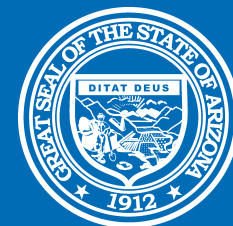




Arizona Attorney General Terry Goddard 2006 Annual Report



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Message from Attorney General Terry Goddard

I am proud to present the Attorney General's Office 2006 Annual Report. This report shows the scope and depth of the work of this Office and its talented staff during the fiscal year July 1, 2005, through June 30, 2006.

In an active, successful 2006 fiscal year, our Office:

- Led the fight to protect our children, neighborhoods, police and firefighters from the dangers of methamphetamine. I pushed to make it harder for meth cooks to obtain pseudoephedrine, the key ingredient. When the Legislature failed to act, I supported the efforts of more than 40 cities and towns that passed our proposal. We prosecuted 52 meth cases during the year. The governor and I hosted the state's first multi-disciplinary conference on meth, attracting more than 700 participants.
- Stepped up efforts against human and drug smuggling across the Mexican border. Our Border Trafficking Team prosecuted human smuggling, drug smuggling, selling fake IDs and related crimes. By targeting money transmitters, we disrupted "coyote" operations. I hosted the Attorneys General Border Conference which produced agreement to strengthen law enforcement cooperation on both sides of the U.S.-Mexican border.
- Successfully prosecuted two former executives of the Baptist Foundation of Arizona in the longest criminal trial in state history. The 10-month trial ended with guilty verdicts against the foundation's former president and general counsel. The foundation owed 11,000 investors more than \$550 million when it went into bankruptcy in 1999.
- Continued to make progress in Colorado City. Polygamous sect leader Warren Jeffs was indicted on several felony counts and placed on the FBI's "10 Most Wanted List." (He was arrested Aug. 28, 2006, and awaits criminal trials in Arizona and Utah.) The seriously mismanaged Colorado City School District was put into receivership. Jeffs and other trustees of the United Effort Plan Trust, which owns most of the town's property, were replaced.
- Helped negotiate a \$325 million settlement with Ameriquest Mortgage Co., the largest sub-prime mortgage lender in the country. It was the second-largest state or federal consumer protection settlement in history.
- Investigated the huge jump in Arizona's gasoline prices after Hurricane Katrina hit in August 2005. Our Office found that post-Katrina oil industry profit margins were two to three times higher than normal.
- Settled deceptive advertising cases with four Arizona auto dealers, who are paying a total of \$205,000 in fines.

In the past year, attorneys in our Office have prosecuted ID thieves, settled numerous consumer fraud cases and protected the civil rights of Arizona residents. Our Office has also provided valuable help and information to tens of thousands of citizens. It is an honor to serve as your Attorney General.



2006 Arizona Attorney General's Annual Report



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About the Attorney General's Office

Arizona's Attorney General serves as the State's chief legal officer.

The Attorney General oversees the Office's seven divisions: Criminal, Civil, Civil Rights, Public Advocacy, Child and Family Protection, Solicitor General and Administrative Operations.

Attorney General Terry Goddard's management team is led by Chief Deputy James P. Walsh and Chief Assistant Terri Skladany. Most of the Office's resources are committed by statute to representing more than 150 agencies, boards and commissions in state government.

The Office handles a variety of criminal cases which involve complex financial frauds, drugs, human smuggling, identity theft, organized crime, public corruption, money laundering, illegal enterprises, computer crimes and



Attorney General Terry Goddard with Chief Deputy James P. Walsh and Chief Assistant Terri Skladany

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criminal appeals. The Attorney General's criminal jurisdiction is limited to crimes that are more complex and often have statewide significance.

The State's 15 County Attorney Offices have primary jurisdiction to prosecute most property and violent crimes, including

murder, armed robbery, child abuse and rape.

On the civil side, the Office provides comprehensive legal services for its many clients across state government. The Office takes civil action pursuant to a variety of statutes, including

Arizona's Consumer Fraud Act, Antitrust Act, Open Meeting Law and Civil Rights Laws. Additionally, the Office acts in conjunction with its agency clients to pursue violations of various laws and regulations, including those affecting child welfare, the environment, state elections and professional licensing. The Office also brings actions to collect taxes and debts owed to the State.

From a budget standpoint, the Office has been highly cost-effective, generating and saving many millions of dollars more than it spends each year. As one example, the Office has an outstanding record of defending against liability lawsuits. Claims totaling just over \$2 billion were filed against the State, and only \$9.4 million was paid.

2005-2006 Highlights The Fight Against Methamphetamine



The Attorney General's Office continued to lead the fight against meth use and meth labs in Arizona. The Office supported legislation that would have been consistent with a new federal law to make it more difficult for meth cooks to obtain pseudoephedrine, the key ingredient in cooking meth. After the Arizona Legislature failed to act, the Office supported the successful efforts of more than 40 cities and towns throughout Arizona to pass meth ordinances modeled after our legislative proposal. The Office prosecuted 52 meth cases during FY06 and charged 195 defendants.

Arizona Methamphetamine Conference—A Call to Action. In February 2006, Attorney General Terry Goddard and Governor Janet Napolitano hosted more than 700 participants at the state's first multi-disciplinary conference on methamphetamine. The conference focused on public policy and community action for an audience that included law enforcement, human service professionals, medical professionals, community-based organizations, tribal organizations, faith community leaders and

"Stop Meth" poster features the winning entries to the first annual poster contest

Oklahoma Attorney General Drew Edmondson addresses the Arizona Meth Conference held in Phoenix in February 2006

neighborhood activists.

Goddard welcomed Attorneys General Drew Edmondson of Oklahoma, Mike McGrath of Montana and Wayne Stenehjem of North Dakota, who have been leaders in the fight against meth in their states. The event featured national participants,

including law enforcement experts, human services professionals, medical specialists, community-based groups, tribal organizations, faith community representatives and neighborhood activists.

The conference also featured the Stop Meth poster contest. More than 300 eighth-graders from 42 schools across Arizona submitted entries.

STOP Meth

If you have reason to suspect methamphetamine activity, call 1-877-STP-METH

1st Place
Enamacion "Shawn" Ramon - Analebia Middle School, Phoenix

2nd Place
Zeina Kamealy - Desert Shadows Middle School, Apache Junction

3rd Place
Sarah Bussamer - Explorer Middle School, Phoenix

A CALL TO ACTION
Arizona Statewide Methamphetamine Conference
February 13-14, 2006
Phoenix, AZ

Governor
Janet Napolitano

Attorney General
Terry Goddard

PARENTS the power to prevent
Protect, Punish, Collaborate on Drug Education and Prevention

For more information about the fight against meth, visit www.azag.gov

Poster Contest Honorable Mention

| | |
|---|---|
| 1. Naveen Datta - Sun Set Lower High, Chandler | 14. Chayana Bhatia - Canyon Middle School, Phoenix |
| 2. Isabella Bailey - Elgin Elementary School, Elgin | 15. Sarah Carter - Explorer Middle School, Phoenix |
| 3. Emily Datt - Desert Canyon Middle School, Glendale | 16. Naveen Bhatia - Explorer Middle School, Phoenix |
| 4. Ashli Jay - Alhambra Middle School, Phoenix | 17. Naveen Bhatia - Explorer Middle School, Phoenix |
| 5. Naveen Bhatia - Canyon Middle School, Chandler | 18. Naveen Bhatia - Explorer Middle School, Phoenix |
| 6. Naveen Bhatia - Canyon Middle School, Chandler | 19. Naveen Bhatia - Explorer Middle School, Phoenix |
| 7. Naveen Bhatia - Canyon Middle School, Chandler | 20. Naveen Bhatia - Explorer Middle School, Phoenix |
| 8. Naveen Bhatia - Canyon Middle School, Chandler | 21. Naveen Bhatia - Explorer Middle School, Phoenix |
| 9. Naveen Bhatia - Canyon Middle School, Chandler | 22. Naveen Bhatia - Explorer Middle School, Phoenix |
| 10. Naveen Bhatia - Canyon Middle School, Chandler | 23. Naveen Bhatia - Explorer Middle School, Phoenix |
| 11. Naveen Bhatia - Canyon Middle School, Chandler | 24. Naveen Bhatia - Explorer Middle School, Phoenix |
| 12. Naveen Bhatia - Canyon Middle School, Chandler | 25. Naveen Bhatia - Explorer Middle School, Phoenix |
| 13. Naveen Bhatia - Canyon Middle School, Chandler | 26. Naveen Bhatia - Explorer Middle School, Phoenix |

The Fight Against Methamphetamine (continued)

National experts who spoke at the conference included:

Dr. H. Westley Clark, director of the Center for Substance Abuse Treatment, U.S. Department of Health and Human Services, who provided a national perspective on drug treatment and meth addiction.

Dr. Jerry Moe of the Betty Ford Center explained how meth treatment can be most effective and offered insight into the needs of children in families with substance abuse problems.

Dr. John Martyny of the National Jewish Medical and Research Center addressed cutting-edge medical treatment to reduce serious health effects suffered by children in meth lab homes.

Efforts to combat meth included these cases:

- **State v. Danny and Michelle Mitchell.** On March 16, 2006, officers from the Maricopa County Sheriff's Office (MCSO) and the HIDTA task force served a search

warrant at 14706 North 124th Lane where they located four suspects and two children, along with a fully operational meth lab. The house was owned by Danny and Michelle Mitchell. Three other suspects also lived at the residence. The children are aged 10 and 6. Danny and Michelle Mitchell have a prior conviction for a similar offense. A trial is pending.

- **State v. Adam Remington.** On May 4, 2006, officers from MCSO/HIDTA task force conducted a knock and talk at 5133 W. Vogel Ave. in Glendale based on information that Remington was ordering large quantities of iodine over the Internet. Remington's 16 year old daughter, who is mentally handicapped, lived in the residence. Agents located a fully operational meth lab. Remington has a prior conviction for a similar offense.

- **State v. Richard Stephenson, Mickey Rosenquist & Maren Fowler.** In October 2005, three defendants were found guilty of operating a meth lab and child abuse after young children were found near the lab. Mickey Rosenquist was found guilty of manufacturing dangerous drugs, possession of dangerous drugs for sale, possession of drug paraphernalia and child abuse. He was sentenced to seven years in

prison. Richard Stephenson was found guilty of possession of equipment and chemicals to manufacture dangerous drugs, possession of dangerous drugs, possession of marijuana for sale and possession of drug paraphernalia. He was sentenced to four years of probation, 360 hours of community service and required to pay \$2,750 in fines. Maren Fowler was convicted of child abuse and sentenced to two years of probation.



2005-2006 Highlights Border Security

The Attorney General's Office moved aggressively to investigate and prosecute crimes related to illegal immigration and border security. Those efforts, led by our Border Trafficking Team, focused on disrupting "coyote" organizations engaged in human smuggling, drug smuggling and the sale of fake identifications to undocumented immigrants.

Attorneys General Border Conference. Attorney General Terry Goddard hosted AGs from 10 border states in the U.S. and Mexico in September for the 2005 Attorneys General Border Conference. The meeting produced agreement to increase cooperation in criminal investigations and prosecutions. More specifically, the AGs on both sides of the border agreed to work together more closely in cases that involve human smuggling, drug sales, auto theft and fugitive apprehension. The AGs also agreed to expand a

Mexican pilot program, known as Project Oasis, which targets human smugglers on the Mexican side of the border.

