

**STATEMENT OF FRANK MUSCATO
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WAL-MART STORES, INC.
BEFORE THE
FIELD HEARING ON ORGANIZED RETAIL THEFT:
CONDUIT OF MONEY LAUNDERING
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY,
AND HUMAN RESOURCES**

November 10, 2003

Good morning, Mr. Chairman and members of the Committee. My name is Frank Muscato and I am an investigator for Wal-Mart Stores, Inc. (Wal-Mart) on the company's Investigative Task Force (ITF). One of my duties is investigating organized crime as it pertains to retail theft. I currently work for Wal-Mart based out of Bloomington, Indiana. Wal-Mart is located in Bentonville, Arkansas. Wal-Mart is the nation and world's largest retailer, with facilities in all 50 States and 10 countries. Wal-Mart operates more than 2,900 discount stores, Supercenters, Neighborhood Markets and more than 530 SAM'S CLUBS in the United States. Internationally, the Company operates in Argentina, Brazil, Canada, China, Germany, Korea, Mexico, Puerto Rico and the United Kingdom. Wal-Mart also owns a 31% interest in Seiyu in Japan with options to purchase up to 66.7% of that company. Wal-Mart currently employs more than 1 million associates in the United States and more than 300,000 internationally.

Wal-Mart's ITF was formed in 1992 as a result of a growing trend of thefts that appeared to be for something other than personal use. The ITF is comprised of investigators possessing extensive loss prevention and/or law enforcement experience. The ITF investigators live in different parts of the country and conduct investigations involving multi-jurisdictional areas. The ITF works a variety of cases but most of their caseload involves organized crime as it pertains to retail theft.

According to a recent FBI study, retail representatives conservatively estimate that grocery, drug and discount chains lose approximately 4% of earnings from gross sales due to theft. Retail businesses experience losses greater than \$30 billion annually due to theft. These thefts include internal and external theft, and cargo theft. External thefts are those thefts committed by shoplifters (individuals who steal property for their personal use) and boosters (individuals who steal property with the intent to sell that property). The stolen property is then sold to a property fence (someone who knowingly buys stolen property).

Professional thieves (referred to as boosters) involved in retail theft offenses are sophisticated and usually are well-organized "professionals" who travel city-to-city and state-to-state committing these offenses. The attached flow chart will show boosters move the property through the first level property fence, also referred to as a street fence. Street fences will have a number of boosters from whom they purchase stolen property. The going rate for the first level of fenced property is 20-30 cents on the dollar. A street fence can be a small business, pawnshop, swap shop, residence, or in many cases a person or persons who meet the boosters in specified areas to purchase the stolen property. The street fence then moves that property on to a "middleman". The "middleman's" responsibility is to take the property and separate out the near-dated or slightly damaged product. The product that is in perfect condition is moved from the "middleman" to a repack warehouse. The property that is not in perfect condition is generally moved through a flea market or sold to other property fences. At the repack warehouse, the property is packed in counterfeit boxes and moved from the repack warehouse through a redistribution warehouse and sold back to retailers. Retailers buying this product generally do not know that they are purchasing property that has been stolen and repacked.

External theft in the retail industry appears to be growing at an alarming rate. Investigations and apprehensions substantiate that retailers experience an exorbitant amount of theft by organized retail boosters. Through recent organized retail theft investigations involving local, state and federal authorities, we have identified a number

of organized groups that target specific products. Following is a brief description of some of these ongoing organized retail theft investigations.

There are organized groups targeting inkjet cartridges. Through investigations, we have determined that members of these groups have entered our country illegally from South America. These groups have boosted millions of dollars in inkjet cartridges from retailers throughout the United States. Our investigations also indicate that some of the cartridges are being sent to South America, sold on auction sites such as E-bay, and repackaged and sold to retailers.

Several crime groups are identified with the theft, repacking, and redistribution of infant formula throughout the country. In addition to the illegal aspect of these thefts, there are numerous safety concerns with the integrity of infant formula. These groups have very little concern with the controls needed for this product. During a recent Texas investigation, a warehouse infested with insects and rodents was discovered where stolen infant formula was stored.

Investigations are continuing with groups stealing, repacking and redistributing DVD's. Some of the cases that we have tracked involve DVD's being resold at flea markets. This is a very hot item among boosters because property fences pay 20-30 cents on the dollar for most stolen property but up to 50 cents on the dollar for DVD's.

Other organized groups travel throughout the nation stealing diabetic test kits. These test kits sell for \$70 to \$100 each in retail establishments and are small and easily concealed. These test kits are very profitable to boosters and are desirable to fencing operations where the product is moved into the repack cycle.

There are large organized groups stealing over-the-counter medications, such as Tylenol, Advil, Sudafed, etc. While traveling, many of these groups use various shipping or mail services to ship the stolen retail property to their property fences.

The property fences separate the merchandise, segregating product that is in perfect condition and shipping that product to repack warehouses. The ITF has worked cases on property fences and repack warehouses where the property has been shipped from North Carolina to New York City, South Carolina to Maryland, Florida to Ohio, Florida to Texas, Texas to California, Texas to Ohio, Texas to New York, Arizona to California, Arizona to Massachusetts, and Arizona to New York and New Jersey.

There are ongoing investigations of stolen property discovered at flea markets throughout the country. Although there may be very few vendors in a flea market who sell stolen property, these vendors have the ability to move an enormous amount of stolen property through these markets. This is not to say that flea markets are involved with stolen property. It is just a few vendors in some flea markets.

The above briefly summarizes some of the many diversified organized retail theft groups that travel throughout the country. Many other targeted products such as computers, sewing machines, sporting goods, health and beauty aids, electronics, and others, are not mentioned above.

Because state laws are often soft and there is a lack of federal laws addressing the issue, retail theft has become a high profit-low risk avenue of crime.

The types of retail theft techniques used by professional boosters are extremely diverse and there are a variety of methods used to boost product without detection. As retailers move forward by installing complex and expensive video equipment, tracking devices and theft detection systems, boosters develop new ways to defeat them. Retailers continuously provide training to loss prevention/security personnel to address methods used by professional boosters. Retailers also work with federal and state associations and law enforcement across the country to better laws that affect retail theft.

A recent Texas investigation involved a Task Force organized through the State WIC Advisory Board. This Task Force consists of local, state and federal WIC Agency personnel; local, state and federal law enforcement; retailers and retail associations; and manufacturers. The investigation carried out between the months of March and July 2003 resulted in indictments and subsequent arrests of numerous individuals. The scheme involved the theft-for-resale of infant formula. As a result of what has been accomplished in the State of Texas to impact fencing operations and repack operations, research indicates a 40% reduction in our infant formula losses in Texas since March 2003. In the scope of retail theft, this is an exceptional number. It validates that this system works.

Senate Bill 1553, the Federal Organized Retail Theft (ORT) bill, specifically targets the types of retail theft explained above. The ORT bill targets organized groups of boosters and those who knowingly buy, move and sell stolen property. State laws are often soft and jurisdictional issues cause problems, which do not adequately deal with sophisticated organized retail theft. This bill is good for retailers and good for consumers. It would have a positive impact on organized retail theft investigations and save millions of dollars for consumers.

Attachment: Flow Chart showing flow of stolen merchandise