Message From the Inspector General

Mark Bialek

I am pleased to present this 2019 issue of Interest magazine, highlighting the work of our Special Agents—those on the front lines of our fight against fraud, waste, and abuse in the programs and operations of the Board of Governors of the Federal Reserve System (Board) and the Bureau of Consumer Financial Protection (Bureau).

In this issue you will read about the important recent work of our Special Agents to bring wrongdoers to justice. You will also learn how the Office of Investigations is structured and the kinds of cases our Special Agents investigate. Special to this edition is a feature article describing the rigorous training that Special Agents complete to prepare them for the complex array of cases they handle.

I would like to thank our Office of Investigations for its hard work and dedication to combating fraud, waste, and abuse related to the Board and the Bureau.

Mark Bialek was appointed Inspector General for the Board and the Bureau on July 25, 2011. He has more than 38 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.

CONTENTS

Office of Investigations 04
Case Highlights, October 1, 2017—September 30, 2018 08
Training for OIG Special Agents 14
The women and men of our Office of Investigations work tirelessly to root out wrongdoing against the Board; the Bureau; and by extension, the American people. I am proud to have worked alongside our Special Agents and staff for many years. As the Assistant Inspector General for Investigations, I am humbled to lead this group of dedicated individuals and eager to tackle the tasks ahead.

Our office continues to focus on ensuring that Board and Bureau programs and operations are free of fraud, waste, and abuse. This issue of Interest highlights the diversity of that work, from bringing down an acting bank President’s $775,000 fraud scheme to uncovering a Bureau employee’s bribery of a public official.

We’re also ramping up outreach to the greater law enforcement community. Together with other federal agents, U.S. attorneys, and local law enforcement, we’re working to fight fraud, waste, and abuse related to Board and Bureau programs.

Enjoy this inside look at our operations.

Leading the Office of Investigations, Gerald Maye oversees criminal, civil, and administrative investigations related to the programs and operations of the Board and the Bureau. Mr. Maye is a computer recovery specialist with 20 years of experience in federal law enforcement, much of it managing investigative operations, electronic crimes units, and the OIG Hotline. He was previously a Special Agent in Charge at the Social Security Administration OIG. Mr. Maye is an active leader on computer forensics in the Inspector General community, having spoken at regional and national conferences, and he served as an adjunct professor at Stevenson University.
Office of Investigations

Our investigative team includes about 30 federal agents, forensic analysts, technical specialists, and support staff with a broad range of experience. 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.

We routinely partner with other federal law enforcement agencies, the U.S. Attorney’s Offices throughout the country, and with state and local law enforcement, adding value to complex investigations by virtue of our specialized knowledge and experience.

Field Offices

We have field offices in Chicago (Midwestern Region), Miami (Southeast Region), New York City (Northeast Region), and San Francisco (Western Region).

The field offices partner with the FBI, the U.S. Secret Service, the IRS–CI, the FDIC and Treasury OIGs, and other federal law enforcement to use their extensive and specialized expertise in white-collar financial fraud to develop cases prosecuted by U.S. Attorney’s Offices across the nation. When appropriate, our agents also work with state and local law enforcement and other governmental organizations. We conduct outreach with Board and Bureau supervision, legal, and enforcement groups, including the 12 Federal Reserve Banks that supervise financial institutions under delegated authority from the Board and regional Bureau supervision staff.

Headquarters


A large part of the work of Investigative Operations falls to the Special Investigative Unit.

The SIU is a dedicated team of agents with extensive experience working cases that pose a reputational risk to the Board or the Bureau, such as leaks of confidential information or employee misconduct. “The SIU strives to maintain the confidence of the public, Board, and Bureau by assuring our stakeholders that investigations are thorough and can be relied upon in addressing sensitive matters,” says the head of the unit. The SIU regularly updates the Inspector General and, when appropriate, top Board and Bureau officials on important developments.

The SIU’s work is fast paced and demanding. The cases are complex, with more interviews, more evidence, and more progress reports than a normal investigation. Their work is a critical part of meeting our mission 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 Bureau.
TechnicalOperations includes the ElectronicCrimesUnit and the OIG Hotline.