Coyote Violence Initiatives. The Attorney General's Office used cutting-edge analytical techniques in investigations aimed at money transmitters and used car dealers operating in the smuggling corridor that runs through southern Arizona. One investigation led to the breakup of a Phoenix-based organization that charged as much as \$7,500 for fake immigration documents and victimized more than 500 people from across the country. This initiative also targeted other smuggler assets such as vehicles, safe houses and bank accounts. During this fiscal year, the Attorney General's Office seized more than 120 vehicles used by human smuggling organizations and more than \$8,396,000 in coyote profits.

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Terry Goddard with Attorneys General from U.S. and Mexican border states at the 2005 Border Conference held on the Gila River Indian Community

Other human smuggling cases included:

Eight Members of "Coyote" Organization Indicted. In March 2006, the State Grand Jury indicted eight members of a human smuggling organization. The indictment alleges that the defendants engaged in human smuggling between March 2004 and March 2006. The organization allegedly charged about \$1,800 per person. When the defendants were arrested in March,

more than 60 undocumented immigrants were detained.

Drug-smuggling cases included:

State v. Adrian Barraza-Mendoza et al. Between March and June 2006, the Phoenix Police Department and U.S. Drug Enforcement Administration conducted a wiretap investigation of a large-scale drug trafficking organization, which received frequent shipments of large amounts of methamphetamine and/or



Border Security (continued)

cocaine from a Mexican cartel source in Mexico. The investigation resulted in the seizure of approximately \$1.5 million in cash, over 30 pounds of methamphetamine, over 35 kilos of cocaine, three pounds of crack cocaine and numerous firearms. Approximately 40 defendants have been indicted or will be indicted within the next few months. A trial is anticipated in 2007.

State v. Oscar Baez Duarte et al. In November and December 2005, Phoenix police conducted a wiretap investigation of a large-scale drug trafficking organization which received approximately 25 pounds of methamphetamine per week from a source in Mexico for distribution in Arizona. The investigation resulted in the seizure of approximately 1.5 million dollars, 30 pounds of methamphetamine, 9 kilos of cocaine and numerous firearms. Over 50 defendants were indicted, and a trial is anticipated in January 2007.

State v. Levin White et al. In February and March 2006, Phoenix and Chandler police conducted a joint wiretap investigation of the Levin White drug trafficking organization. The investigation resulted in the seizure of approximately 3,000 pounds of marijuana, 17 kilos of cocaine and \$1 million in cash. Thirty-five defendants were indicted, and a trial date is pending.

Acosta-Perez et al. In October 2005, 13 defendants were indicted on charges of criminal enterprise and drug conspiracy. The charges stemmed from a Tucson Police Department/Drug Enforcement Administration wiretap investigation supervised by the Attorney General's Office involving a heroin trafficking organization. During subsequent execution of arrest and search warrants, over 1,000 grams of heroin were seized, and 18 more defendants were indicted. The Attorney

General's Office has seized for forfeiture numerous properties, vehicles and U.S. currency related to this case. As of June 30, 2006, 14 defendants had pleaded guilty. All subjects involved in the importation of heroin received prison sentences. This prosecution dismantled one of the largest heroin distribution organizations in Southern Arizona and eliminated a source of heroin that had gone to several Pima County high schools.

Fake ID cases included:

Fraudulent Document Scheme. In May 2006, the State Grand Jury returned an indictment against Victoria O. Romero, a former officer with the Arizona Department of Corrections, charging her with fraud, conspiracy and money laundering. She was the final person to be charged in a Phoenix-based fraud scheme that charged as much as \$7,500 for fake immigration documents and victimized more than 500 people in Arizona and other states. The criminal organization

attracted victims with the promise of obtaining legitimate resident alien cards, also known as "green cards." In an effort to show their legitimacy, the defendants put each victim through an application process that included having their fingerprints taken.

Human Smuggling ID Theft Indictments. In September 2005, seven defendants were indicted by the State Grand Jury on charges of illegally conducting an enterprise, trafficking in the identity of another, forgery and unlawful possession of an access device. This indictment is the result of ongoing efforts by the Governor's ID Theft Task Force, comprised of state, federal and local law enforcement agencies to combat human smuggling.

2005-2006 Highlights ID Theft

As identity theft continued to expand as the world's fastest growing crime, the Attorney General's Office emphasized prevention as well as aggressive prosecution. The Office launched the "Protect Yourself Against ID Theft" initiative which included a series of shred-a-thons around the state and numerous educational presentations. The Attorney General also sent letters to Congress requesting removal of Social Security numbers from Medicare/Medicaid cards and military IDs.

The Office worked closely with two ID theft task forces and prosecuted 54 ID theft cases during the year. More than 17,600 victims were assisted, and restitution for many of those victims totaled more than \$8.4 million. During the 2006 legislative session, the Office advocated a

number of bills to combat identity theft. The Office supported legislation to allow consumers to freeze their credit reports, require entities to notify consumers if their identifying information was compromised, require proper disposal of identifying information and require the government to keep identifying information more secure. While not all these bills passed, significant progress was made to protect consumers. One important achievement was securing funding for an additional six people in the Office to investigate and prosecute identity thieves.

Cases included:

Meth-Stolen Mail-ID Theft

Scheme. In April 2006, a Phoenix couple who exchanged methamphetamine for stolen mail and stolen checks in an ID theft scheme were sentenced to time in jail and prison. Richard Lane

Gruening, 29, was sentenced to three and a half years in prison after he pleaded guilty to one count of aggravated taking the identity of another. Jennetta Roseann McConnell, 28, was sentenced to six months in jail, five years of probation and 300 hours of community service after she pleaded guilty



ID Theft (continued)

to aggravated taking the identity of another. The defendants, who lived in Phoenix, were also required to pay \$8,439 in restitution.

Pro Football Star's ID Stolen. In January 2006, a West Phoenix man was arrested on suspicion of using Green Bay Packers' quarterback Brett Favre's credit card account more than 40 times in Maricopa County. William J. Joachim, 35, was arrested on four felony charges of theft, fraud schemes, aggravated taking the identity of another and misconduct involving weapons. Two other men, Freddy Lopez Sanchez, 32, and Ignacio Bobadilla Gomez, 29, were also arrested in the case on forgery charges. The Attorney General's Office received information from the National Football League that Favre's credit card account had been compromised and some 40 unauthorized transactions had been completed in Maricopa County, totaling over \$10,000. An

investigation determined that Favre's account was likely used as part of a larger ID theft scheme run by Joachim and Sanchez.

Shred-a-Thons. The Attorney General's Office held eight shred-a-thons during the fiscal year to help Arizona residents safely dispose of bills, tax returns older than seven years, medical records and other documents containing personal identifying information. The Office partnered with AARP and local shredding companies to provide commercial shredder trucks at various locations throughout Arizona. More than 16,500 pounds of materials and documents were destroyed at these events.

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(above) Mesa residents watch their outdated documents get shredded

(right) Attorney General Terry Goddard with Community Services Program staff at the AGO Shred-a-Thon held in Mesa during Fall 2005



2005-2006 Highlights Colorado City

Attorney General Terry Goddard and Utah Attorney General Mark Shurtleff continued to work together to address issues facing the communities of Colorado City, Ariz. and Hildale, Utah.

Their efforts in 2005-2006 included:

- **Hunt for Warren Jeffs.**

In January 2006, the FBI authorized a \$50,000 reward for information leading to Jeffs' arrest and conviction, which

enhanced the \$10,000 reward offered in July 2005 by the Arizona and Utah State Attorneys General. In May 2006, the Federal Bureau of Investigation placed Warren Jeffs on its Top 10 Most Wanted List. (Jeffs was arrested on Aug. 28, 2006 and faces criminal trials in Arizona and Utah.)

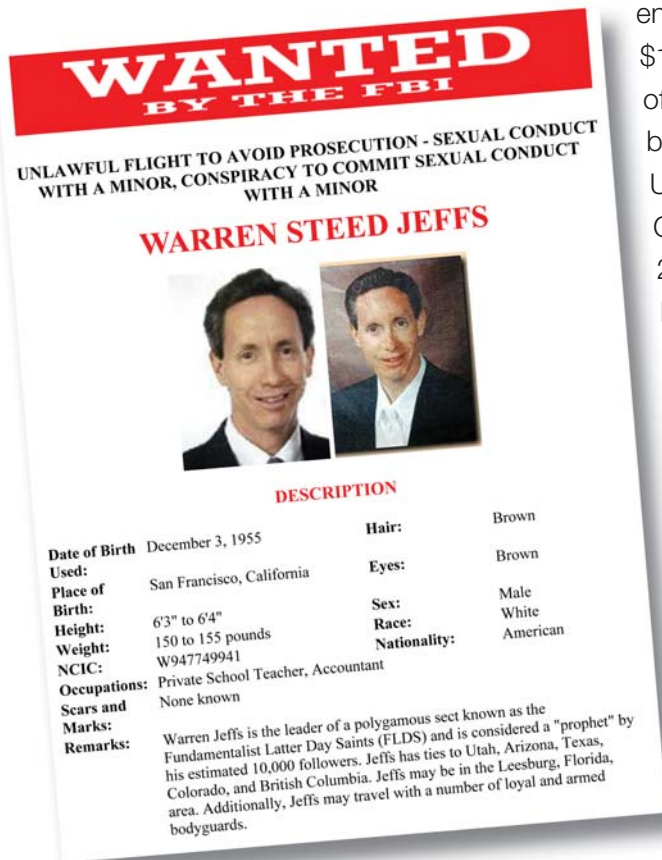
- **Colorado City Police Officers Decertified.**

The Attorney General's Office successfully completed administrative action before the Arizona Peace Officer Standards and Training Board, revoking the peace officer certifications of former Colorado City Chief of Police Sam Roundy and officer Vance Barlow.

- **Colorado City Unified School District.**

In December 2005, the Attorney General's Office entered into a consent agreement that placed the Colorado City Unified School District in receivership. The Attorney General's Office filed the petition for receivership with the Arizona State Board of Education in August 2005. The petition was filed on the first day a new state law took effect that allowed such legal action. The agreement required:

- ▶ The school district placed in receivership and a receiver appointed by the State Board of Education.
- ▶ District Superintendent Alvin Barlow retire and Business Manager Jeffrey Jessop resign.
- ▶ The receiver immediately begin a full review and investigation of the district's financial affairs and submit to the State Board a financial improvement plan.
- ▶ The district make diligent efforts to reduce operating expenses and maximize available assets, including divesting itself of property, such as the district's Cessna airplane.



Colorado City (continued)

• **United Effort Plan Trust.**

During fiscal year 2005-2006, significant progress was made in connection with legal proceedings in Utah state court to address issues concerning operation of the United Effort Plan (UEP) Trust. The UEP Trust holds title to a large percentage of real property in Colorado City and Hildale.

The Utah Attorney General's Office acted to remove the trustees of the UEP Trust and have a Special Fiduciary appointed. The Arizona Attorney General's office joined the action. In response, the Utah Third Judicial District Court appointed a Special Fiduciary for the UEP Trust and suspended the trustees, including Warren Jeffs.

The Special Fiduciary has acted to protect trust property and

interests by securing payment of due or delinquent property taxes for UEP properties, by initiating litigation to clear title to property claimed by the UEP Trust, and by initiating litigation against the suspended trustees, the Fundamentalist Church of Jesus Christ of Latter-Day Saints and related entities. The Special Fiduciary has also retained an engineering firm to survey residential property belonging to the Trust with the goal of legally subdividing it.



