

INTEREST

INVESTIGATIONS MAGAZINE 2017

OFFICE OF INSPECTOR GENERAL

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM & CONSUMER FINANCIAL PROTECTION BUREAU



MESSAGE FROM THE INSPECTOR GENERAL



I am very pleased to launch the inaugural issue of *Interest* magazine, which spotlights the significant investigative work conducted by our special agents in the Office of Investigations.

Our mission is to prevent and detect fraud, waste, and abuse within Board and CFPB programs and operations. While our special agents are on the front lines conducting this work, their roles and the impact of their investigations often go unnoticed. With *Interest* magazine, we hope to change that. This issue highlights their recent work to bring to justice bank executives who fraudulently purged bank

records, individuals who kept customers' money through a bogus loan modification scheme, and more. Future issues will cover other investigative activities of our office to help educate and inform our stakeholders and the general public about our work.

My thanks to our entire Office of Investigations staff for their dedication and tireless effort to root out fraud, waste, and abuse within the Board and the CFPB.

Mark Bialek was appointed Inspector General for the Board and the CFPB on July 25, 2011. He has more than 33 years of experience in the Inspector General community, including serving as the Deputy Inspector General for the U.S. Environmental Protection Agency, Counsel to the Inspector General at the U.S. Environmental Protection Agency, Deputy Counsel to the Inspector General for the U.S. Department of State, Associate Counsel to the Inspector General for the U.S. Department of Commerce, and Chairman of the Council of Counsels to the Inspectors General.





MESSAGE FROM THE ASSOCIATE INSPECTOR GENERAL FOR INVESTIGATIONS

I am proud to introduce the first edition of *Interest*, the magazine for our Office of Investigations. We hope the magazine will provide some transparency into the world of investigative operations within the OIG. We aim to focus on interesting and unique aspects of our mission to investigate criminal activity and misconduct that affects the Board's and the CFPB's ability to supervise and regulate the financial community. We also hope that, along with our semiannual reports to Congress, this magazine will provide the public with

greater insight and understanding of the role and responsibility of the Office of Investigations in combating fraud, waste, and abuse within the programs and operations of the Board and the CFPB. To the extent possible, we will provide a behind-the-scenes look at the corps of federal agents at work within our OIG, the overall OIG community, and the federal law enforcement arena in general. To our staff, stakeholders, and the public at large: We are looking forward to feedback and recommendations for future topics of interest to you, and we hope that *Interest* contributes to an informed public. Enjoy.



As the Associate Inspector General for Investigations, Lawrence Valett oversees criminal, civil, and administrative investigations related to the programs and operations of the Board and the CFPB. He has 26 years of federal law enforcement experience, including serving as the Assistant Inspector General for Investigations at the Export-Import Bank of the United States, Director of Financial Fraud at the U.S. Environmental Protection Agency OIG, and Special Agent with the Resolution Trust Corporation and the U.S. Naval Criminal Investigative Service.



CONTENTS

2

4

6

9

17

18

STRENGTHENING BOARD & CFPB OPERATIONS

OUR INVESTIGATIVE STAFF

CASE HIGHLIGHTS

CRIMINAL JUSTICE

BREAKING BINARY:

INSIDE THE ELECTRONIC CRIMES UNIT

LAW ENFORCEMENT BEYOND BORDERS



STRENGTHENING BOARD & CFPB OPERATIONS

We provide independent oversight of the Board and the CFPB. Our work—audits, investigations, and other reviews—promotes economy, efficiency, and effectiveness and prevents and detects fraud, waste, and abuse in the programs and operations of the Board and the CFPB. We have overseen the Board since 1987 and the CFPB since 2010.

Our investigative work focuses on allegations of wrongdoing relating to the Board's and the CFPB's programs and operations, generally concerning

- employees of the Board and the CFPB and those conducting supervision and other activities pursuant to delegated authority from the Board
- contractors of the Board and the CFPB
- entities supervised by the Board and the CFPB, where such wrongdoing affects the economy, efficiency, or effectiveness of the agencies' programs.



Investigations can be criminal, civil, or administrative in nature.

