

Lawmakers seek Heath case audit

FRAUD: They want to know how a state agency handled complaints about the investment firm.

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By DEVONA WELLS / The Press-Enterprise

A joint committee of the state Legislature will consider next week whether the California Department of Corporations should be scrutinized for its handling of the D.W. Heath & Associates case.

Assemblyman Ron Calderon, D-Montebello, and Sen. Jackie Speier, D-San Francisco, have asked that the department be audited in response to a Press-Enterprise investigation that revealed Heath & Associates continued raising money after the department ignored investor complaints.

Both legislators chair banking and finance committees that oversee investment law.

Firm President Daniel Heath and three others remain jailed on charges of grand theft and securities fraud as part of Riverside County's largest-ever fraud case. All four have pleaded not guilty.

The committee will meet Wednesday afternoon in Sacramento to consider the request, which is thick with detailed questions. The request asks how the Department of Corporations tracks its investigations, who does them and how the department determines whether a case is passed on to a district attorney for criminal prosecution.

Speier, who also sits on the committee to consider the request, said by phone Friday that an audit would hold the department accountable.

"What is the point of having a Department of Corporations if they don't do their job?" she said.

Department spokeswoman Susie Wong said Friday: "That audit request is under review, and we're not going to comment prior to the hearing."

In 1998, the department ordered Heath to stop acting as a broker and to halt the sale of investments because they were not registered with the state, as required. He didn't. Ultimately, authorities say, Heath raised investors as the state let complaints pile up and didn't follow up evidence uncovered by its own investigators.

By the end of 2003, the investigators were gone, with all 14 positions lost during state budget cuts.

After investigators left, the number of criminal referrals declined from 27 in 2002 to zero in 2004. The number has since rebounded to 16 this year, Wong said. But these referrals don't include some work, such as search warrants, investigators once did.

Investor Paul Hering said Friday he'd like to know why the Department of Corporations never let investors know it had told Heath to stop selling investments. The department now posts such orders on its Web site.

Hering and his wife, Ruby, gave Heath & Associates \$240,000, much of it after the 1998 state order.

"I think there needs to be a light shined on the state and its failure to do things," said Hering, who lives in a Lake Forest mobile-home park.

To move ahead with an audit, four committee members from the Senate and Assembly would have to vote in favor of one. Seven members sit on each committee.

Investigation

Investment firm Heath & Associates raised at least **\$192 million** from more than 1,600 investors.

Source: Robb Evans & Associates.