(above) Terry Goddard receives the Hope for Arizona's Children 2006 Policy Award from Prevent Child Abuse Arizona in recognition of his efforts to protect women and children in Colorado City



(left) Terry Goddard with United Effort Plan Special Fiduciary Bruce Wisan

2005-2006 Highlights Baptist Foundation of Arizona • Proposition 200

Baptist Foundation of Arizona

The criminal trial of William Crotts, ex-president of the Baptist Foundation of Arizona, and Thomas Grabinski, the foundation's ex-general counsel, began in Maricopa County Superior Court on Sept. 14, 2005. Each was charged with three counts of fraud, one count of racketeering and 23 counts of theft.

The case involved one of the most complex financial schemes ever brought to trial in Arizona. The defendants issued financial statements that led thousands of people to believe they were investing their savings safely and securely. BFA owed some 11,000 investors more than \$550 million when the Foundation went into bankruptcy in 1999.

The case went to the jury at the end of June. (On July 24, 2006,

guilty verdicts were returned against both defendants on three counts of fraud and one count of illegally conducting an enterprise.) The State presented more than 55 witnesses and the parties marked more than 9,000 exhibits. The 10-month criminal trial ranks as the longest ever conducted in Arizona.

Proposition 200

The Solicitor General's Office continued to play a significant role in defending Proposition 200 and providing legal advice regarding this law. The Office assembled a litigation team of trial and appellate attorneys to defend the State in challenges to the statute's constitutionality. The significant accomplishments in defending and implementing Proposition 200 included:

- Persuading the Ninth Circuit to reject a challenge to the constitutionality of Proposition 200 (*Friendly House v. Napolitano*).
- Persuading the federal district court to permit the State to continue implementing Proposition 200's requirement that people present proof of citizenship when they register to vote (*Gonzales v. Brewer*).
- Obtaining preclearance from the U.S. Department of Justice for the procedures to implement the identification requirement when citizens vote at the polls.
- Providing a formal legal opinion to the director of the Department of Economic Security concerning state and local public benefits subject to Proposition 200 and related requirements of federal law.



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BFA Prosecution Team: (from left) Front Row: Kelly O'Connor, Kathleen Kempley, Patricia Burgess, Ann Marrell, Dan Sands. Back Row: Monica Klapper, Victoria Baldner, Leroy Johnson, Patty Rustenburg, Don Conrad, Mary Wallace

2005-2006 Highlights Criminal Cases

Clark v. Arizona. In June 2006, the U.S. Supreme Court upheld the conviction of Eric Clark for the murder of Flagstaff Police Officer Jeff Moritz. By a 6-3 vote, the Court rejected Clark's challenge to Arizona's insanity defense and other restrictions in Arizona law regarding the use of mental illness evidence as a defense in criminal cases. The case marked the first major ruling by the U.S. Supreme Court on insanity defense laws since many states, including Arizona, made them more restrictive following John Hinckley's acquittal by reason of insanity in the 1981 shooting of President Ronald Reagan. The Arizona Legislature stiffened the law in 1993.

On June 21, 2000, Clark shot and killed Moritz, a 30-year-old father. The shooting occurred after Officer Moritz responded to a 911

call at 4:42 a.m. concerning a vehicle that was driving around the block in a residential neighborhood blaring loud music. Clark was subsequently convicted of first-degree murder for intentionally or knowingly causing the death of a police officer in the line of duty. Both sides agreed that Clark, who was 17 at the time of the shooting, suffered from mental illness. The trial court, however, concluded that Clark was not legally insane because he knew that the act he committed was

wrong. In addition, the trial court concluded the state had established beyond a reasonable doubt that Clark committed first-degree murder. Clark was sentenced to 25 years to life following his conviction. The

Arizona Court of Appeals affirmed Clark's conviction.

State v. Berger. In a 4 to 1 decision, the Arizona Supreme Court affirmed the Arizona Court of Appeals' opinion upholding the imposition of 20 consecutive 10-year prison terms for 20 counts of sexual exploitation of minor committed by a 56-year-old high school teacher who possessed a large collection of child pornography obtained from the Internet.

State v. Ross. Kevin Ross, the Maricopa County Assessor at the time, was convicted of engaging in actions that constituted a conflict of interest for a public officer. Ross used his position to obtain a previously undisclosed list of seniors who had received the senior property tax freeze in Maricopa County and market reverse mortgages to them. The



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*Attorney General Terry
Goddard with (from left)
Solicitor General Mary
O'Grady, Assistant Attorney
General Randy Howe and
Assistant Attorney General
Michael O'Toole outside the
U.S. Supreme Court*

Criminal Cases (continued)

State claimed that Ross's use of the previously undisclosed list for personal gain created a conflict of interest. Ross appealed his conviction, claiming that the State did not provide sufficient evidence that his conduct constituted a conflict. The issue was argued in the Arizona Court of Appeals in April 2006, and the appeal is pending.

C.P. Direct. The Attorney General returned \$4.5 million to 25,000 victims of consumer fraud by Scottsdale-based C.P. Direct for the sale of fraudulent nutritional supplements. The checks, which average \$150, are restitution obtained through a civil racketeering case in which the operators of C.P. Direct admitted defrauding tens of thousands of customers nationwide. The sellers falsely advertised that their pills would produce permanent physical enlargement of human sexual organs and other body parts in a matter of months.

\$101 Million Seizure. Acting on a financial institution's tip and rapid investigation, the Attorney General's Office seized \$101 million in fraud proceeds from an account in the name of Majestic Capital Management. The seizure, the largest ever by this Office, came after the money had traveled around the world, moving from banks in London to Germany, Hong Kong and the U.S. The money has been forfeited and is now in the process of being returned to investors in the collapsed Bayou Hedge Fund.

Winning Lottery Ticket Theft Thwarted. In November 2005, the winner of an Arizona State Lottery prize worth \$1.47 million was finally identified. His ticket had been stolen by a Circle K clerk in Nogales. An investigation determined that Cuauhtémoc Jose Luis Castañeda Yáñez purchased the winning Pick ticket at the Nogales Circle K store for the June 25 drawing.

Castañeda presented several tickets to Kerr at the Circle K for validation. The clerk allegedly scanned his tickets and returned them as non-winners. Castañeda complained to Circle K that Kerr had not returned one of the tickets. The Circle K manager attempted to help find the missing ticket, but it was not found and an investigation followed. Lottery officials were able to positively identify Castañeda as the winner on the basis of video tapes, computer records and witness interviews. Delia Kerr, 50, and her sister Susan, 41, were arrested for theft and fraud after they opened a bank account in Tucson with a check for more than \$1 million from the Arizona Lottery. The Attorney General's Office seized the winnings, and held them until Castañeda was identified as the winner.

Far West Water and Sewer Company. In September 2005, Far West Water and Sewer Company in Yuma was charged with six felony counts arising from a sewer accident which cost two lives. After a five-week trial, the company was found guilty of one count of negligent homicide, one count of knowingly violating safety standards and causing the death of an employee, one count of aggravated assault and two counts of endangerment. Victims were awarded \$140,000 in restitution. Far West was sentenced to a fine of \$1.77 million and placed on probation for nine years. In a subsequent trial, Brent Weidman, the former president of Far West, was found guilty of two counts of negligent homicide and two counts of endangerment. He was sentenced to probation, 840 hours of community service and a \$50,000 fine.

2005-2006 Highlights Consumer Protection Cases

Average Wholesale Price Lawsuit. In December 2005, the Attorney General's Office sued 42 pharmaceutical companies for using a drug pricing scheme that has cost consumers and Medicare tens of millions of dollars. The lawsuit seeks restitution and charges the drug companies with violation of the state's consumer protection and racketeering laws. The complaint charges that the drug companies engaged in deceptive trade practices by manipulating or misstating the average wholesale price of their prescription drugs, causing the government and consumers to overpay.

The complaint also alleges that drug manufacturers provided financial incentives to physicians and suppliers to stimulate drug sales, such as volume discounts, rebates, off-invoice pricing and free goods, at the expense of the Medicaid and Medicare programs. The incentives were not offered to government or consumers. Drug reimbursement rates are based on pricing data supplied by drug manufacturers. The lawsuit alleges that the drug makers manipulated the prices, resulting in inflated costs to elderly citizens taking chemotherapy and other drugs for serious illnesses.

Ameriquist Mortgage Company. In January 2006, Attorney General Terry Goddard announced a settlement with Ameriquist Mortgage Company that made sweeping reforms of its lending practices and required the company to pay \$325 million to consumers and states.

The \$325 million settlement was the second-largest state or federal consumer protection settlement in history. The only one larger was the \$484 million predatory lending agreement reached in 2002 between most states (including Arizona) and Household Finance Corporation.

Ameriquist made 14,180 loans in Arizona between 1999 and 2005. Arizona consumers who obtained Ameriquist loans are expected to receive more than \$5 million in compensation.

Gasoline Price Investigation. Gasoline prices soared in Arizona after Hurricane Katrina hit in August 2005. The Attorney General's Office opened an investigation, issuing 45 antitrust and consumer fraud

Civil Investigative Demands (CIDs) to Arizona gasoline wholesalers and retailers to determine whether anticompetitive or fraudulent activity played a part in Arizona's high gasoline prices.

Through the post-Katrina period, profit margins realized by every segment of the oil industry were two to three times higher than normal. This Office's investigation, however, uncovered no violation of the antitrust laws. The fact that these businesses were able to legally multiply their profits while Arizona consumers and small business struggled to pay the high gas prices underscored the need for national and state laws against price-gouging. Arizona is among a minority of states without an anti-price-gouging law.

In November 2005, Attorney General Terry Goddard was invited to testify before the U.S. Senate Commerce, Science and Transportation and the Energy and Natural Resources committees. He was one of three attorneys general invited to testify on energy prices, price gouging and the



Consumer Protection Cases (continued)

effectiveness of consumer protection laws. In his testimony, Goddard recounted two major gasoline price spikes in Arizona – one related to Hurricane Katrina, the other during the Kinder Morgan pipeline break in 2003 – that made clear that any supply disruption led to profiteering by the gas companies. Goddard voiced support for a national anti-price-gouging statute.

In June 2006, the Attorney General was invited back to Washington to meet with U.S. Attorney General Alberto Gonzales and Federal Trade Commission Chairman Deborah Majoras to discuss their request for assistance in investigating potential gas price-gouging. Goddard was joined by seven other Attorneys General. The FTC said it would continue to investigate gas pricing with a focus on refinery profits. The States were asked to contribute information to this probe.

Car Advertising. The Attorney General stepped up efforts to ensure that advertising by car dealers in Arizona was clear and accurate. Over the last year, the Office settled deceptive advertising cases with four car dealers:

Holmes Tuttle Ford. In December 2005, the Attorney General's Office settled deceptive advertising allegations with this Tucson dealer. In January 2005, Holmes Tuttle advertised a "\$29 Down & 50% Off MSRP Sale." The ads implied the sale was available on a large number of cars at the dealership, when, in fact, only two new vehicles were available for this "unprecedented" sale. Although the consent judgment does not constitute an admission of wrongdoing, the settlement required the dealer to pay the Attorney General's Office \$75,000 and not imply that a sale applies to all, most or many vehicles unless it actually does.