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 individuals who have committed crimes related to the programs and operations of the Board and the Bureau.

Not all the work is conducted in the lab. ECU agents can also execute search and seizure of computer evidence, write warrant applications for data, and provide onsite support to help bring equipment back to the lab so that they can recover evidence. They also refer potential security vulnerabilities to the Board and the Bureau and participate in the FBI’s Cyber Task Force and the U.S. Secret Service’s Cybercrimes Task Force.

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.

The OIG Hotline helps people report fraud, waste, abuse, and mismanagement related to the programs or operations of the Board and the Bureau. Hotline staff can be reached by phone, web form, fax, or mail. We review all incoming hotline communications, research and analyze the issues raised, and determine how best to address the complaints.
Types of Cases

Criminal cases

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 data or other information.

Administrative cases

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.

Civil cases

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.

The OIG does not investigate violations of banking or consumer financial regulations. These matters are program operating responsibilities of the Board and the Bureau and are not within the OIG’s purview.

Process of Investigation

1. complaint evaluation
2. preliminary investigation
3. full investigation
4. prosecution or administrative action
Our Investigative Accomplishments

- 5 Indictments
- $3,516,717 in Criminal Fines, Restitution, and Special Assessments
- $1,378,845 in Forfeitures
- 30 Cases Closed
- 12 Matters for Prosecutorial Consideration
- $140,000 in Civil Judgments

October 2017–September 2018
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 DOJ for criminal prosecution or civil litigation or to the Board or the Bureau for administrative discipline or other actions.
The former President and Chief Executive Officer of Farmers Exchange Bank in Neshkoro, Wisconsin, was sentenced in the U.S. District Court for the Eastern District of Wisconsin to concurrent terms of 24 months’ imprisonment for each of the counts to which he pleaded guilty. The defendant pleaded guilty to three counts of bank fraud; one count of false entries, reports, and transactions; and one count of false statements. The defendant was also fined $20,000.00, ordered to pay a $500.00 special assessment, and ordered to pay restitution to the bank holding company shareholders in the amount of $338,000.00 pursuant to the terms of his plea agreement. Upon release from prison, the defendant will be on supervised release for a term of 24 months. The Board prohibited the defendant from further participation in the banking industry.

The defendant made false entries . . . with intent to injure and defraud the bank, other bank officers, and other individuals and to deceive the agents and examiners appointed to examine the affairs of the bank, including the FDIC and the Board.

This was a joint investigation by our office, the FDIC OIG, and the FBI and prosecuted by the U.S. Attorney’s Office for the Eastern District of Wisconsin.

A former Bureau Examiner was sentenced in the U.S. District Court for the District of Arizona to 24 months’ probation for one count of bribery of a public official. The defendant pleaded guilty to the violation as part of a plea agreement. The defendant was also ordered to pay a special assessment of $100 and a criminal fine of $4,300.

While the defendant worked for the National Credit Union Administration as a Credit Union Examiner, he accepted a preferential home mortgage loan from a credit union. At the time the defendant received the loan, he was assigned as the primary examiner of that credit union. Based on his financial history, the defendant would not have been able to qualify for the loan from other sources. The defendant was later hired by the Bureau as an Examiner. The defendant failed to disclose the financial misconduct in his application. The defendant resigned from the Bureau on the same day he entered his guilty plea.

This case was investigated by our office and the National Credit Union Administration OIG and prosecuted by the U.S. Attorney’s Office for the District of Arizona.

Former President and Chief Executive Officer of Farmers Exchange Bank Sentenced

Former Bureau Examiner Sentenced for Bribery of a Public Official
On October 10, 2017, the U.S. Attorney’s Office for the District of Delaware entered into a settlement agreement with Wilmington Trust Corporation, a state member bank supervised by the Board. As part of the agreement, Wilmington Trust agreed to transfer $44 million to the United States. The forfeiture by Wilmington Trust was agreed to by all parties in lieu of prosecution of the bank as specified in a superseding indictment, filed on January 6, 2016, for criminal violations including 18 U.S.C. §1001, False Statements, and 18 U.S.C. §1005, False Entries in Banking Records.