PROCESS OF INVESTIGATION

1



COMPLAINT EVALUATION

PRELIMINARY INVESTIGATION

2



3



FULL INVESTIGATION

PROSECUTORIAL OR ADMINISTRATIVE REFERRAL

4



Our investigative caseload typically involves

- violations of federal laws, rules, and regulations relating to Board and CFPB programs and operations
- ethics violations or conflicts of interest by Board or CFPB officials
- employee misconduct, such as abuse of authority or misuse of position
- contract and procurement irregularities related to Board or CFPB programs and operations
- theft or abuse of Board or CFPB property
- purchase card or travel card fraud
- waste or mismanagement of funds or government resources
- obstruction, misrepresentation, or false information provided to agency supervision staff, including Federal Reserve Bank examiners who execute the day-to-day work of financial institution supervision under delegation from the Board

Investigations can be criminal, civil, or administrative in nature. Criminal cases are potential violations of law for which the penalties may include fines or incarceration, for example, a bank executive who obstructs the examination process or falsifies numbers or other information reported to Reserve Bank supervision employees.

Civil cases generally involve potential violations of law for which the federal government's remedies include the ability to recover monetary damages from the wrongdoer, for example, a contractor who submits a false claim, such as billing an agency for work that was never performed.

Administrative cases typically involve agency employees whose potential misconduct may have violated a federal regulation or agency policy, for which penalties may involve administrative discipline. An example would be an employee who uses their government travel card in a manner that violates agency policy.

The OIG, however, does not investigate violations of federal banking and consumer financial regulations, which is a program responsibility of the Board or the CFPB.

We often work closely with the U.S. Department of Justice, the Federal Bureau of Investigation, and other law enforcement agencies. Investigative findings may be referred to the U.S. Department of Justice for criminal prosecution or civil litigation or to the Board or the CFPB for administrative discipline or other actions.

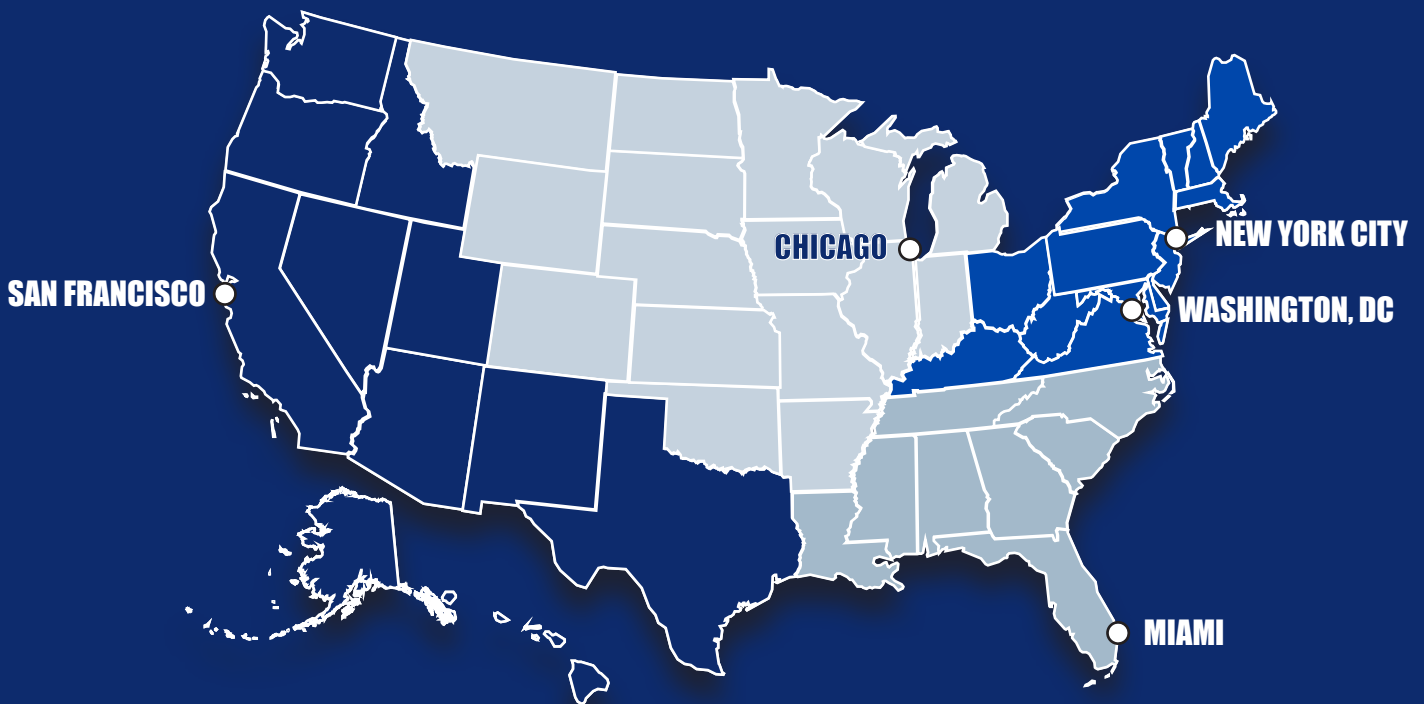


Trusted oversight of the Board and the CFPB.