Scottsdale Suzuki Superstore. In November 2005, the Attorney General's Office settled with this dealer and its successor corporation,

Suzuki of Tempe, for falsely advertising minimum trade-ins and placing misleading information about "dealer installed accessories and service charges" on the window stickers of new cars. While the consent agreement does not constitute an admission of liability, the settlement required the dealership to pay the Attorney General's Office \$50,000; advertise only in a clear, conspicuous and truthful manner; discontinue advertising minimum trade-ins or other offers that appear to be generally available unless they are generally available; and discontinue listing accessories or services on the sticker price unless those accessories and services are actually included in the price of the car.

Aufmuth Motors. In November 2005, the Attorney General's Office settled with this Tucson dealer for deceptively advertising "minimum" trade-in amounts and falsely advertising "free" gifts with purchase. The consent judgment settled a lawsuit alleging the

dealer deceptively advertised minimum trade-in amounts and falsely offered free gifts/promotional items while including the cost of those items in the price of the cars being sold. The settlement required the dealership to pay the Attorney General's Office \$50,000 and to make sure its future advertisements are clear, truthful and non-misleading.

Midway Chevrolet. In May 2006, the Attorney General's Office settled with Midway Chevrolet of Phoenix. According to court documents, Midway Chevrolet ran a newspaper ad for an "Under 10 Grand Sales Event." At least one of the cars advertised was not available during the sale. Midway agreed to settle the case, without admitting any wrongdoing, and not to advertise any vehicles in the future that are not available to the public for the advertised terms. The settlement required Midway Chevrolet to pay the Attorney General's Office \$30,000 and make sure its future advertisements are clear, truthful and non-misleading.

2005-2006 Highlights Civil Rights Cases

State v. Mlynarczyk. This fair housing lawsuit involved a Sedona couple, Feliks and Bozena Mlynarczyk, who refused to sell property to a California couple because of race. Dr. Phillip and Kristina Edington presented a full price offer for a residential lot located in Sedona through their real estate agent. The owners rejected the offer and told the real estate agent that they would not sell to “black people.”

The real estate agent reported the comments to the Attorney General’s Office. Dr. Edington filed a discrimination complaint. The Division investigated the matter and obtained a preliminary injunction to stop the Mlynarczyks from selling or transferring the land until the lawsuit was resolved. The settlement required the Mlynarczyks to pay \$120,000 to the doctor and his wife for damages; \$25,000 to the realty



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Attorney General Terry Goddard presents awards to the Civil Rights Division Compliance and Resolution Officers. This Section investigates complaints of civil rights violations.

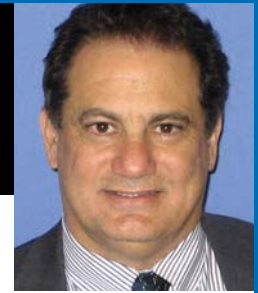
company for lost commissions; and \$40,000 to the State for attorneys’ fees and enforcement of civil rights laws. The real estate agent, Edward Pennington of Buyer Brokers Realty, was honored by the Attorney General and the Arizona Fair Housing Partnership for taking a stand against housing discrimination.

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Attorney General Terry Goddard presents Fair Housing Partnership recognition to real estate agent Edward Pennington for taking a stand against housing discrimination



Administrative Operations Division

Tony Vitagliano
Acting Chief Director



Mission:

To provide quality administrative services that meet the ever-changing business requirements of the Attorney General's Office and ensure that resources are allocated and utilized in a manner consistent with law, agency mission and customer need.

Major projects included:

- **Web Site Redesign.**

Information Services implemented a redesign of the AGO Web site. The AGO site meets "Bobby Level I" accessibility compliance. It received an award from the Conference of Western Attorneys General for accessibility of the site by the disabled and for its consumer outreach services. The site was also enhanced with a new program to enlist the help of citizens in fighting auto theft.

- **Case Management System.**

Information Services devoted significant manpower to the implementation of the new legal Case Management System (CMS). The AGO has been working closely with the contracted developer to refine the requirements and prepare for the implementation of the CMS software. Information Services has been upgrading the server

and network infrastructure to support the CMS and clean existing data for migration to the new system.

- **AG Opinions More**

Accessible. Library Services, in partnership with the Arizona State Library and Archives, completed the process of scanning and downloading to a shared format all Attorney General Opinions from 1936 to 1998.

- **Employees Donate**

Generously. The Office received a "Silver Award" for an increase in participation of at least 30 percent in blood donations. Since 1993, the Attorney General's Office has donated 1,790 pints of blood, which can make

a life or death difference to 5,370 hospital patients in Valley hospitals.

- **Expanded Health Program.**

The State Wellness Program was successfully implemented by our Human Resources Section. Health-related classes and on-site services, such as mammograms and skin cancer screenings, have proven to be an effective way for our employees to maintain good health.



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*Information Services
Network Engineers Jamie
Neilon and Eric Borgen*

Child and Family Protection Division

Sharon Sergent
Division Chief Counsel



Mission:

To provide the Department of Economic Security (DES) with high quality and timely legal advice and representation to promote the safety, economic sufficiency and well-being of children, adults and families.

The Child and Family Protection Division (CFP) is comprised of three sections:

- **Child Support Enforcement (CSE)** provides legal advice and representation to the DES Division of Child Support Enforcement. CSE handles a high-volume litigation caseload to establish paternity and establish, modify and enforce child support orders.
- **Civil & Criminal Litigation & Advice (CLA)** provides advice and representation to DES in all areas except child support and child protective services matters. The Civil Unit provides legal services in over 60 areas, including developmental disabilities, adult protective services, licensing, procurement, employment-related matters, public benefits and unemployment insurance benefits. The Criminal Unit

prosecutes persons who have committed fraud against DES.

- **Protective Services (PSS)**

provides legal advice and representation to the DES Division of Children, Youth and Families, particularly Child Protective Services. PSS is on the frontlines representing DES in its goal to ensure that the children in its care are safe and achieve permanency.

The Division has over 350 employees in 15 locations statewide. CFP offices are located in Cottonwood, Glendale, Flagstaff, Kingman, Mesa, Nogales, Phoenix, Prescott, Safford, Tucson and Yuma. All Sections provide legal advice and representation from the pre-litigation phase through all levels of appeal. CFP attorneys litigate

in state and federal courts and administrative tribunals.

Child Support Enforcement Section

The Attorney General's Office seeks to ensure that children receive the financial support from their parents to which they are entitled. The Child Support Enforcement Section (CSE) provides legal advice and representation to the Arizona Department of Economic Security/Division of Child Support Enforcement (DCSE).

Because more than 40 percent of Arizona's children are born to unwed parents, establishing paternity is the first step in the child support process. After paternity has been established, DCSE can take legal action to pursue child support. DCSE

Child and Family Protection Division (continued)

currently has more than 250,000 open child support cases.

In FY06, CSE helped Arizona children receive the support to which they were entitled by:

- Establishing paternity for 4,178 children.
- Establishing new support orders for 5,974 families.
- Obtaining child support judgments of over \$70 million.
- Resolving 2,470 actions for modification of support.
- Making over 25,000 court appearances.
- Assisting DCSE to collect over \$307 million in support in FY06, \$16 million more than in FY05.
- In bankruptcy cases, collecting \$390,663 in support in Chapter 13 cases and \$64,479 in arrearage payoffs in Chapter 7 cases.
- In litigation relating to liens and foreclosures, collecting \$121,638.

Protective Services Section

The Protective Services Section (PSS) provides comprehensive legal representation to DES and the Child Protective Services (CPS) branch of DES. PSS shares the same goal as CPS: to protect children, preserve families and achieve permanency for Arizona's children. The attorneys and staff of PSS provide legal representation to CPS throughout Arizona's 15 counties. PSS maintains offices in Flagstaff, Kingman, Mesa, Phoenix, Prescott, Sierra Vista, Tucson and Yuma.

PSS attorneys engage in an intensive, litigation-focused practice that takes place within the juvenile division of the Arizona Superior Courts, with appellate review conducted by the Arizona

Court of Appeals. Trial lawyers in PSS handle thousands of legal actions each year generally referred to as "dependency cases": actions brought to protect abused and neglected children, either by removing children and placing them in the legal custody of CPS, or by establishing protective measures where social services are provided in the family's home.

Appellate lawyers in PSS appear before the Arizona Court of Appeals to defend successful trial court judgments. PSS lawyers also advise DES on legal issues arising from federal and state statutes, regulations and court decisions, and provide training and support to CPS caseworkers, supervisors and members of the judiciary.



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Prescott CFP staff with Yavapai County Superior Court Judge Robert Brutinel

Child and Family Protection Division (continued)

Highlights

Newly implemented changes in CPS practices slowed the large increase in overall case volume that occurred in prior years. The FY06 case volume of 6,464 is only slightly greater than the FY05 total of 6,434. However, FY06 saw significant increases in the number of appellate cases and actions brought to achieve permanency through severance of parental rights, guardianship and adoption.

PSS attorneys and staff:

- protected more than 11,220 children from abuse and neglect.
- filed 3,443 dependency petitions.
- filed 1,316 severance motions and petitions.
- filed 535 guardianship motions.

- filed 136 adoption petitions.
- helped place 4,600 children in permanent homes.
- helped reunite 1,253 children with their parents.
- placed 702 children with permanent guardians.
- helped 1,275 children be adopted by relatives or foster parents.
- represented DES in 229 appeals filed.
- prevailed in 97 percent of all appeals resolved.

Success in jury trials: In FY06, 216 jury trials were requested in cases where CPS sought severance of parental rights. Of those 216 cases, 30 went to trial. PSS prevailed on behalf of CPS in 28 of those 30 cases, obtaining

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Yavapai County Superior Court Judge Robert Brutinel during Adoption Day 2005. The Attorney General's CFP staff participate annually in Adoption Day where families finalize adoptions.

verdicts in favor of severing parental rights, a necessary condition to adoption and placement of the children in safe, permanent homes.

Training of CPS workers, supervisors, attorneys and judges: In FY06, PSS attorneys provided legal training to 282 new CPS case managers who joined DES

during the year. PSS attorneys also provided advanced training to approximately 80 CPS case managers and supervisors throughout the State and conducted training sessions for members of the judiciary. Twenty-seven new attorneys joined PSS and received extensive juvenile dependency training. Numerous in-house training sessions were



Child and Family Protection Division (continued)

conducted, focusing on maintaining and increasing the skills and knowledge of more experienced PSS trial and appellate attorneys.

Civil & Criminal Litigation & Advice Section

The Civil and Criminal Litigation and Advice Section (CLA) provides advice and representation for all DES programs except Child Protective Services and Child Support Enforcement.

The CLA Criminal Unit prosecutes individuals and contractors who defraud the State of Arizona through DES programs and parents who willfully fail to provide support for their children or who escape from the child support work furlough program.

Highlights

The CLA Civil Unit:

- Received 754 administrative litigation, civil and appellate cases:
 - 55 Mental Health Appeals, an increase of over 300 percent from the previous year.
 - 16 Adult Protective Service Guardian/Conservatorship cases, an increase of 50 percent.
 - 46 EEOC cases, an increase of 48 percent.
 - 37 foster care licensing cases, an increase of 85 percent.
- Handled 265 appealable DES personnel actions, including 71 hearings before the State Personnel Board.
- Resolved 670 administrative litigation, civil and appellate cases, including 10 appeals to the Court of Appeals.
- Obtained judgments totaling \$531,332.

- Collected \$202,528 through wage and bank garnishments.

