In 2017, I was pleased to launch the first issue of this magazine, which highlights the work of Special Agents—those on the front lines of our fight against fraud, waste, and abuse related to Board and Bureau programs and operations.

This year, in addition to announcing our second issue, I am excited to introduce Gerald Maye, our new Assistant Inspector General for Investigations. Mr. Maye has provided leadership and expertise to the OIG since 2012, having led our Special Investigations Unit (highlighted in this issue), Electronic Crimes Unit, and OIG Hotline. An accomplished career law enforcement officer, he is and will continue to be a critical executive leader within the OIG.

My thanks to our entire Office of Investigations staff for their dedication and tireless efforts to root out fraud, waste, and abuse relating to the Board and the Bureau.

Mark Bialek
Inspector General

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.
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. Now, as the new 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 making Board and Bureau programs and operations free of fraud, waste, and abuse. This issue of Interest highlights the diversity of that work, from helping to bring down a bank’s $1 billion loan fraud scheme to uncovering a Board employee’s Bitcoin mining operation.

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 financial crimes in all forms, including those involving the complex world of cryptocurrencies.

Enjoy this inside look at our operations.

Gerald Maye
Assistant Inspector General for Investigations

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 adjunct professor at Stevenson University.
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We provide independent oversight of the Board and the Bureau. 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 Bureau. We have overseen the Board since 1987 and the Bureau since 2010.

Our investigative work focuses on allegations of wrongdoing relating to the Board’s and the Bureau’s programs and operations, generally concerning:

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

THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

supervises the Federal Reserve System, the central bank of the United States, which promotes the effective operation of the economy by, among other things, conducting monetary policy and regulating financial institutions.

THE BUREAU OF CONSUMER FINANCIAL PROTECTION

enforces federal consumer financial laws, supervises financial companies, takes consumer complaints, and promotes consumer financial education.
INVESTIGATIONS CAN BE CRIMINAL, CIVIL, OR ADMINISTRATIVE IN NATURE.

Our investigative caseload typically involves:

- violations of federal laws, rules, and regulations relating to Board and Bureau programs and operations
- ethics violations or conflicts of interest by Board or Bureau officials
- employee misconduct, such as abuse of authority or misuse of position
- contract and procurement irregularities relating to Board or Bureau programs and operations
- theft or abuse of Board or Bureau 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
- theft or abuse of Board or Bureau 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

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.

We do not, however, investigate violations of federal banking and consumer financial regulations, which are program responsibilities of the Board or the Bureau.

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

OCTOBER 2016—SEPTEMBER 2017

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✓ INDICTMENTS

$16.4 MILLION
IN CRIMINAL FINES, RESTITUTION,
AND SPECIAL ASSESSMENTS

42 CASES
CLOSED

$863 MILLION
IN CIVIL JUDGMENTS

16 MATTERS FOR
PROSECUTORIAL
CONSIDERATION
Multiple Former Pierce Commercial Bank Officials Sentenced for Conspiracy and Bank Fraud

A former Loan Officer of failed Pierce Commercial Bank was sentenced to 30 days of home detention, 100 hours of community service, 2 years of supervised release, and more than $131,000 in restitution after pleading guilty to making false statements on loan applications. Four more former officials—two Vice Presidents, a Senior Loan Processor, and another Loan Officer—were sentenced to time served (1 day), 3 years’ supervised release, and a $100 special assessment for conspiracy to make false statements on loan applications and to commit bank fraud. All individuals were sentenced in the Western District of Washington in Tacoma.

Pierce Commercial Bank was a state member bank regulated by the Board. From 2004 to 2008, prior to its failure, the coconspirators and others at the bank solicited individuals, regardless of whether they were qualified, to apply for Pierce Commercial Bank home loans. The coconspirators then prepared uniform residential loan applications based on fraudulent representations with or without the borrowers’ knowledge. The fraudulent scheme resulted in over 5,000 mortgage loans representing over $1 billion in loan proceeds. Hundreds of borrowers involved in the scheme defaulted on their loans, resulting in over $9.5 million in losses to Pierce Commercial Bank, secondary investors, the U.S. Department of Housing and Urban Development, and the U.S. Federal Housing Administration and $24.8 million in losses to the Deposit Insurance Fund. The scheme contributed to the failure of the bank.