»» OUR INVESTIGATIVE STAFF

Our investigative team includes about 30 federal agents, forensic analysts, technical specialists, and support staff. They have a broad range of experience, including investigating complex financial fraud, white-collar crime, economic crime, bank fraud, money laundering, and regulatory criminal violations. Our agents

are law enforcement officers with authority granted by the U.S. Attorney General to carry firearms, make arrests, and execute warrants for search and seizure. The Office of Investigations is headquartered in Washington, DC, and has field offices in Chicago, Miami, New York City, and San Francisco.





CASE HIGHLIGHTS

Watch for updates in each issue.

Theft of Confidential Information: Former Federal Reserve Bank of New York Examiner and Former Goldman Sachs Associate Pleaded Guilty to Theft of Confidential Information from the Federal Reserve Bank of New York

False Statements: Former Federal Reserve Bank Examiner Sentenced for Making False Statements Within Jurisdiction of the Board and the FDIC

Theft, Obstruction, and Fraud: Former President and CEO of Farmers Exchange Bank Charged With Theft of \$500,000, Obstruction of Examination of Financial Institutions, Bank Fraud

False Bank Entries: Former Stearns Bank Official Sentenced to 30 Months' Imprisonment and Ordered to Pay \$13 Million in Restitution for Making False Bank Entries



Aggravated Identity Theft: Former Owner of Mortgage Relief Assistance Business Sentenced to 70 Months and Over \$236,000 in Restitution for Mail Fraud and Aggravated Identity Theft

INVESTIGATIVE ACCOMPLISHMENTS

OCTOBER 2015–SEPTEMBER 2016



38 CASES OPENED

MATTERS FOR PROSECUTORIAL CONSIDERATION **16**



27 CASES CLOSED

INDICTMENTS **6**



HELP FIGHT FRAUD, WASTE, AND ABUSE.

WHAT SHOULD I REPORT?

Anyone can report allegations of fraud, waste, abuse, mismanagement, or criminal activity relating to the programs or operations of the Board or the CFPB. Examples of the types of activities to report include

- » violations of federal laws, rules, and regulations relating to Board and CFPB programs and operations
- » violations of laws, rules, or regulations that compromise or impact the supervisory programs of the Board or the CFPB
- » ethics violations or conflicts of interest by Board or CFPB officials
- » employee misconduct, such as abuse of authority or misuse of position
- » contract and procurement irregularities related to Board or CFPB programs and operations
- » theft or abuse of Board or CFPB property
- » travel card or purchase card fraud
- » waste or mismanagement of funds or government resources

We are unable to intervene in or investigate individual consumer complaints against institutions or other entities supervised by the Board or the CFPB.

WILL I BE PROTECTED?

We will not disclose the identity of an employee who comes forward with a complaint or information. In rare circumstances, however, disclosure may occur if it is unavoidable during the course of an investigation. Nonetheless, Board and CFPB employees are protected from reprisals or retaliation for reporting a complaint or disclosing information to us.

HOW DO I REPORT IT?



oig.federalreserve.gov



800.827.3340



202.973.5044



OIGHotline@frb.gov

**MAKE A
DIFFERENCE.
HELP FIGHT
FRAUD, WASTE,
AND ABUSE.**

HOTLINE

OFFICE OF INSPECTOR GENERAL
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
CONSUMER FINANCIAL PROTECTION BUREAU
1.800.827.3340 | OIGHotline@frb.gov



The \$1.5 million default was purged to prevent any additional regulatory scrutiny when Onebanc was soliciting over \$10 million in federal funding.

 **CRIMINAL JUSTICE****Former Onebank Senior Executive Vice President Pleaded Guilty to Misprision of a Felony**

A former Senior Executive Vice President at One Bank & Trust, N.A., doing business as Onebank, pleaded guilty to misprision of a felony. The defendant was also a Director at One Financial Corporation, which is the bank holding company for Onebank and is regulated by the Board. The defendant was also on Onebank's Loan Committee and Executive Loan Committee.

