recommend changes to the Financial Fraud and Identity Theft Program at the close of the 2010-11 program year. Because of fluctuations in the UCC account collections based on fees collected by the Department of Licensing, Commerce will consider recommendations again next year in coordination with the Department of Licensing.

The Greater Puget Sound Financial Fraud and Identity Theft Task Force and the Spokane County Financial Fraud and Identity Theft Programs did not submit recommendations for this year's report.
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- Recommendations from Greater Puget Sound Task Force
- Greater Puget Sound FFIT Task Force Highlights
- Recommendations from Spokane County FFIT Task Force

Spokane County FFIT Task Force Highlights

Program Authority: RCW 43.330.300
TASK FORCE PROGRAM PROGRESS

FUNDING FOR TASK FORCE PROGRAM

The Financial Fraud and Identity Theft (FFIT) Program Account in the State Treasury receives funds collected from surcharges on Uniform Commercial Code (UCC) filings which come from filing notices regarding personal or corporate property pledged as collateral for loans. Expenditures from this account may only be used to support the activities of the task forces and program expenses incurred by Commerce. The UCC filing surcharges are $8 for paper filings, and $3 for electronic filings. It is of some significance that there are two types of electronic filings: individual filings, and; “batch” filings. The Department of Licensing provides the Department of Commerce monthly statements of UCC deposits. In August of 2009, Deposits were sufficient to fund the initial contracts for both task forces for 7-months. In the past 12-months, there has been a noticeable shift in the types and volumes of filings with a resulting decline on total fees collected during the last month of the period. Commerce is monitoring this change to determine revenue trends.

Commerce distributed $xxx,xxx between the two contractors for the current period, July 2011 to Jun 2012. Commerce will report on the 12 months prior for purposes of this report which is offset from the contracting period as of this year of July 2011 to June 2012.

MONTHLY UCC SURCHARGE DEPOSITS

<table>
<thead>
<tr>
<th>Collection Amount per Month</th>
<th>Monthly Collections</th>
</tr>
</thead>
<tbody>
<tr>
<td>$40,000</td>
<td></td>
</tr>
<tr>
<td>$30,000</td>
<td></td>
</tr>
<tr>
<td>$20,000</td>
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</tr>
<tr>
<td>$10,000</td>
<td></td>
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<tr>
<td>$0</td>
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**UCC Surcharges**  
**June 2008 through August 2011**

CHART 1: Monthly UCC Surcharge Collections June 2008 thru August 2011 with Trendline.

Collections fluctuate from month to month with no apparent pattern discernible to attribute the variance to. Overall in the 39 months included in Chart 1: Monthly UCC Surcharges, A total of $1,257,133 for an average of $32,234 per month was collected. Collections in each year were as
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follows: Total 2008 UCC collections were $222,193 averaging of $31,742; 2009 collected $382,356 averaging of $31,863; 2010 collected $392,409 averaging $32,701, and; 2011 collected $260,175 averaging $32,522. See Table 2: Collections, below.

<table>
<thead>
<tr>
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<th>2008 Collections</th>
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<tr>
<td>Totals</td>
<td>$222,193</td>
<td>$382,356</td>
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<tr>
<th></th>
<th>Avg. (7-Mos)</th>
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<th>Avg. (8 mos)</th>
<th>Avg. 39 Mos</th>
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<td>2008 Collections</td>
<td>$31,742</td>
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TABLE 2: UCC Collection Totals by Year and Yearly Average Collections.

When looked at in detail, the monthly collections by type fee (paper vs electronic) show an interesting trend during the 2011 collection year.

Beginning around March or April 2011, there is a change in all three types of filings. XML filings (Batch electronic input ) increases about the same amount as the change in paper filings but, web filings increase also. The net result is that revenues are dropping because there are fewer paper-based filings ($8.00 each), and more of both web and XML filings ($3.00 each). However, there is one more variable to understand. XML filings are “batch” or multiple filings done at each
filings. There are more of these being done by existing customers who previously filed paper-based UCCs.

Overall performance of the FFIT Program has been positive and continues to make significant inroads in identifying, arresting and prosecuting individuals and groups engaged in these type crimes. In the 2010-11 report period, the program demonstrated this effort as follows:

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TABLE 3: 12-Month Statewide FFIT Program Outcomes (October 2010 to September 2011).

In Table 3, the Task forces have exceeded three of the four measures over last year’s efforts. The task force conducted 865 investigations in the preceding 12 months beginning October 2010, increased by 310 (55.8%). Task Force made arrests in 368 cases involving 1142 counts for just 35 fewer than the previous year. Task force convictions increased significantly. Convictions were at 146 this year compared to 80 last year, an increase of 66 (45.2%).