This investigation was conducted by our office, the FBI, the U.S. Department of Housing and Urban Development OIG, the Federal Housing Finance Agency OIG, the Federal Deposit Insurance Corporation OIG, the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), and Internal Revenue Service–Criminal Investigation and prosecuted by the U.S. Attorney’s Office for the Western District of Washington.
A former Board employee was sentenced to 12 months’ probation and fined $5,000 for installing unauthorized software on a Board server. The defendant pleaded guilty to one misdemeanor count of unlawful conversion of government property.

The defendant, a Communications Analyst, inappropriately used his access to a Board server to install unauthorized software to earn bitcoins. Bitcoins are earned as compensation when users allow their systems’ computing power to be part of the structure that processes, verifies, and records bitcoin transactions. Due to the anonymity of the Bitcoin network, we were unable to conclusively determine the amount of bitcoins earned through the Board’s server. The defendant also modified security safeguards to remotely access the server. When confronted by our agents, the defendant initially denied any knowledge of the wrongdoing but later remotely deleted the Bitcoin software in an effort to conceal his actions. Forensic analysis conducted by our agents and the Federal Reserve System’s National Incident Response Team confirmed the defendant’s involvement, which resulted in his termination from the Board and ultimately led to his voluntary admission of guilt. The defendant’s actions did not result in a loss of Board information, and the Board implemented security enhancements as a result of this incident.

The case was investigated by our office and prosecuted by DOJ’s Computer Crime and Intellectual Property Section.
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. Instead, clients were contacted by the defendant and minimum-wage employees who were not supervised by lawyers and did not have a legal background or knowledge about working loan modifications.

This case was investigated by our office, the FBI, IRS–Criminal Investigation, SIGTARP, and the Federal Housing Finance Agency OIG and prosecuted by the U.S. Attorney’s Office for the District of Utah.
Former Executive at Union Bank and Trust Company Pledged Guilty to Theft of Bank Property

A former Assistant Vice President at Union Bank and Trust Company pleaded guilty to one count of theft of bank property. For about 12 years—from around 2000 to 2012—the defendant knowingly took about $200,000 from Union Bank and Trust in Evansville, Wisconsin, and used her position to cover up the theft. We investigated this matter to determine whether any false statements were made to the Board or if any of the alleged conduct resulted in an obstruction of the Board’s supervision program.

This is a joint investigation by our office and the FDIC OIG, with prosecutorial support from the U.S. Attorney’s Office for the Western District of Wisconsin.

Former Bank Senior Executive Vice President Sentenced for Failing to Report a Crime

A former One Bank & Trust Senior Executive Vice President was sentenced to 2 years of probation and 100 hours of community service for failing to report a crime. The defendant was also a Director at One Financial Corporation, which is the Board-supervised bank holding company for One Bank & Trust. The former bank executive pleaded guilty to misprision of a felony.

The defendant recommended approval of a $1.5 million line of credit for someone the defendant knew and arranged for the line of credit to be approved without going through the formal approval process. When the line of credit defaulted, the defendant and other former One Bank & Trust executives made false bank entries to hide the default from federal bank regulators. This default was then left off One Bank & Trust’s Call Reports to prevent any additional regulatory scrutiny while the bank was soliciting over $10 million in Troubled Asset Relief Program funds. The borrower who defaulted was sentenced to a year and a day in federal prison after pleading guilty to money laundering.
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, ordered to pay a $500 special assessment, and ordered to pay restitution to the bank holding company shareholders in the amount of $338,000 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 in the books, reports, and statements of the bank 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. The defendant also devised a scheme to defraud other FEB Bancshares, Inc., shareholders and to obtain money by means of false and fraudulent pretenses.

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.
Financial crimes in the United States cost the government, organizations, and individuals at least hundreds of billions of dollars a year, according to estimates from the FBI, the Association of Certified Fraud Examiners, and others. And many other crimes have a financial component for law enforcement to track, for example, tracing the flow of dollars to expose terrorists or drug traffickers.