The CLA Criminal Unit:

- Filed 335 criminal cases.
- Obtained 271 individual sentences.
- Obtained restitution orders totaling \$547,657.
- Collected an additional \$380,398 in restitution prior to sentencing.
- Obtained orders for fines totaling \$18,485.
- Saved the State nearly \$1.7 million through successful challenges to Value Options' denial of behavioral health services for children in DES's care.
- Collaborated with the Russian government to investigate and resolve complaints against an international adoption agency licensed in Arizona.

Civil Division

Pam Culwell
Division Chief Counsel



Mission:

A dynamic team of legal professionals representing Arizona with dedication, integrity and innovation.

The Civil Division is comprised of eight sections that focus on specialty areas of civil law, including public finance, natural resources, procurement, tax, bankruptcy, collections, liability management, public health, public safety, transportation, rule review and contract review and approval. The Civil Division provides comprehensive legal services to over 150 State departments, boards, agencies and commissions.

Highlights

- **Colorado City Police.** Successfully completed administrative action before the Arizona Peace Officer Standards and Training Board revoking the peace officer certifications of former Colorado City Chief of Police Sam Roundy and officer

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Terry Goddard congratulates Assistant Attorney General Mary Jane Gregory on her 20th anniversary with the Attorney General's Office

Vance Barlow, who were charged with polygamy.

- **Dental License Revoked.** Successfully prosecuted an administrative action before the Dental Board revoking Paul R. Schrieter's license to practice dentistry. The board had received complaints that Schrieter persuaded patients to obtain loans from credit card companies to finance

thousands of dollars of dental work for each patient. Schrieter collected full payment for his services before beginning treatment, then declared bankruptcy and abandoned his patients without performing the services.

- **CPAs Prosecuted.** Successfully prosecuted three cases against PricewaterhouseCoopers and



Civil Division (continued)

former and current partners resulting in a Consent Order under which two CPAs' certificates were suspended, \$900,000 in costs were recovered and a \$100,000 civil penalty was assessed. In a separate action against the two CPAs, \$75,000 in costs were recovered.

- **Freeway Barrier System Defended.** Successfully defended the first case challenging the propriety of the cable barrier system installed by ADOT on SR-101. The plaintiff's spouse died when his vehicle was struck by a vehicle that had underridden the cable barrier and crossed the median. After a month-long trial, the jury returned a defense verdict for the State.
- **DPS Officers Defended.** Successfully defended two Department of Public Safety officers for false arrest and use of excessive force. The jury agreed that the DPS officers were justified when they determined

that they had probable cause to arrest the plaintiff. The location where the arrest occurred had a video surveillance system. The videotape of the arrest was used to demonstrate that the officers used only necessary force in making the arrest.

- **Adoption Process Upheld.** Successfully defended a claim against Child Protective Services for wrongful adoption. The plaintiffs claimed that had CPS provided relevant information about the child to them, they would not have adopted the child. The jury found that CPS had acted properly throughout the adoption process. This victory is significant because it validates the adoption processes used by CPS. Publication of this decision should reduce the number of similar lawsuits.
- **Inmate Claims Denied.** Successfully defended the Department of Corrections and its employees in 30 appellate

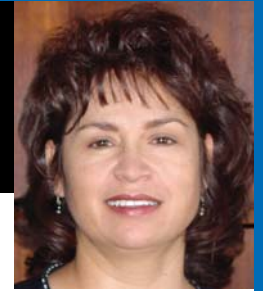
court cases. Inmate litigation covers a variety of claims ranging from loss of privileges to medical malpractice. At any one time, over 100 inmate appeals are pending.

- **Millions Saved in "Bad Debt" Case.** Saved the State more than \$12,800,000 in pending "bad debt" deductions in *DaimlerChrysler Services North America, LLC v. Arizona Department of Revenue*. DaimlerChrysler purchased retail installment contracts from car dealers arising from automobile purchases. Some of the purchasers defaulted on their installment loans. DaimlerChrysler sought to take a "bad debt" deduction for transaction privilege taxes paid on the defaulted loans. The Tax Court and Court of Appeals agreed with the Department of Revenue that DaimlerChrysler was not entitled to take a bad debt deduction either in its own right or as an assignee.

- **State Security Laws Enforced.** Recovered over \$2,177,500 on behalf of the Arizona Corporation Commission. The World Cash cases involved collection efforts on seven cases arising out of public enforcement actions of Arizona securities laws. Collection efforts continue for the remaining \$6.5 million owed.
- **Land Appraisal Upheld.** Successfully defended ADOT's just compensation appraisal in a jury trial. The jury determined the State's \$1.1 million appraisal accurately reflected the property owner's loss. The property owner valued the loss at \$4,537,200. The State avoided \$3,437,200 in potential liability.
- **State Land Department Advice.** Provided legal advice to the State Land Department that supported generation of \$329,150,427 in sale and lease revenue during the fiscal year.

Civil Rights Division

Virginia Herrera Gonzales
Division Chief Counsel



Mission:

To enforce civil rights laws and eliminate discrimination statewide by increasing public awareness of civil rights laws. These goals are reached through education, enforcement and providing greater access of services to victims, including dispute resolution services. The Division continues to focus on enforcement, outreach and education involving vulnerable populations (e.g., non-English speakers, children and the disabled).

The Civil Rights Division enforces the Arizona Civil Rights Act, which prohibits discrimination in employment, voting, public accommodations and housing by investigating, mediating and litigating civil rights complaints.

The Division provides conflict resolution services and mediation programs statewide. It responds to complaints and proactively seeks to reduce discriminatory conduct by providing education and outreach in the community.

The Division is comprised of the Compliance and Litigation Sections. The Compliance Section enforces civil rights laws in the areas of employment, housing, public accommodations and voting rights. The Section screens and investigates complaints involving civil rights violations. It

also provides education and outreach to the public.

The Litigation Section is responsible for litigation in state and federal courts involving civil rights violations in the areas of employment, housing, public accommodations and voting rights. It also provides legal resources for legislative activities, education and outreach.

The Conflict Resolution Program, a component of the Litigation Section, provides services statewide, including mediation, facilitation, conciliation and training. The mediation programs encompass civil rights, truancy, victim-offender and other issues.

Division Highlights

- Investigated 1,243 discrimination charges and resolved 873 cases.
- Filed 14 housing, employment and public accommodations lawsuits and resolved them by obtaining injunctive and monetary relief for discrimination victims.
- Mediated 93 civil rights cases and successfully reached an agreement in 51 cases. The mediated agreements yielded \$272,759 in relief, including injunctive relief.
- Obtained \$682,509 for discrimination victims and the State through conciliation/mediation agreements and consent decrees.

Civil Rights Division (continued)

- Closed over 400 employment discrimination cases and resolved 538 employment cases. The Division also took in 362 new employment discrimination charges, 187 new housing discrimination charges and 87 new public accommodations discrimination charges.
- Revised its policy regarding case processing deadlines. The revised policy requires housing cases to be closed within 90 days and employment and public accommodations cases to be closed within 270 days of the filing date. As a result of the new policy, the Division virtually eliminated a backlog of aged public accommodations cases during the year.

Section Highlights

- The Litigation Section resolved 14 lawsuits involving housing, employment and public accommodations, yielding

\$512,860 in relief to the victims, including injunctive relief and compensation to the State.

- The Compliance Section investigated and resolved 174 housing discrimination cases. Its aged cases docket for housing cases was reduced from 11 percent in July 2005 to 3 percent in July 2006.
- The Compliance Section investigated and resolved 26 housing cases involving complex issues that included discriminatory financing and brokerage services, refusal to provide insurance, refusal to permit reasonable modifications to existing dwellings, steering, redlining, design and construction of dwellings, and failure to permit reasonable accommodations for disabled individuals.

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Terry Goddard with members of the Fair Housing Partnership

- The Compliance Section received the Attorney General's Office Outstanding Non-Legal Team award on May 17, 2006.
- ***State v. Show Low Apartments and Holcombe v. Show Low Apartments.*** In January 2006, the Attorney General's Office settled two fair housing lawsuits filed against Bosley Management, Inc. and Show Low Apartments for allegedly denying residents the right to live with therapeutic animals because of their general "no pets" policy. The Consent

Decrees resolved allegations that the apartment complex discriminated against a current resident and former resident by refusing to grant their requests for a disability accommodation. After the residents complied and removed their animals, they renewed their request that the defendants grant an accommodation for their disabilities and allow the animals to return to the complex. Defendants failed to make a decision on the residents' requests for weeks. During that period, one of the



Civil Rights Division (continued)



Terry Goddard with staff from the Tucson Civil Rights Division at the 2006 Awards Day event

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therapeutic cats was accidentally euthanized and the other cat disappeared.

Under the terms of the Consent Decrees, the defendants agreed to pay the Civil Rights Division \$100,000, one of its disabled residents \$65,000 and a former disabled resident \$12,000. The payments represent the largest settlement obtained by the Division in a matter involving disability discrimination under the Arizona Fair Housing Act.

The Consent Decree also provided that defendants pay the Division \$100,000 in lieu of a statutory penalty to monitor the apartment complex's compliance, \$65,000 to a disabled tenant and \$12,000 to a former disabled tenant.

- ***State v. Sunland Village East Homeowners Association.*** This fair housing lawsuit alleged that the Homeowner's Association ("HOA") notified the LDS Family Home Evening Group that it

would be required to pay a fee to use the community room for its meeting. After the group objected to the fees, the HOA adopted a new rule that community rooms could not be used by any religious groups. The Consent Decree provided that the HOA would revise its room-use policy to eliminate religion as a factor for either charging for rooms or denying room requests. The policy would also outline the non-discriminatory rules to be applied

to all who use the community facilities. The LDS Family Home Evening Group was also provided with a community room for its monthly meetings and an agreement not to retaliate or interfere with its rights to use the room.

- ***State v. Saban.*** This public accommodations lawsuit based on disability involved a rental car company that refused to rent a car to a deaf customer who used the Arizona Relay Service to place the calls to the company. The Consent Decree required the company to pay \$10,000 to the plaintiff, create an anti-discrimination policy and agree to monitoring by the Division.

Civil Rights Division (continued)

- **Briley v. Catalina Mechanical Contracting.** This employment case involved an alleged discriminatory termination. The employer agreed to pay \$40,000 to the employee after a mediation session facilitated by the Division.
- **Dansby v. Seton Capital Group.** This discriminatory lending case involved a complainant who alleged that she was subjected to unfair mortgage lending terms due to her race (African-American). The lender agreed to pay the complainant \$19,421 to resolve the complaint.
- **Leeds v. Sam Levitz Furniture Company.** This employment case involved alleged discriminatory benefits terms for employees. The company agreed to pay the employee \$13,000 to resolve the case in mediation.
- **Phillips v. Scott Patterson Development Company.** In this housing case, the development company agreed to install wheelchair ramps in all units at the Golf Villas at Troon North if the unit's owner elected to have the ramp installed. The company also agreed to make a \$15,000 maximum donation to Arizona Bridge to Independent Living (ABIL) if the cost of installing the ramps was less than \$25,000.
- **Turner v. Barrett-Eastman.** The charging party alleged that the respondent's leasing agent refused to rent a house to her family because the owner did not want a one-year-old child living in a house with a pool. The agent also refused to rent homes with pools to two other families with minor children. This refusal to rent constituted familial status discrimination in violation of the Fair Housing Act. The case settled prior to filing a lawsuit.
- **James v. Kovach/Independence Realty Professionals, Inc.** This case involved a realtor who told an African-American man that she would not help him purchase a home and would only help "Asian people" because she understood their preferences. The Arizona Fair Housing Center subsequently conducted a test that confirmed that the realtor was discriminating against potential clients based on race, a violation of the Fair Housing Act. The case was settled.
- **Such v. Wal-Mart Stores, Inc.** The charging party alleged he was denied equal access to public accommodations on the basis of his disability. He had asked to use a wheelchair-accessible fitting room at Wal-Mart and was told that he could not do so because the room was being used for storage. The attendant said he could try on the shorts at home and bring them back if they did not fit. The manager subsequently told the charging party that he would clean out the fitting room but that it would take four hours to do so. The investigation revealed evidence to support the charging party's allegations against Wal-Mart. The case was settled.