![Statewide FFIT Program Outcomes 2011](image)

CHART 2: 12-month Statewide FFIT Program Outcomes (October 2010 to September 2011)

Initial work during the previous report period allowed the task forces to investigate and carry through arrests and charges going forward into the 2nd and 3rd quarters of 2011. We are still looking into what caused the 3-quarter drop in the case work around investigations and arrests.
GREATER PUGET SOUND FFIT TASK FORCE

<table>
<thead>
<tr>
<th></th>
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<tr>
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<td>100</td>
<td>92</td>
<td>64</td>
<td>73</td>
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TABLE 4: Greater Puget Sound FFIT Outcomes (October 2010 to September 2011).

The Greater Puget Sound Task Force initiated 329 investigations in the 12-month period from October 2010 through September 2011 (38% of combined task force totals). GPS had arrests in 18 cases with an arrest count of 622 (54.5%). GPS ended the year with a conviction count of 60 for claim to 41% of combined task force convictions.

CHART 3: 12-month GPS FFIT Outcomes (October 2010 to September 2011).
SPOKANE COUNTY FFIT TASK FORCE

<table>
<thead>
<tr>
<th></th>
<th>Spokane FFIT TF</th>
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<tbody>
<tr>
<td></td>
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<td>ARRESTS (Cases)</td>
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<td>ARRESTS (Counts)</td>
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<td>CONVICTIONS</td>
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TABLE 5: Spokane County FFIT Outcomes (October 2010 to September 2011).

Spokane County FFIT Task Force (SPOKANE TF) ended the 12-month performance period with 536 investigations initiated (61.9% of combined task force investigations).

CHART 4: Spokane County 12-Month FFIT Outcomes (October 2010 to September 2011).

Spokane had 268 cases with arrests and an arrest count of 520 (45.5% of combined counts). Spokane ended the 12-month period with 86 convictions (58.9% of combined convictions).
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SEMI-ANNUAL TASK FORCE REPORTS

RECOMMENDATIONS FROM GREATER PUGET SOUND TASK FORCE

None forwarded.

GREATER PUGET SOUND FFIT TASK FORCE HIGHLIGHTS

[INSERT CONTENT]

RECOMMENDATIONS FROM SPOKANE COUNTY TASK FORCE

None forwarded

SPOKANE COUNTY FFIT TASK FORCE HIGHLIGHTS

[INSERT CONTENT]
RCW 43.330.300
Financial fraud and identity theft crimes investigation and prosecution program. (Expires July 1, 2015.)

(1) The financial fraud and identity theft crimes investigation and prosecution program is created in the department of commerce. The department shall:

(a) Appoint members of the financial fraud task forces created in subsection (2) of this section;

(b) Administer the account created in subsection (3) of this section; and

(c) By December 31st of each year submit a report to the appropriate committees of the legislature and the governor regarding the progress of the program and task forces. The report must include recommendations on changes to the program, including expansion.

(2)(a) The department shall establish two regional financial fraud and identity theft crime task forces that include a central Puget Sound task force that includes King and Pierce counties, and a Spokane county task force. Each task force must be comprised of local law enforcement, county prosecutors, representatives of the office of the attorney general, financial institutions, and other state and local law enforcement.

(b) The department shall appoint: (i) Representatives of local law enforcement from a list provided by the Washington association of sheriffs and police chiefs; (ii) representatives of county prosecutors from a list provided by the Washington association of prosecuting attorneys; and (iii) representatives of financial institutions.

(c) Each task force shall:

(i) Hold regular meetings to discuss emerging trends and threats of local financial fraud and identity theft crimes;

(ii) Set priorities for the activities for the task force;

(iii) Apply to the department for funding to (A) hire prosecutors and/or law enforcement personnel dedicated to investigating and prosecuting financial fraud and identity theft crimes; and (B) acquire other needed resources to conduct the work of the task force;

(iv) Establish outcome-based performance measures; and

(v) Twice annually report to the department regarding the activities and performance of the task force.

(3) The financial fraud and identity theft crimes investigation and prosecution account is created in the state treasury. Moneys in the account may be spent only after appropriation. Revenue to the account may include appropriations, revenues generated by the surcharge imposed in RCW 62A.9A-525, federal funds, and any other gifts or grants. Expenditures from the account may be used only to support the activities of the financial fraud and identity theft crime investigation and prosecution task forces and the program administrative expenses of the department, which may not exceed ten percent of the amount appropriated.

(4) For purposes of this section, “financial fraud and identity theft crimes” includes those that involve: Check fraud, chronic unlawful issuance of bank checks, embezzlement, credit/debit card fraud, identity theft, forgery, counterfeit instruments such as checks or documents, organized counterfeit check rings, and organized identification theft rings.