Per the settlement agreement, in connection with both its internal and external reporting of past-due loans, Wilmington Trust engaged in the waiver practice on a monthly basis whereby the bank excluded from final past-due numbers its matured commercial loans that were current for interest and in the process of extension. On 10 occasions from October 30, 2009, to July 23, 2010, the bank submitted a Monthly Regulatory Report to the Board that did not describe the bank’s use of the waiver practice.

Additionally, in advance of a target examination of the bank by the Board that commenced in December 2009 and a full-scope examination that commenced in May 2010, the Board requested that the bank submit a list of its past-due loans. According to the settlement agreement, in responding to each request, the bank’s submissions did not describe its use of the waiver practice.

The bank’s waiver practice resulted in a variance between commercial loans treated as past due within its internal records and reported publicly as past due on its Consolidated Reports of Condition and Income and in its Monthly Regulatory Reports.

This investigation was conducted by our office, the FBI, the Internal Revenue Service—Criminal Investigation, and the Office of the Special Inspector General for the Troubled Asset Relief Program and prosecuted by the U.S. Attorney’s Office for the District of Delaware.
Multiple principals of a loan modification company were sentenced in the U.S. District Court for the District of Utah for their involvement in a fraudulent telemarketing sales and loan modification conspiracy. The individuals previously had pleaded guilty to conspiracy to commit mail fraud and money laundering in an alleged scheme to market and sell home loan modification services under the guise of a law firm. During sentencing, a co-owner of the loan modification company was sentenced to 12 months and 1 day’s imprisonment and 36 months’ supervised release. He was also ordered to forfeit $886,915.72 from seized assets and was ordered to pay $415,940.01 in restitution and a $100.00 special assessment. A second individual, a Sales Manager, was sentenced to 60 months’ probation, ordered to forfeit $259,528.12 by money judgment order, and ordered to pay $121,711.82 restitution and a $100.00 special assessment. A third individual, also a Sales Manager, was sentenced to 60 months’ probation, ordered to forfeit $232,400.69 by money judgment order, and ordered to pay $108,989.78 restitution and a $100.00 special assessment.

Around September 2011, the principals and others made false and misleading statements to potential customers in order to convince them to pay for loan modification services. Potential clients were led to believe they were contracting with a true law firm, that an attorney would be working with them individually, and that the attorney would negotiate a loan modification with their lender.

This case was investigated by our office, the FBI, Internal Revenue Service–Criminal Investigation, the Office of the Special Inspector General for the Troubled Asset Relief Program, and the Federal Housing Finance Agency OIG and prosecuted by the U.S. Attorney’s Office for the District of Utah.
A jury in the U.S. District Court for the District of Delaware returned a guilty verdict against four former executives of Wilmington Trust Bank in Wilmington, Delaware, including the President and Chief Operating Officer, the Executive Vice President and Chief Financial Officer, the Chief Credit Officer, and the Controller.

The jury found all four defendants guilty of conspiracy to defraud the United States, securities fraud, making false statements in documents required to be filed with the U.S. Securities and Exchange Commission (SEC), making false entries in banking records, and making false statements to the SEC and the Federal Reserve. The jury also found the Executive Vice President and Chief Financial Officer guilty of making false certifications in financial reports.

According to court documents, the bank was required to report in its quarterly filings with both the SEC and the Federal Reserve the quantity of its loans for which payment was past due for 90 days or more. The defendants conspired to conceal the truth about the health of Wilmington Trust’s loan portfolio from bank regulators, the SEC, and the investing public. The defendants participated in Wilmington Trust’s failure to include in its reporting a material quantity of past-due loans, despite the reporting requirements and knowing the significance of past-due loan volume to investors and regulators.

This case was investigated by our office, the FBI, Internal Revenue Service—Criminal Investigation, and the Office of the Special Inspector General for the Troubled Asset Relief Program.