The defendant recommended approval of a \$1.5 million line of credit for someone the defendant knew. The defendant then arranged for other Onebank senior executives to approve this line of credit without it going through the formal approval process of Onebank's loan committee. When the \$1.5 million line of credit went into default, the defendant worked with other senior bank executives and made false bank entries in order to hide the default from federal bank regulators. Onebank's records were changed to show that the debt had been paid off, when in fact it had not been. The \$1.5 million default was intentionally and fraudulently purged from the Past Due report sections in Onebank's Call Reports to prevent any additional regulatory scrutiny during a time when Onebank was soliciting over

\$10 million in funding from the Troubled Asset Relief Program.

This case was the result of a joint investigation by the Board-CFPB OIG, Internal Revenue Service–Criminal Investigation, the FBI, the FDIC OIG, the Office of the Special Inspector General for the Troubled Asset Relief Program, and the U.S. Attorney's Office for the Eastern District of Arkansas.

Former Manager of Car Dealerships Sentenced for Loan Fraud

A former manager of car dealerships was sentenced to 54 months in prison and ordered to pay restitution of \$994,654 and to forfeit \$1,493,925 in property. From December 2008 to January 2013, the former manager knowingly provided false and fraudulent information and documentation to financing companies with the intent to fraudulently obtain automobile loans on behalf of customers. As part of the scheme, the defendant submitted false loan applications containing misrepresentations concerning the true customers' identity, assets, income, and employment, as well as features of the automobiles purchased. In one instance, the false supporting documentation included a fake income letter purportedly from the Federal Reserve Pension Fund.



WE INVESTIGATED THIS MATTER IN PART TO DETERMINE WHETHER ANY MISREPRESENTATIONS WERE MADE IN AN EFFORT TO OBSTRUCT THE AGENCY'S ENFORCEMENT PROGRAM.

The defendant previously pleaded guilty to one count of wire fraud and one count of aiding and abetting the filing of a false individual income tax return.

This case was investigated by the United States Secret Service, Internal Revenue Service–Criminal Investigation, and the Board-CFPB OIG, with prosecutorial support by the U.S. Attorney’s Office for the Northern District of Illinois, Eastern Division.

Former Owner of Loan Modification Company Sentenced

The former owner of Modify Loan Experts, LLC, was sentenced to five years’ probation and ordered to serve 500 hours of community service. This sentence followed a guilty plea by the defendant and his company, Modify Loan Experts, LLC, with the Michigan Attorney General’s Office to one felony count of false pretenses with intent to defraud; six misdemeanor counts of attempted debt management act violations; and seven misdemeanor counts of Credit Services Protection Act violations. The defendant also pleaded guilty to one misdemeanor count of unemployment compensation fraud and agreed to pay \$125,000 in restitution. The CFPB supervises mortgage service providers, unless such services are provided by a law firm. The Board-CFPB OIG investigated this matter in part to determine whether any misrepresentations were made in an effort to obstruct the agency’s enforcement program.

The defendant and Modify Loan Experts, LLC, made false and fraudulent communications when marketing and selling loan modification and debt reduction services in order to obtain money from customers, including promises that an attorney would represent the customers and negotiate with mortgage companies on their behalf and that funds received from debt consolidation

customers would be held in an escrow account and be used to negotiate with credit card companies. An attorney did not negotiate with the banks on customers' behalf, however, and the defendant kept customers' money.

This case was investigated by the Federal Housing Finance Agency OIG and the Board-CFPB OIG, with prosecutorial support from the Attorney General's Office for the State of Michigan.

Former Employee at the Federal Reserve Bank of Chicago Sentenced for Stealing Sensitive and Confidential Documents

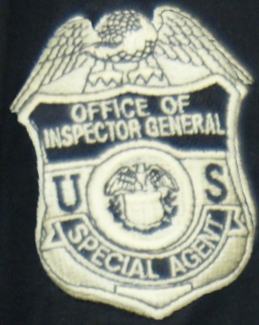
A Senior Supervision Analyst at the Federal Reserve Bank of Chicago was sentenced to six months' home confinement, two years' probation, and a \$20,000 fine after admitting to stealing sensitive and confidential documents from the Reserve Bank.

The defendant was in discussions to take a new job outside the Federal Reserve Bank of Chicago when he printed a confidential Federal Reserve document from his work computer and took it home. After accepting the new job, the defendant printed an additional 31 confidential Federal Reserve documents from his work computer and brought those home, as well as taking

3 other proprietary Federal Reserve documents on his last day at the Reserve Bank.

