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Before the

House Committee on the Judiciary
Subcommittee on Crime, Terrorism and Homeland Security
U.S. House of Representatives

Hearing on
“Combating Organized Retail Crime – The Role of Federal Law
Enforcement”

November 5, 2009

Mr. Chairman and members of the Committee: thank you for holding this hearing on organized retail crime. The Postal Inspection Service appreciates the opportunity to be here with our colleagues from the U.S. Secret Service, Federal Bureau of Investigation and Immigration and Customs Enforcement to talk about our efforts to thwart organized retail crime. The Postal Inspection Service is committed to protect the American public from criminals who use the United States Postal Service in furtherance of fraudulent schemes, including organized retail crime.

The Postal Inspection Service has a long, proud, and successful history of securing the nation's mail system and ensuring the public's trust in the mail. Postal Inspectors have been fighting consumer fraud since the mail fraud statute was enacted in 1872. The company name, address and "product" may change, but con artists take advantage of economic trends and current events to plan their schemes and illegal activities. With modern technology, the potential for the American public to be defrauded through the mail is much greater and potentially impacts more people than ever before.

Because it is essential the public have full trust and confidence in the mail, Postal Inspectors are intent on preserving the integrity of the U.S. Mail through vigorous law enforcement, public education, and crime prevention efforts.

Postal Inspectors are charged with ensuring the mails are safe and free from fraudulent schemes, illegal drugs, various forms of contraband, child pornography, as well as other dangerous products. Additionally, we work with other law enforcement and government agencies at the local, state, and federal level to ensure the Postal Service is not used to facilitate the commission of other crimes or as a conduit for the transportation of proceeds from illicit activities.

It is this commitment that makes the Postal Service the most trusted government agency and one of the most trusted organizations in the United States. It is the ongoing vigilance of the Postal Service and Postal Inspectors in identifying criminals who attempt to use the mails in furtherance of their illegal activities. The use of the mails in organized retail theft has not historically been one of the major types of criminal activities we have encountered. That being said, we are now aware of its potential impact and a number of these types of cases have been referred to us from other law enforcement agencies as well as the retail industry.

Our colleagues in federal, state, and local law enforcement, as well as corporate security professionals, are the principal investigators in the area of organized retail crime. When these crimes or aspects of these crimes cross or enter into the postal system, we have the jurisdiction and statutory authority to investigate and assist other law enforcement agencies and retailers in combating these illegal activities.

We generally see two types of schemes which I will discuss briefly: Internet auction fraud and Re-shipper fraud. Both of these crimes take advantage of the increasing use of the on-line marketplace in order to sell the stolen or fraudulently obtained goods.

The Internet has become a critical component of the world's commerce. More and more businesses are increasing their use of this commerce channel. Likewise consumers have the convenience and ease of shopping in this expanded marketplace with a simple click of the mouse without having to leave home. This convenience though has a downside – criminals as well as others who seek to take advantage of consumers, now have a larger market in which to sell and distribute their stolen products while making substantial profits with fewer risks than the physical fencing operations that these criminals have historically used. By far, there is a greater reach for advertising of the ill-gotten products and the risk of detection is somewhat limited, making this online marketplace option so attractive to the organized retail crime groups.

As noted our jurisdiction in organized retail crime lies in the use of the mail in order to ship the stolen products or as a means to remit payment to the online seller. In these investigations, we have seen criminal groups utilize the full spectrum of postal products, including Priority Mail, Express Mail, postal money orders as well as Post Office boxes from which they run their fraudulent schemes.

One example of a recent Postal Inspection Service case began in early 2008. Postal Inspectors received a tip that owners of two Toledo, OH convenience stores were buying stolen merchandise,

selling it on eBay and then shipping the items, both domestically and internationally via the Postal Service. Postal Inspectors determined that proceeds from the fraudulent sales were being laundered by the operators' relatives in Jordan. We alerted special agents of Immigration and Customs Enforcement (ICE) in July when it was determined one of the operators was leaving for Jordan on a flight from the Detroit Metro Airport, and was believed to be smuggling an unknown amount of cash. ICE special agents stopped the owner, his wife, and their two children at the airport and seized \$75,000 in undeclared funds which were hidden in the children's clothing. The husband and wife each pled guilty to illegally smuggling cash and were sentenced to time in prison.

Postal Inspectors continued their investigation of the other suspect operator with excellent cooperation from eBay and PayPal and obtained records of the owner which identified over 7,500 items valued at \$650,000 that he had sold online. Postal Inspectors worked with loss-prevention specialists from the victim companies and identified most of the items as coming from their stores.

Throughout 2008, Postal Inspectors and corporate security investigators worked undercover, purchasing stolen items from online sites operated by the suspect. In February 2009, Postal Inspectors, ICE special agents, and Toledo, OH police executed a search warrant at the suspect's home and recovered boxes of stolen merchandise as well as maps of pharmacies he apparently planned to target in Cleveland, Columbus, and Toledo. He was arrested and charged with mail fraud. He pled guilty in August and is being detained until he is sentenced.

The second area of retail based crime we have become involved in is re-shipper fraud. In these types of cases, criminal organizations enlist individuals to receive and then reship products to other segments of the criminal enterprise generally to locations outside of the United States. In the majority of these cases, the products are obtained by retail crime groups through credit card theft as well as fraud. The re-shippers are oftentimes unwitting accomplices to the scheme, receiving and mailing the products based on instructions provided by the fraudsters. The re-shippers are then paid for their services. Many of these groups recruit the "re-shippers" in an attempt to further insulate themselves from detection, using a variety of ploys to trick individuals looking for easy work-at-home jobs. Ultimately, these re-shippers become part of the fraudulent activity. Retailers, legitimate shippers and financial institutions have all seen an increase in this type of crime. Again, the ability to move the stolen product with the least amount of exposure to those perpetrating the crimes is the reason for the use of the re-shipper approach.

As part of their operation recruiters for the groups post bogus job listings on the various Internet career sites purporting to employ "merchandising managers" and "package processing assistants." The employment is described as, "receiving packages in the mail and resending them to foreign addresses." This certainly sounds attractive as well as easy to the prospective participants. The groups further the scheme often providing bogus and fraudulently obtained postage-paid mailing labels to their re-shipper recruits. The Postal Service can also suffer significant losses as well as damage to its brand integrity when postal products or services are targeted by criminal schemes.

Re-shippers are also recruited by a variety of other fraudulent solicitations, such as on-line dating Web dating sites. In the typical "sweetheart scammer", the fraudster sends e-mails to the potential recruit in order get to know them. Once they have aroused their attention, the fraudster asks them to help the business or family by shipping packages to Europe or Africa.

Other scammers oftentimes claim to be working with a charity or mission which needs help getting "donated" merchandise delivered to third-world countries as well as other parts of the world.

In reality, both the "sweetheart" and the "charity worker" need assistance with smuggling goods out of the United States which were purchased with stolen and other fraudulently obtained credit cards. In the end there's no sweetheart or legitimate charity—even the mailing labels are either fraudulent or obtained using stolen credit cards.

The U.S. Postal Inspection Service continues to educate consumers about these fraudulent schemes using, for example, prevention-oriented messages delivered through online videos, newspaper and ad awareness campaigns (such as fakechecks.org), as well as via online publications, and our Web site at: www.usps.com/postalinspectors.

In closing, be assured the Postal Inspection Service remains committed to collaborating with our law enforcement and corporate partners to deal with the problem of distribution of illicit goods through on-line market places and ultimately the U.S. mail.