The defendants conspired to conceal the truth about the health of Wilmington Trust’s loan portfolio from bank regulators, the SEC, and the investing public.
The defendant concealed his scheme to defraud by withholding relevant information about the fraudulent loans that he was approving from the bank’s board of directors and from Reserve Bank examiners.

The defendant engaged in a scheme to defraud Coastal Bank and Trust by engineering fraudulent loan transactions to straw borrowers while the true beneficiaries of these loans were coconspirators of the defendant, business entities controlled by the defendant, or the defendant himself. The defendant used his position of trust and authority at the bank to circumvent the bank’s internal controls and normal loan underwriting procedures. The defendant concealed his scheme to defraud by withholding relevant information about the fraudulent loans that he was approving from the bank’s board of directors and from Reserve Bank examiners.

This was a joint investigation by our office, the FBI, and the FDIC OIG and was prosecuted by the U.S. Attorney’s Office for the Eastern District of North Carolina.

He then directed a settlement company to divert over $775,000 in loan proceeds for his personal benefit and the benefit of a friend.

According to court documents, the defendant diverted $100,000 in CFG funds for his own benefit while he was acting President. Later, while he was President of CFG affiliate Capital Financial Ventures, LLC, the defendant schemed to defraud CFG by posing as its current Chief Executive Officer and President to refinance CFG-owned mortgage loans. He then directed a settlement company to divert over $775,000 in loan proceeds for his personal benefit and the benefit of a friend. The defendant created false correspondence with the loan borrowers to conceal the diversion from CFG.

This was a joint investigation by our office, the FBI, the Social Security Administration OIG, and the Internal Revenue Service—Criminal Investigation and was prosecuted by the U.S. Attorney’s Office for the District of Maryland.
Training for OIG Special Agents
What happens when institutions provide false documents to Board or Bureau examiners or an examiner takes a bribe to look the other way? Or when an employee uses agency information—like confidential financial data—for personal gain? OIG Special Agents are trained to investigate.

White-collar crime investigations involve myriad law enforcement skills that Special Agents develop through years of training and experience. In fact, an OIG Special Agent’s training never ends.

The OIG hires new Special Agents as well as Special Agents from other government agencies who may already have years of law enforcement experience. Special Agent candidates must meet a set of physical requirements, such as having good vision and hearing. They also must be under 37 years old and have a bachelor’s degree. Most important, before new hires can become Special Agents, they must successfully complete a comprehensive federal training course in criminal investigation.

All Special Agents are required to pass an 11-week course called the Criminal Investigator Training Program (CITP) through the Federal Law Enforcement Training Centers (FLETC). CITP is held on the FLETC campus in Glynco, Georgia, and incorporates lectures, laboratory work, practical exercises, and written exams to teach arrest and search techniques, self-defense, marksmanship, and other skills. In addition to CITP, newly hired first-time agents also take an OIG-specific course, while current Special Agents participate in a shorter transitional training.

During CITP, trainees work a simulated case—for example, an allegation that computers have been stolen and are being sold online—and use that case to practice skills they are learning, including interviewing suspects and witnesses, performing surveillance and undercover operations, writing and executing search and arrest warrants, writing a criminal complaint, obtaining an indictment, and testifying in a courtroom hearing. Agents must learn not only how to work within the parameters of the law, but also how to protect themselves when people don’t comply with lawful commands.

Most federal law enforcement agencies send their Special Agents to CITP (some agencies, like the FBI and the Drug Enforcement Administration, are large enough to have their own training programs). Living and training alongside investigators working for other agencies helps Special Agents make contacts and build relationships that can be useful throughout their careers. Many Special Agents enjoy the camaraderie that develops among the trainees.