When confronted by federal agents, the defendant initially denied taking the confidential documents, but he later turned over some of the stolen documents and told the agents he had shredded the remaining documents after his first interview with them. The defendant pleaded guilty to bank robbery and incidental crimes and was also prohibited from directly or indirectly participating in the affairs of any United States financial institution for at least 10 years.

This case was investigated by the FBI and the Board-CFPB OIG, with prosecutorial support from the U.S. Attorney's Office for the Northern District of Illinois.

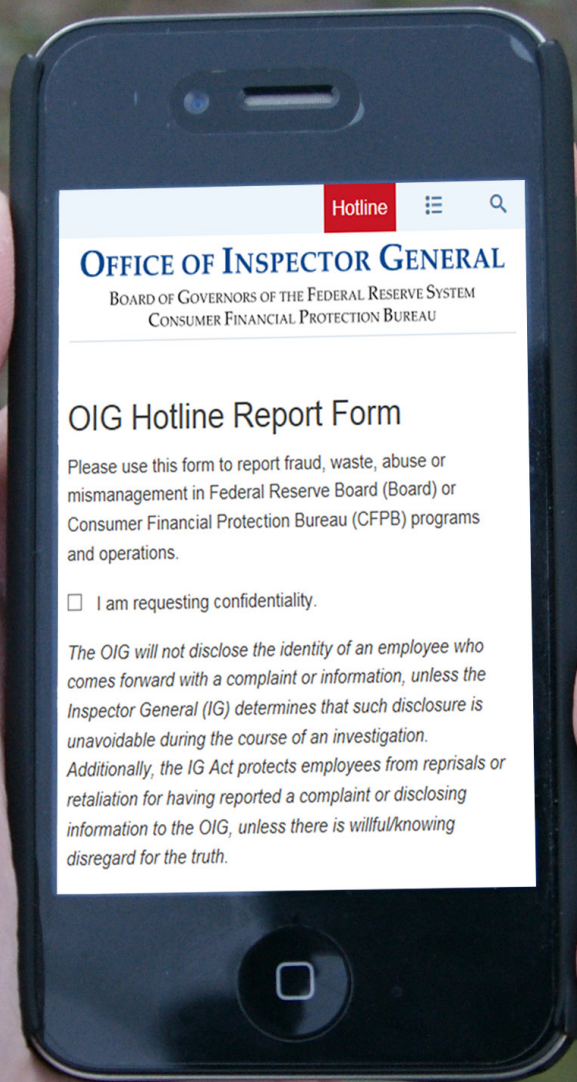


**I commend our
agents and their
federal law
enforcement
partners for their
hard work and
persistence.**

Mark Bialek, Inspector General



**YOU JOINED TO MAKE A DIFFERENCE.
REPORT FOR THE SAME REASON.**



**YOU CAN
MAKE A
DIFFERENCE.**

» REPORTING FRAUD

**WHISTLEBLOWERS
& EMPLOYEES
HAVE RIGHTS!**


The OIG is responsible for preventing and detecting fraud and abuse in the programs and operations of the Board and the CFPB. The OIG operates a Hotline that serves as a resource for individuals to report suspected fraud, waste, abuse, or mismanagement. Individuals may report information to the Hotline by mail, telephone, fax, email, or online form.


Complaints to the OIG Hotline are reviewed by OIG analysts. If we have any questions regarding a complaint or if we require any additional information, we may contact the complainant. After reviewing a complaint, we may refer the matter to the appropriate component within the OIG, the

Board, or the CFPB for additional action. Please note that the OIG cannot provide information regarding what action has been taken on any allegation reported to our office.

HOW DO I REPORT IT?

 oig.federalreserve.gov

 800.827.3340

 202.973.5044

 OIGHotline@frb.gov





BREAKING BINARY

INSIDE THE ELECTRONIC CRIMES UNIT

Allegations of fraud and other wrongdoing are hardly black-and-white issues when we first get them. But they are almost always binary.

“Everything happens electronically,” says the head of our Electronic Crimes Unit. It’s a simple statement that belies the complexity of the work of the ECU’s digital forensics agents, who find evidence bit by bit, 1 by 0.

In the ECU lab, screens flash as OIG computer equipment noisily processes terabytes of data. The guts of computers, smartphones, servers, and other devices fill the room; if they are not being carefully inspected by agents, they sit neatly in evidence bags.