“Follow the money” has been an axiom in law enforcement for decades. But law enforcement officers often encounter a tangle of jurisdictional issues blocking the money trail.

“A lot of our counterparts at other agencies are confused about what the Federal Reserve System consists of and how we, the OIG, fit into investigations,” said one OIG Senior Special Agent.

To help their fellow investigators cut through the red tape—and get the evidence they need to build criminal cases—OIG agents host numerous conferences each year to discuss jurisdictional issues and the latest techniques for investigating financial crimes.

Recent events include the Financial Payment Systems Conference held at the Federal Reserve Bank of San Francisco and at its branch in Los Angeles and the Fedwire Funds Transfer System and Money Movement Conference in Chicago. In addition, meetings of the Illinois Fraud Working Group are held three to four times a year at the Federal Reserve Bank of Chicago and are cohosted with the U.S. Attorney’s Office for the Northern District of Illinois.

These events have brought together hundreds of law enforcement officers; federal prosecutors; and other officials from local, state, and federal agencies. Some attendees at past events include representatives of the U.S. Attorney’s Office, the FBI, the Drug Enforcement Administration, the IRS, the Secret Service, the U.S. Marshals, dozens of OIGs, District Attorney’s offices, and local police departments.
Topics often focus on the latest trends in bank fraud and financial crimes, like those involving cryptocurrencies, as well as traditional international financial transactions and domestic payment systems, like those of the Society for Worldwide Interbank Financial Telecommunication (SWIFT), Fedwire, Clearing House Interbank Payments System, correspondent banking, automated clearing house (ACH), and remote deposit capture.

Also often discussed is our role and jurisdiction. The Federal Reserve System is complicated, and OIG investigators often find themselves explaining how it works. The Reserve Banks are not government agencies, but rather independent operating arms of the System. The Board, which is a government agency, supervises the System, but the Reserve Banks are individually responsible for moving money through check clearing, funds transfers, and automated clearinghouse operations.

“Many in law enforcement aren’t aware that they can’t just subpoena one Reserve Bank for records that are actually housed at a different Reserve Bank,” the OIG Senior Special Agent said. She added that although many agents call the OIG for help getting records, others may not even know we can help. So at conferences, OIG agents regularly discuss what our office does and explain jurisdictional issues involving the Board, the Reserve Banks, the Bureau, and financial institutions.

These events have strengthened our relationships with federal, state, and local law enforcement partners. Attendees come away with a better understanding of how to get the information they need for their investigations. They also now know they have a partner in the OIG.
Our Special Investigations Unit Takes on Complex, High-Priority Cases in Support of the OIG’s Mission.

The SIU is a dedicated team of agents with extensive experience working priority cases like those posing 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. Because of the high stakes, the SIU regularly updates the Inspector General and 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. Fortunately, SIU agents’ expertise ensures timely and professional resolutions to investigations. 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.
MORE ABOUT THE OIG

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 Bureau’s information technology programs and systems; developing data analytics approaches and methodologies to support OIG audits and investigations; and ensuring that the OIG’s information technology needs are efficiently and effectively met.

AUDITS AND EVALUATIONS

In addition to our investigative functions, we audit and evaluate Board and Bureau programs and operations. These reviews assess the economy, efficiency, and effectiveness of the agencies’ programs and operations, including their supervision of financial institutions, compliance with laws and regulations, and internal operations. Our reports explain why we conducted the review, describe the issues we found, and recommend ways the agency can correct them. We do not manage agency programs or implement changes.

MEDIA OR CONGRESSIONAL INQUIRES

OIG.MEDIA@FRB.GOV
HELP THE BOARD AND THE BUREAU WORK EFFICIENTLY; EFFECTIVELY; AND FREE OF FRAUD, WASTE, AND ABUSE

WHAT SHOULD I REPORT?

1. Employee misconduct
2. Violations of federal laws or agency policies
3. Ethics violations or conflicts of interest by agency officials
4. Contract and procurement irregularities
5. Theft or abuse of property
6. Travel card or purchase card fraud
7. Waste or mismanagement of funds or government resources
8. Obstruction of agency operations, such as providing false information to regulators
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.
REGIONAL OFFICES

NEW YORK

SAN FRANCISCO