Criminal Division

Don Conrad
Division Chief Counsel



Mission:

To protect the citizens of Arizona by successfully investigating and aggressively and fairly prosecuting criminal cases within the State of Arizona. To promote and facilitate safety, justice, healing and restitution for all of Arizona's crime victims. To continue to effectively represent the State in capital and non-capital appeals filed by convicted felons.

The Criminal Division is made up of Capital Litigation, Criminal Appeals, Criminal Prosecutions, Financial Remedies, Special Investigations and Victim Services. The Division represents the State in death penalty proceedings. It also investigates and prosecutes drug traffickers, trafficking organizations, money launderers, criminal enterprises, white-collar crime, financial crimes and cases dealing with the fraud, abuse and neglect of persons receiving AHCCCS benefits. It provides support to local and federal law enforcement agencies throughout Arizona.

Capital Litigation

The Capital Litigation Section handles all appellate and post-conviction proceedings involving the more than 100 death-row inmates in Arizona. Those proceedings include the direct

appeal to the Arizona Supreme Court and the U.S. Supreme Court following conviction and sentencing, state post-conviction relief proceedings in the trial court and the Arizona Supreme Court, and federal habeas proceedings in federal district court, the U.S. Court of Appeals for the Ninth Circuit and the U.S. Supreme Court.

Highlights

- In October 2005, the U.S. Supreme Court accepted certiorari in *Smith v. Schriro* and reversed a Ninth Circuit ruling that required a jury finding as to whether a defendant in a capital case was mentally retarded. The ruling is significant nationally and affected 10 current Arizona death-row defendants who have alleged that they are mentally

retarded and whose claims are being addressed by a judge, rather than a jury.

Criminal Appeals

The Criminal Appeals Section (CAS) represents the State in the Arizona Court of Appeals, the Arizona Supreme Court and the U.S. Supreme Court when criminal defendants appeal their non-capital felony convictions. CAS also represents the State in the United States District Court and the U.S. Court of Appeals for the Ninth Circuit when those defendants challenge their convictions and sentences in federal habeas corpus petitions.

By representing the State in all non-capital felony appeals, CAS maintains uniform positions regarding issues of criminal law, which allows for the orderly and consistent development of criminal

Criminal Division (continued)

law in state and federal courts. In addition, because the attorneys are appellate specialists, they provide consistent, efficient and high-quality representation that individual counties are unable to provide. This increases the likelihood that dangerous criminals will have their convictions and sentences affirmed on appeal, protecting the community and saving resources that would otherwise be expended on expensive retrials and re-sentencings.

Highlights

- CAS attorneys John Todd and Kent Cattani testified before the U.S. Senate Judiciary Committee and the U.S. House of Representatives Judiciary Committee regarding federal habeas reform proposals. Subsequently, as part of the Patriot Act, Congress enacted measures that will streamline the federal appeals process, which will benefit the criminal justice

system and crime victims in particular, by reducing delay in capital cases. In addition to handling state and federal appellate proceedings for all death row inmates in Arizona, CAS successfully handled several evidentiary hearings in state and federal courts, including the first post-trial mental retardation hearing in Arizona following the U.S. Supreme Court decision in *Atkins v. Virginia*, in which the Court held that mentally retarded defendants are exempt from the death penalty.

- **State v. Martinez.** The Arizona Supreme Court agreed with the State's position that once a jury finds one aggravating circumstance that allows for an increased statutory sentence range, the sentencing judge may consider additional factors in determining what sentence to

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Terry Goddard with Assistant Attorney General Billie Rosen and Chief Counsel Don Conrad at Rosen's retirement party

impose. At a practical level, this ruling saves the State time and money by not having to prove each and every aggravating circumstance to a jury after a conviction.

- **State v. Miles.** The defendant, driving drunk, crashed his car and injured his passenger. He was convicted of aggravated assault. He unsuccessfully attempted to preclude evidence from the passenger's physician about the passenger's medical condition by invoking the

passenger's patient-physician privilege. He raised the claim on appeal. The Arizona Court of Appeals ruled that a criminal defendant lacks standing to assert the victim's physician-patient privilege in an attempt to shield himself from prosecution for causing the victim's injuries.

Criminal Prosecutions

The Criminal Prosecutions Section consists of four Units:

- The **Fraud and Public Corruption**



Criminal Division (continued)

Unit prosecutes white-collar crime and fraud by individuals and organized criminal groups and organizations. The Unit prosecutes criminal fraud in areas such as securities, insurance, real estate, banking, taxes, government, telemarketing, computers and welfare. The Unit also focuses on gang-related crimes and handles conflict matters from other counties.

- The **Drug Unit** combats drug trafficking and money-laundering organizations operating within Arizona. The Unit's attorneys provide legal advice and training statewide.
- The **Medicaid Fraud Control Unit** is a federally-funded unit charged with investigating and prosecuting Medicaid (AHCCCS) fraud and abuse, neglect or financial exploitation occurring in Medicaid facilities.

- The **Tucson Criminal Trials Unit** prosecutes crimes occurring in the Tucson area. The Unit also works with multi-jurisdictional groups in southern Arizona to prosecute abuse and financial exploitation of the elderly and vulnerable adults.

Highlights

- The Fraud and Public Corruption Unit charged 731 criminal defendants with felony offenses that included fraudulent schemes and artifices, illegal enterprise, participating in criminal syndicates, money laundering and numerous violent crimes due to conflicts referred from various county attorneys' offices. A number of these cases involved the prosecution of human smuggling, which were investigated by the Financial Crimes Task Force comprised of investigators and detectives from

the Department of Public Safety, Phoenix Police Department and Attorney General's Office. The fraudulent schemes cases involved losses to victims in the tens of millions of dollars. The Unit handled approximately 50 foreign prosecutions. All of these cases pertain to pending Arizona criminal cases against Mexican citizens who fled to Mexico to avoid prosecution.

- A Border Trafficking Team was established to prosecute cases relating to human smuggling and drug importation, especially methamphetamine produced in Mexico's so-called "super-labs." This nine-member team, comprised of investigators, prosecutors and asset forfeiture attorneys, handled the prosecution of more than a dozen coyotes under a new state human trafficking law. The team also prosecutes cases involving identity theft and false identifications. By targeting the



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Terry Goddard with award recipients at the Attorney General's Office Victims' Rights Week Commemoration in April 2006

Criminal Division (continued)

smugglers' financial underpinnings, which are vital to the smuggling operations, the team has arrested 160 smugglers; stopped more than 12,400 wire transfers; seized more than \$15 million in funds, \$3 million in vehicles and \$5 million in other property; and seized 11 used car lots and more than 400 vehicles in the Phoenix area being used by smugglers.

- The Drug Unit charged 1,049 criminal defendants. The Unit was involved in five wiretap investigations, resulting in 10 indictments of 192 defendants. The Unit also prosecuted cases involving the manufacture of methamphetamine in clandestine laboratories. A number of those cases involved the presence of children, resulting in the filing of child abuse charges against the methamphetamine manufacturers. During this fiscal year, there were 40 such child abuse victims.

- The Medicaid Fraud Control Unit received approximately 153 referrals, 57 of which were abuse/neglect cases. The Unit recovered \$201,034 for AHCCCS.
- The Tucson Criminal Trials Unit prosecuted *State v. Chisholm*. Tucson resident Maryanne Chisholm was sentenced to nearly 32 years in prison following her conviction on 58 criminal charges. The charges included 54 counts of selling unregulated securities, one count of illegally conducting an enterprise and three counts of fraud. Chisholm was also ordered to pay more than \$21 million in restitution. The case took more than four years to bring to trial, involved more than 1,100 victims (many were deaf) and took six weeks of trial. A Pima County Superior Court jury found Chisholm guilty.

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Members of the Criminal Litigation Section

Significant Prosecutions

- ***State v. Sharma***. Peter Sharma, a serial identity thief, was prosecuted in three separate cases. In the first case, he was found guilty by a jury for taking the identity of another, unlawful possession of an access device and theft. Sharma used the identity of another person to

obtain utility services and bank accounts. He received a sentence of 10 years in prison. Sharma then pled guilty to fraudulent schemes and artifices in the second case, arising out of his falsification of deeds to obtain title to a home in Anthem, which he then sold. In the third case, Sharma was convicted after a bench trial for perjury, arising out



Criminal Division (continued)

of his attempt to obtain an official name change to the name of the victim whose identity he had stolen. Sharma was sentenced to 12 years in prison for that crime.

- **State v. Kiles** (conflict case from Yuma County). Alvie Kiles was sentenced to death for a 1989 murder and to four consecutive life sentences for the murders and abuse of the victim's nine-month-old and five-year-old children. Kiles' original sentence in 1989 was reversed on appeal. This was a re-sentencing from his second trial in 2000 in which he was found guilty. Kiles was sentenced to death.
- **State v. Sanchez et al.** Eight human smugglers were arrested by DPS arising out of a long-term investigation. 63 undocumented aliens were discovered in two apartments in Mesa. Defendants were involved in various aspects of human smuggling, including receipt of

money grams, transporting of undocumented immigrants and harboring them pending their transportation out of Phoenix.

- **State v. Tolle and Gallegos.** Defendants were convicted of operating a fraud scheme that promised "green cards" to undocumented aliens. Victims, who never received legitimate green cards, paid more than \$75,000 to the schemers.
- **Suspect Indicted for Making and Selling Fake IDs.** Maria del Carmen Castejon Nava was indicted on five counts for manufacturing and selling fake identifications. Nava participated in an organization named "Marcos" and offered forged documents for sale. The indictment was the result of ongoing efforts by the Arizona Fraudulent Identification Task Force, comprised of state, federal and local law enforcement agencies.

- **Glendale Couple Indicted for Identity Theft.** Kent Young and Pamela Young were indicted on fraud and identity theft charges. Following an investigation by the U.S. Postal Service, a search warrant revealed defendants had more than 200 receipts from Ashley Furniture stores with personal identifying information of store customers, which they used to purchase items over the Internet.
- **Two Men Indicted for Producing Fake IDs.** Grant Coxon and Lloyd Berry were indicted for illegally conducting an enterprise and forgery. They took personal information and pictures and produced false identification in return for cash. A search warrant resulted in seizure of numerous false identifications and sophisticated computer equipment that included advanced software programs.

- **Scottsdale Man Pleads Guilty to Producing Fake IDs and Drug Charge.** A plea agreement was reached with Todd Van Cleave who pled guilty to one count of forgery and one count possession of narcotic drugs. Van Cleave was indicted for creating a false driver's license and selling it for profit. He also pled guilty to possession of cocaine. While a student at ASU, Van Cleave produced and distributed fake IDs, mostly to college students.
- **State v. Hommel.** Terry Hommel, who worked as chief financial officer for Heliocol Arizona, Inc., embezzled over \$2 million dollars during a five-year period. He was sentenced to 7.5 years in prison, followed by seven years of probation, and ordered to pay \$2.2 million in restitution.
- **State v. Bagby et al.** More than 10 members of a stolen credit card and drug trafficking operation were indicted. Mesa

Criminal Division (continued)

Police Officers seized more than 200 pounds of marijuana and over \$300,000 in cash, bank accounts, vehicles and a home. Defendants' operation was organized to sell marijuana and methamphetamine. Defendants also were accused of using stolen credit cards to purchase gift cards that were sold for cash.