ECU agents can recover deleted or otherwise hidden information from just about any electronic device. Powerful hardware and software help agents find key data, sift through metadata, break encryption, and crack passwords. They’ve discovered crucial evidence that’s been used to help prosecute people who have committed crimes involving the programs and operations of the Board and the CFPB.

Not all the work is conducted in the lab. ECU agents can also execute search and seizure of computer evidence, write warrant requests for data, and provide onsite support to help bring equipment back to the lab so that they can recover evidence. They also support audits and refer potential security vulnerabilities to the Board and the CFPB.

To do this work, ECU agents undergo extensive specialized training in addition to standard law enforcement officer training. They work with the Federal Law Enforcement Training Center and the U.S. Department of Defense to sharpen their forensic skills. They also participate in the FBI’s Cyber Task Force and the U.S. Secret Service’s Cybercrimes Task Force.

Having an internal lab leads to shorter turnarounds for forensic results. The lab also allows us to use cutting-edge forensics as a tool to promote economy, efficiency, and effectiveness and to prevent and detect fraud, waste, and abuse in the programs and operations of the Board and the CFPB.



LAW ENFORCEMENT BEYOND BORDERS

Unlike law enforcement agencies, criminals don't have to respect borders. That's where the International Criminal Police Organization, better known as INTERPOL, comes in.

INTERPOL is the only worldwide network dedicated to promoting cooperation among the law enforcement agencies across its 190 member countries. Each country maintains its own National Central Bureau, through which law enforcement officers directly request information and investigative help from their counterparts in other member countries.

To support those requests, most federal law enforcement agencies have staff detailed to the U.S. bureau, INTERPOL Washington. Recently, one of our agents served as the liaison to INTERPOL Washington for all Offices of Inspector General.

Our agent coordinated requests on behalf of OIGs about international fugitives, foreign criminal records, immigration records, telephone subscriber information, computer and internet crime records

such as IP addresses, and other criminal intelligence. Our agent also helped facilitate complex extradition requests for fraud-related offenses.

Many agents working at other OIGs were surprised at the level of cooperation that our foreign law enforcement counterparts provided. In one instance, an OIG was able to share information with foreign law enforcement about an individual suspected of defrauding a federal agency. The suspect had relocated overseas, but the country's law enforcement used the information to find the suspect. They also discovered that he was perpetrating similar fraud schemes in the country.

Having staff detailed to INTERPOL who understand the OIG mission and who can provide subject-matter expertise benefits the OIG community as a whole. INTERPOL Washington is a force multiplier for OIGs that lack the global footprint of larger federal law enforcement agencies. And by helping OIGs work around the world, our agent also brought valuable experience back to our own agency.

STAY CONNECTED



[@OIGFedCFPB](https://twitter.com/OIGFedCFPB)

[OIG.FEDERALRESERVE.GOV](https://www.oig.federalreserve.gov) | [OIG.CONSUMERFINANCE.GOV](https://www.oig.consumerfinance.gov)





MORE ABOUT THE OIG

AUDITS & EVALUATIONS

The Office of Audits and Evaluations conducts reviews that examine the economy, efficiency, and effectiveness of the Board's and the CFPB's programs and operations; the agencies' compliance with applicable laws and regulations; the effectiveness of their internal controls; and the presentation and accuracy of the Board's and the Federal Financial Institutions Examination Council's financial statements. We conduct required reviews of failed state member banks under Board supervision as well as audits and evaluations of priority topics identified during our risk-based planning process.

We issue reports that explain why we conducted the review, the issues we found that should be corrected or improved, and specific recommendations for agency corrective action.

The office has three functional oversight sections: Supervision and Regulation, Management and Operations, and Financial Management and Internal Controls.

INFORMATION TECHNOLOGY

The Office of Information Technology is responsible for conducting audits of the economy, efficiency, effectiveness, and security of the Board's and the CFPB's information technology programs and systems; developing data analytics approaches and methodologies to support OIG audits and investigations; and maintaining an efficient and economical information technology infrastructure to support all OIG operations and employees.

MEDIA OR CONGRESSIONAL INQUIRIES

John Manibusan
202-973-5043 | OIG.Media@frb.gov

MAKE A DIFFERENCE.

INTEREST MAGAZINE



[OIG.FEDERALRESERVE.GOV](https://oig.federalreserve.gov) | [OIG.CONSUMERFINANCE.GOV](https://oig.consumerfinance.gov)



[@OIGFedCFPB](https://twitter.com/OIGFedCFPB)