Trainees must endure paramilitary-style training, including living in dorms, wearing uniforms, adhering to regimented schedules, running in cadence, and embracing a team mentality. They must also balance the academic course load and physical demands with the challenges that come from being away from home for several months. Getting through the program requires commitment, mental and physical toughness, and grit.
Within their first year of OIG employment and within 3 to 6 months of completing CITP, Special Agents take the Council of the Inspectors General on Integrity and Efficiency’s IG Investigator Training Program. In this 3-week course, also held in Glynco, Georgia, Special Agents learn how to apply the framework of legal considerations and tactical training to the OIG environment. They also learn about the authorities, duties, responsibilities, and obligations associated with the Inspector General Act of 1978, as amended. Topics covered include IG subpoenas, employee misconduct investigations, and government workplace searches, among many others.

Many Special Agents also pursue specialized training in areas such as computer forensics; undercover operations; firearms; and control tactics, a term for defensive tactics that emphasize proactive physical control of the situation. These specialized training classes can be weeks or months long. Other Special Agents have developed expertise in bank fraud, money laundering, the Bank Secrecy Act, or other financial topics. Many OIG Special Agents are also qualified to teach specialized training courses.

Having Special Agents who specialize in different areas ensures that the OIG will be prepared to investigate a variety of cases. For example, if a Special Agent is interviewing a banker, the agent must have enough subject-matter knowledge to understand whether the banker’s responses make sense and to know which follow-up questions are appropriate.
Ongoing Training: Maintaining Skills and Knowledge

Special Agents also complete a variety of ongoing training assignments. Every quarter, for example, Special Agents must pass a firearms training that involves a qualification course for several firearms and long guns. Special Agents must achieve a certain accuracy score each time.

Special Agents also undergo annual training on several topics, including flying armed on airplanes, safety around blood-borne pathogens, and ethics. Every 3 years, Special Agents take additional training on a variety of topics, including a legal refresher course, first aid and CPR, physical conditioning and defensive tactics, arrest techniques, and intermediate weapons.

Ongoing training can be time intensive, but it’s important to stay up to date on laws and law enforcement practices, which change periodically. Training also ensures that Special Agents maintain the skills and knowledge that they might not use regularly. And while the training covers a wide range of topics, this scope reflects the extensive skill set required by the job.

Meeting Evolving Demands

The financial and regulatory environment is always changing, so Special Agents must also grow and ensure that they have the right skills and mindset to meet evolving demands. In interviews, Special Agents emphasized how having a mindset of constantly striving to improve and ensuring that they were well prepared helped them succeed—and stay safe—on the job. Ultimately, training builds the foundation of skills and knowledge Special Agents need to help the OIG combat fraud, waste, and abuse.
Audits and Evaluations

Auditors conduct audits and evaluations of the economy, efficiency, and effectiveness of the programs and operations of the Board and the Bureau; 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.

Information Technology

IT Auditors conduct audits and evaluations of the economy, efficiency, and effectiveness of the IT programs and systems of the Board and the Bureau. These audits focus on information security controls, systems development, operations, investment, and contractor support. IT staff also provide data analytics support for audits, evaluations, and investigations and general support for our IT infrastructure.

Legal Services

Attorneys advise the Inspector General and staff on all legal matters and provide strategic analysis, counseling, research, and representation. Legal staff also conduct legislative and regulatory reviews and manage congressional and media relations.

Management and Strategic Initiatives

Staff plan and execute our strategic direction; provide administrative and human resources services; and manage communications, including writing and editing, graphics, web content, and social media.
OIG Hotline

Help the Board and the Bureau work efficiently; effectively; and free of fraud, waste, and abuse.

What should I report?

- Violations of federal laws or agency policies
- Contract and procurement irregularities
- Travel card or purchase card fraud
- Ethics violations or conflicts of interest by agency officials
- Employee misconduct
- Theft or abuse of property
- Obstruction of agency operations, such as providing false information to regulators
- Waste or mismanagement of funds or government resources

How do I report?

- oig.federalreserve.gov/hotline
- oig.consumerfinance.gov/hotline
- 800-827-3340

OIG Hotline

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Mail Stop K-300
Washington, DC 20551

Am I protected?

We will not disclose your identity except in rare circumstances where it’s unavoidable. Further, Board and Bureau employees are protected by law from reprisals or retaliation for contacting us. Reserve Bank staff should refer to their Reserve Bank policy.