- **State v. Cantu and Martinez.** Carmen Cantu and Francisco Martinez were sentenced to jail for their involvement in a scheme to fraudulently obtain home loans by using false and forged documents. Cantu was a real estate agent, and Martinez was a loan officer for Security Mortgage Corporation. Restitution totaled more than \$90,000.
- **State v. Ramirez.** Bernie Ramirez was convicted of several drug-dealing offenses near North Canyon High School in Phoenix. Because of his prior felony convictions, he was sentenced

to three life sentences under the "Serious Drug Offender" sentencing guidelines.

- **State v. Andrews, Pellon and Ruiz.** Defendants pled guilty to various charges of forgery and theft following an investigation revealing that they impersonated registered nurses at dialysis centers in Phoenix and Casa Grande. Defendants searched the Arizona State Board of Nursing Web site and took the identity of nurses listed. Mildreada Ruiz pled guilty to one count of theft and was sentenced to 2.5 years in prison. Melanie Andrews pled guilty to one count of forgery and received a 1.5-year prison term. Isis Pellon pled guilty to one count of forgery and was sentenced to time served and three years of probation.
- **State v. Sowles.** Charlene Sowles pled guilty to one count of theft and sentenced to 3.5 years in prison and payment of \$9,720 in restitution to two nursing home residents. Sowles, who worked for a nurse registry, stole checks belonging to two residents and made unauthorized charges on their credit cards. The victims' losses were approximately \$10,000.

- **Devil's Disciples Motorcycle Gang.** On April 4, 2003, Heather Ford, associated with the Hell's Angels, was beaten, tortured and sexually assaulted by members of the Devil's Disciples motorcycle gang of Pima County. As of June 30, 2006, eight defendants had entered guilty pleas to charges ranging from assisting a criminal syndicate/criminal street gang, kidnapping and solicitation to threaten/intimidate. All gang members physically involved in the assault were sentenced to prison terms from 7 to 9.25 years.

- **Maceo Brown.** While working as the director of Arizona Students Association, Brown was accused of diverting more than \$200,000 of public money from the organization for personal use. He then committed forgery to hide the theft. Brown awaits trial.
- **Allan Morgal.** Morgal used a Scottsdale business that imported pottery to steal approximately \$337,500 from three victims. In August 2005, he was arrested and charged. Morgal has six prior felonies. His trial is pending.
- **Joseph Briceño.** Catholic priest Briceño was indicted on May 14, 2003 on eight counts of sexual conduct with a minor and sexual abuse, and a warrant was issued for his arrest. The Maricopa County Sheriff's Office requested our assistance in locating and extraditing him from Mexico, where he fled to avoid prosecution. Working with the U.S. State Department and Mexican

Criminal Division (continued)

immigration authorities, it was determined that extradition was the best course of action. On December 16, 2005, Briceño was detained in Mexico and deported to the United States. He is awaiting trial in Maricopa County.

- **Prieto's Auto Sales.** A \$54,000 settlement agreement was obtained with this Phoenix used-car dealership relating to its sale practices. As part of the settlement, Prieto's agreed not to sell vehicles with any substantial defects, to make promised repairs before a new owner takes possession of the vehicle, to return down-payments on vehicles when customers cannot obtain financing and to comply with federal Truth-in-Lending requirements.
- **John Goodman.** Goodman was targeting the elderly, billing them for services or products never ordered nor received. He was

sentenced to six years in prison and restitution to four victims in the amount of \$437,475.

Financial Remedies

The Financial Remedies Section (FRS) employs Arizona's civil racketeering remedies to combat organized criminal conduct, focusing heavily on money laundering. FRS supports statewide efforts to deprive racketeers of the profits that give them incentive to continue operating.

Highlights

- FRS deposited \$7,252,532 in the Anti-Racketeering Revolving Fund.
- *State v. John Castle & William Castle.* Defendants defrauded two elderly men out of more than \$400,000 in a land investment scheme. Shortly after receiving the victims' money, defendants began laundering it through multiple corporations and diverting it

into other investments. The crime had a serious financial and emotional impact on the victims, nearly wiping out the life savings of one victim. William Castle was sentenced to 10 years in prison, and John Castle was sentenced to 2.5 years. FRS recovered all but a small amount of the victims' losses from the defendants.

Special Investigations

The Special Investigations Section (SIS) provides investigative support to law enforcement sections of the Attorney General's Office, as well as to law enforcement agencies across the State. SIS employs 39 Special Agents who are state-certified peace officers.

Highlights

- SIS opened 521 cases and reviewed 829 cases that did not merit investigation.

- SIS has continued to provide expertise in specialized areas of law enforcement to other agencies, providing 856 law enforcement assists, more than double the number provided just two years ago.

Office of Victim Services

The Office of Victim Services (OVS) operates within the Criminal Division to promote and facilitate justice and healing for people affected by crime in Arizona. OVS also provides financial and technical support to state, county and municipal law enforcement, custodial, prosecutorial, correctional agencies and courts.

Highlights

- OVS saw a substantial increase in the number of victims of fraud and identity theft. Advocates provided services to more than 4,718 new victims. The advocates achieved an average victim survey satisfaction rating of 3.95 (on a scale of 1-5).

Criminal Division (continued)



Diane Umphress, Executive Director for Amberly's Place, and Terry Goddard tour the family advocacy center in Yuma

- The Victims' Rights Ombudsman received and investigated 138 complaints of violations of rights and audited 32 agencies; supported 60 criminal justice agencies with funds from the Victims' Rights Program; and provided 34 training programs statewide to more than 650 professionals.
- OVS continued to serve as a leader statewide on victims' issues. Its work included organizing a weeklong Victims' Rights Week program, with the Attorney General presenting his Distinguished Service Awards to four outstanding professionals and agencies in the criminal justice field. OVS also conducted agency award

programs in Phoenix and Tucson to heighten the awareness of victims' rights.

Major efforts:

- **Baptist Foundation of Arizona.** This case, which culminated in the longest criminal trial in Arizona history, had more than 11,000 victims. A victim advocate attended court each day, provided notification letters, updated case information on the Web site and monitored the phone helpline. The victims, court staff and attorneys were extremely grateful for this important assistance.
- **State v. Young and Lopez.** OVS provided services for two major identity theft cases: Young included 265 victims and Lopez had 679 victims. The victim advocate attended court hearings with victims and

provided written notifications about the cases to each victim.

- **State v. Chisholm.** This fraud case involved 1,100 victims. Most of the victims were hearing-impaired and in financial ruin after this crime. The victim advocate escorted victims to court during the six-week trial and provided them with case information and special listening equipment. The victim advocate received many letters of gratitude from the victims.

Public Advocacy Division

Susan Segal
Division Chief Counsel



Mission:

To use the discretionary power of the Office of the Attorney General to pursue those who prey upon the public and threaten the economic and environmental well-being of Arizonans.

The Public Advocacy Division is made up of the Consumer Protection and Advocacy Section and the Environmental Enforcement Section.

Consumer Protection and Advocacy Highlights

California Alternative High

School. Students were promised that they would receive all of the benefits of a traditional four-year degree if they completed the 10-week high school program. In fact, the students were left without a legitimate degree. The consent judgment required the defendants to pay \$80,000 in penalties, restitution and fees.

Kirby Vacuum. Lawsuits against two local distributors of Kirby Vacuum were settled. The distributors went to the homes of elderly consumers and would not leave until a vacuum was purchased. Some of the consumers were

disabled and could not even use the vacuum. Consumers felt threatened and purchased the vacuums to get the distributors to leave. The judgments called for \$64,600 in restitution, penalties and fees.

Notario Cases. The Attorney General settled cases with two document preparers who used the word “notario” in advertisements. This word can only be used by a non-attorney if the advertisement contains an anti-fraud disclaimer that the notary is not an attorney. The word “notario” means attorney to native Spanish speakers. Each document preparer was required to pay \$5,000 in costs and fees.

Automotive Extended Warranties. A dealer for an insurance administrator sold extended automotive warranties over the telephone and Internet.

The dealer pocketed the money and failed to send the premium payments to the insurance company. Consumers were left without coverage. The dealer will pay \$120,000 in restitution and \$50,000 for costs and fees.

Liberty League International.

The defendants marketed “personal development” products through a multi-level distribution model. Consumers were promised sizeable commissions for purchasing the products and selling the products to individuals they recruited into the program. The majority of consumers spent sizeable amounts of money but never earned any income. The case was settled with a consent judgment that precludes defendants from violating the Consumer Fraud Act and the Pyramid Promotional Scheme Statute. The defendants will pay

Public Advocacy Division (continued)

restitution and \$115,000 in penalties, costs and fees.

Smart Advertising Solutions.

The company advertised business opportunities claiming that consumers can earn sizeable amounts of income. In fact, consumers made little, if any, income. Senior citizens were the primary target. The Consent Judgment prohibits the company from making representations regarding income unless the company can document a representative number of

consumers who have earned the income. The company also paid \$250,000 in penalties, costs and fees.

Popular Leasing, Inc.

NorVergence fraudulently sold telecom equipment (the "matrix black box") and services to reduce telecom costs to small businesses and non-profits nationwide. Popular Leasing, Inc. purchased the "leases" for the equipment and tried to collect on the debt from the defrauded consumers. The Attorney General reached a

settlement resulting in \$207,215 of potential debt forgiveness for nine Arizona business consumers.

Paxil. The Attorney General, along with 48 other states, sued GlaxoSmithKline ("GSK") for anticompetitive conduct regarding its patented drug Paxil. GSK was able to prevent generic competition for Paxil by obtaining frivolous patents and engaging in sham patent infringement litigation. The states settled their claims against GSK for \$14 million. Arizona's share of the settlement proceeds was approximately \$129,000.

Augmentin. The Attorney General reached a multistate settlement with GlaxoSmithKline ("GSK") for its anticompetitive conduct regarding its patented drug Augmentin. GSK was able to prevent generic competition for

Augmentin by obtaining fraudulent patents and instituting sham litigation to protect them. The states settled their claims against GSK for \$3.5 million. Arizona's share of the settlement proceeds was approximately \$70,000.

Tobacco. During FY06, 2,710 compliance checks were conducted in all counties throughout Arizona, an increase of over 53 percent from the previous year. As a result of the compliance checks, 273 citations were issued.

Community Services Program.

The Attorney General's Community Services Program continued to provide educational programs focusing on preventing consumer fraud and protecting civil rights and victims' rights.



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Terry Goddard with volunteers from the Community Services Program

Public Advocacy Division (continued)

Over 300 presentations or information booths provided Arizonans with valuable educational materials. Almost 75,000 brochures and other items were distributed.

The Community Services Program utilizes partnerships with community-based agencies to house satellite offices around the State at no cost. The number of satellite offices grew from 8 to 22 in the past year. Over 170 volunteers staff these offices. The satellite offices received more than 200 consumer and civil rights complaints.

In addition to the satellite offices, the Fraud Fighter Van made it possible for staff to be in every corner of the state. Over one September weekend, staff were in Yuma, the Yavapai County Fair, Safford, the Greenlee County Fair and at a Tucson shred-a-thon.

The Community Services Program also monitors the Elder Affairs telephone line, with over 1,300 calls received. The Program also distributed 2,200 Life Care Planning documents.

Environmental Enforcement Section (EES)

EES provides advice, enforcement and representation regarding state and federal environmental and natural resources law. EES has four components:

- **The Civil Unit** advises, represents and litigates on behalf of the Arizona Department of Environmental Quality (ADEQ) for various programs in ADEQ, including water quality, safe drinking water, hazardous waste and solid waste, as well as waste management practices.

- **The Air, Underground Storage Tanks and Agriculture (AGUA) Unit** advises, represents and litigates on behalf of ADEQ's air and UST programs, the Arizona Game and Fish Commission, and Arizona Department of Agriculture, as well as other state agencies and boards.

- **The Superfund Programs Unit** advises, represents and litigates on behalf of ADEQ involving matters arising under state and federal Superfund laws.



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*Terry Goddard with Pinal County Attorney
Carter Olson at the opening of the Pinal County
Attorney General's satellite office*

Highlights

- **Pima County Wastewater Management.** This case was settled in the summer of 2005 with a negotiated \$600,000 penalty, completion of \$1 million improvement project to the wastewater system and completion of significant injunctive relief. Since that time, Pima County has completed all of its obligations under the Consent Decree. During the time Pima County was completing its obligations, it experienced four sanitary sewer overflows, each of which resulted in a discharge of more than 2,000 gallons of sewage to waters of the United States. Pima County paid the State \$20,000 in stipulated penalties under the Consent Decree.

- **Heritage Environmental Services.** In February 2006, Heritage Environmental Services entered into a settlement agreement to resolve state law violations at its hazardous waste treatment, storage and disposal facility in Coolidge. Between January 2002 and February 2003, ADEQ issued Notices of Violations to the company for failing to have a fire suppression system with adequate volume and pressure. Water pressure and volume were so low that any fire would have been uncontrollable, which placed the surrounding residential community at risk. In 2004, Heritage installed an improved fire suppression system. In 2006, the company agreed to pay \$166,637 in penalties and further improvements to its facility.

- **LifeSmarts.** Each year the Arizona Attorney General's Office and the National Consumers League sponsor LifeSmarts, a nationally recognized consumer education program for high school students.

The program encourages young people to learn about common consumer issues. The competition is open to teens in grades 9 through 12. Contestants participate in the competition via the Internet and are tested in

five areas: personal finance; consumer rights and responsibilities; health and safety; technology; and the environment.

During FY2006, nine Arizona teams completed the online competition, and the winner was the Flagstaff Home Educators. The Flagstaff students went on to represent Arizona in the National Competition held in Philadelphia and finished among the top five teams.



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Terry Goddard with the 2005-2006 Arizona LifeSmarts winners, Flagstaff Home Educators

that included operating as an illegal treatment, storage and disposal facility, and illegally transporting hazardous waste. The case settled for \$115,000 in civil penalties.

- **El Paso Natural Gas**

Company. El Paso conducted a 21-mile pipeline renovation project in violation of state and federal asbestos regulations. The company entered into a Consent Judgment that included penalties in the amount of \$225,000 and injunctive relief.

- **North American Sleek Craft.**

This Lake Havasu boat manufacturer operated without an air quality permit. The manufacture of these boats results in the emission of styrene, requiring a Class I air quality permit. EES successfully negotiated the terms of a Consent Judgment that included penalties in the amount of \$75,000.

emissions of hazardous air pollutants at its facility.

- **Nordic Boats.** This Lake Havasu boat manufacturer operated without an air quality permit. The manufacture of these boats results in the emission of styrene, requiring a Class I air quality permit. EES successfully negotiated the terms of a Consent Judgment that included penalties in the amount of \$94,000.

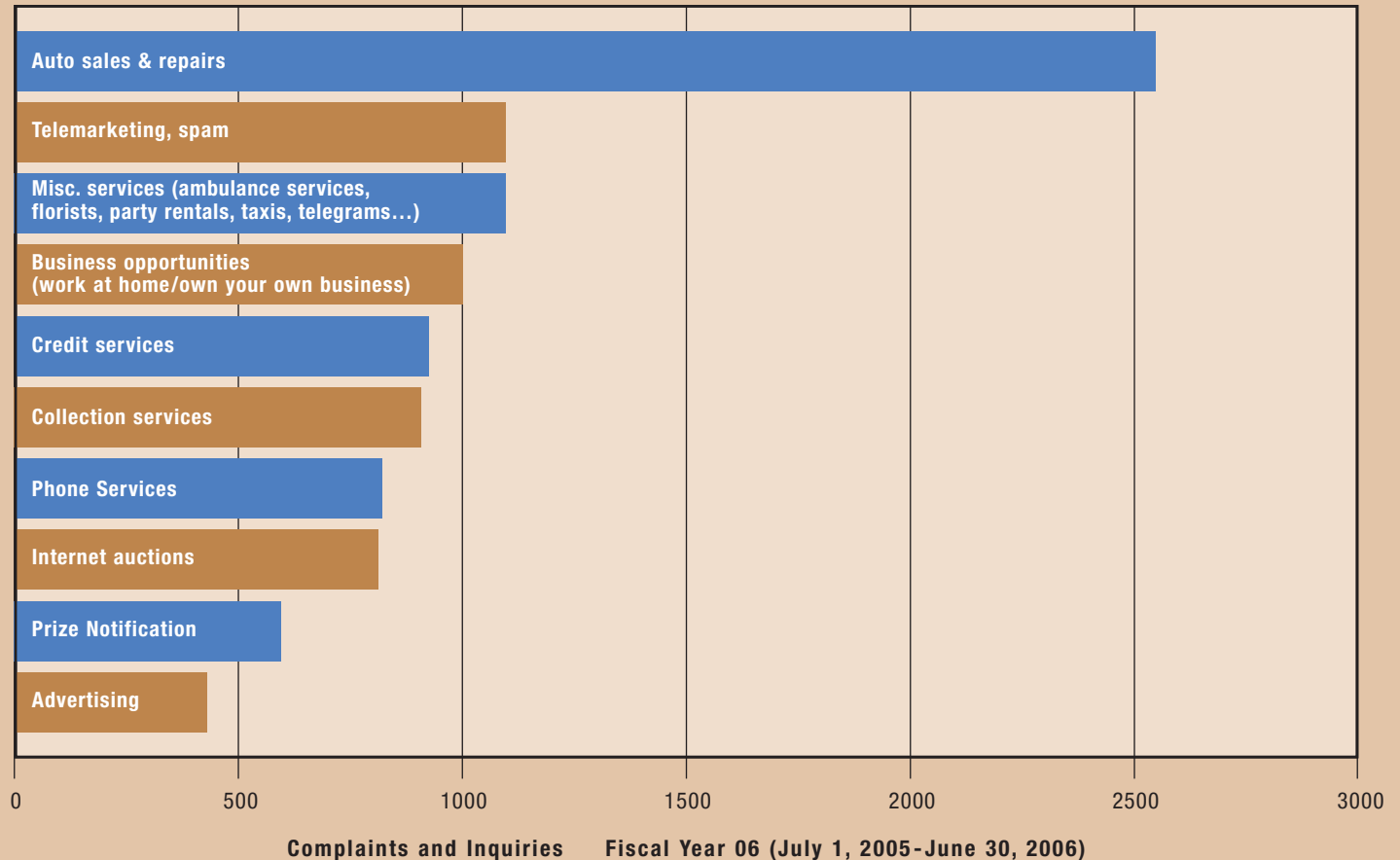
Consumer Complaints

More than 25,000 Complaints Filed

The Attorney General's Consumer Information & Complaints (CIC) Unit received 25,124 consumer complaints in fiscal year 2006. For the fourth consecutive year, car sales and repair services ranked as the No. 1 complaint filed.

Each complaint is reviewed by a CIC staff member. Many complaints result in enforcement actions against companies or merchants under the Arizona Consumer Fraud Act. The Office is prohibited by law, however, from giving individual consumers legal advice.

Consumer fraud, as defined by Arizona law, is any deception, false statement, false pretense, false promise or misrepresentation made by a seller or advertiser. Persons who believe they have been victims of consumer fraud



should first contact the company in writing and request the relief thought to be appropriate.

Consumers can file an online complaint with this Office by

visiting www.azag.gov or by calling 602-542-5763 in Phoenix, 520-628-6504 in Tucson, or 1-800-352-8431 outside the two metro areas.

Solicitor General's Office

Mary O'Grady
Solicitor General



Mission:

The Solicitor General's Office is committed to excellence, fairness and integrity, and provides leadership in appeals, elections, ethics, independent advice and legal opinions.

Major efforts included:

- **Authority of the Clean Elections Commission.**

Successfully defended the authority of the Citizens Clean Elections Commission to remove a legislator, Rep. David Smith of Scottsdale, from office for violating the requirements of the Clean Elections public campaign financing program (*Smith v. Clean Elections Commission*).

- **Mandatory Service as Arbitrators.**

Successfully defended the constitutionality of the requirement that attorneys licensed in Arizona serve as arbitrators. An appeal concerning various federal constitutional issues is pending in the Ninth U.S. Circuit Court of Appeals (*Scheele v. Arizona Supreme Court*).

- **Laws Governing Petition Circulators and Independent Candidates for President.**

Successfully defended the State in a lawsuit challenging the constitutionality of laws requiring petition circulators to be residents of Arizona and laws establishing the filing deadline for independent candidates for president. An appeal is pending (*Nader v. Brewer*).

- **Supporting States in Lawsuit Against Federal Government.**

Filed an amicus brief in the U.S. Supreme Court supporting a lawsuit filed by other states challenging the constitutionality of the “clawback” provision in federal Medicaid legislation (*Texas v. Leavitt*).

- **Ensuring Quality of the State's Appellate Practice.**

The Solicitor General's Office continued its work preparing,

reviewing and editing briefs for state and federal appellate courts. The Solicitor General's Office reviewed more than 331 briefs and coordinated 23 moot courts in the past fiscal year.

- **Enforcing Arizona's Campaign Finance Laws, Lobbyist Reporting Requirements and Financial Disclosure Requirements for Public Officials.**

The lawyers in SGO handled 115 matters referred by the Secretary of State relating to campaign finance and election law requirements, lobbyist reporting and public official financial disclosure. SGO attorneys also reviewed and advised the Clean Elections Commission regarding 27 enforcement matters and represented the Commission in the administrative appeals of its decisions.

Solicitor General's Office (continued)

- **Complying with the Federal Voting Rights Act.** Lawyers in SGO obtained preclearance from the U.S. Department of Justice of all bills affecting voting that the Legislature enacted during the First Regular Session (2006). They successfully received preclearance before the general effective date of the bills.
- **Legal Education to Assistant Attorneys General.** The Continuing Legal Education Committee, coordinated through the Solicitor General's Office, presented more than 22 programs on ethics, administrative law, constitutional law and other issues that relate to the Attorney General's Office. The most significant program was a week-long trial practice program for selected attorneys throughout the Office. The faculty included



lawyers from other Attorneys General offices, as well as lawyers from our Office and Superior Court judges. This comprehensive program provided a unique opportunity for lawyers to improve their skills as trial attorneys.

Terry Goddard joins assistant attorneys general during a trial practice seminar in Oct. 2005

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