AUDIT OF THE UNITED STATES SECRET SERVICE'S INVESTIGATIONS OF FINANCIAL INSTITUTION FRAUD

OIG-00-070 MARCH 20, 2000

This report has been reviewed for public dissemination by the Office of Counsel to the Inspector General. Information requiring protection from public dissemination has been redacted from this report in accordance with the Freedom of Information Act, 5 U.S.C. section 552.

Office of Inspector General

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United States Department of the Treasury

OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 20, 2000

MEMORANDUM FOR BRIAN L. STAFFORD, DIRECTOR
UNITED STATES SECRET SERVICE

FROM: Dennis S. Schindel
Assistant Inspector General for Audit

SUBJECT: Final Audit Report of the U.S. Secret Service's Investigations of Financial Institution Fraud

This memorandum transmits the final report on the Office of Inspector General's audit of the United States Secret Service's (Service) investigations of financial institution fraud (FIF). Our overall objective was to evaluate the impact of the Service's investigations in deterring financial institution fraud.

Our review showed that an increasing number of the Service's investigations of financial institution fraud had been submitted for prosecution. In certain cases, major criminal organizations had been disrupted from conducting crimes against financial institutions. However, to further strengthen the Service's investigations of FIF the Service needed to:

- Complete actions to revise case selection criteria and complete software enhancements to the Suspicious Activity Report database. The Service should also ensure agents receive additional training so they can effectively use these new enhancements;

- Develop results oriented performance measures and reports for these measures that will provide management with data on how well the new measures are accomplished; and

- Clarify existing instructions to the field offices on the specific situations where the Federal Bureau of Investigation should be notified of the Service's investigations.

Additionally, in response to our questionnaire, financial institutions and regulators provided comments on how the Service could enhance its communications and relationships with financial institutions and regulators. These comments were provided to officials for their review.

Our draft report made six recommendations to address the issues in this report and strengthen the Service's investigations of FIF. In its responses to the draft report, the Service generally concurred with, and has begun or planned actions to address our recommendations. In certain instances, we believe the Service should establish timeframes for completing these actions. The Service's official comments have been incorporated into the report and included in their entirety as an appendix to the report.

We appreciate the courtesies and cooperation provided to our staff during the audit. If you wish to discuss this report, you may contact me at (202) 927-5400 or a member of your staff may contact Ms. Roberta N. Rickey at (312) 886-6300.

Attachment

cc: James E. Johnson
Under Secretary of the Treasury
for Enforcement

EXECUTIVE DIGEST

Overview

In the late 1980s and early 1990s, bank insiders primarily committed fraudulent schemes against financial institutions. Today, check fraud and counterfeit negotiable instrument schemes by outsiders are the most prevalent crime trend confronting the Nation's banking infrastructure. Estimates of losses resulting from financial institution fraud (FIF) are as high as $15 billion a year. Electronic banking, which is anticipated to increase 600 percent in the next 2 years, will create new opportunities for high technology fraud against financial institutions.

The U.S. Secret Service (Service) plays a role in protecting the Nation's financial systems by performing FIF investigations. In Fiscal Year (FY) 1991, Congress provided the Service with temporary authority to investigate criminal fraud against Federally insured financial institutions, and in 1994, extended this authority to 2004. After this authority expires, other statutes ensure the Service will have permanent authority in financial crime investigations.

Objectives, Scope, and Methodology

The Office of Inspector General (OIG) included this review in its *Audit, Evaluations, and Information Technology Plan for FY 1998*, because protecting the Nation's financial systems is an important Treasury enforcement responsibility. Our overall objective was to evaluate the impact of the Service's FIF investigations. Our specific objectives were to determine whether the Service: (1) performed investigations that were prosecuted and met the Service's case selection criteria; (2) used information systems that contain accurate and valid data on investigative results; and (3) interacted with financial institutions, regulators, and other enforcement agencies to facilitate investigations.

The audit scope generally covered the Service's FIF investigations for FY 1997 and FY 1998 (through August 25, 1998). To accomplish our objectives, we analyzed FIF investigative procedures, cases, accomplishment reports and other data at Headquarters and four field offices. We interviewed officials from other law enforcement agencies and U.S. Attorney Offices. Questionnaires were sent to agencies that regulate the Nation's financial institutions and to 20 of the larger financial institutions to obtain information about their interactions with the Service on FIF investigations.

Audit Results

The Service's FIF investigations have resulted in increased prosecutions in State and Federal courts and disrupted some major schemes to defraud banks. In FY 1998, 73 percent of the cases closed Nationwide were successfully prosecuted with few exceptions. Additionally, the cases we analyzed generally met the Service's case selection criteria. Federal prosecutors did not prosecute other cases because of various reasons including minimal interest. Although not every case will result in a prosecution, the Service can help ensure that the most significant investigations are initiated by (a) completing efforts to review and refine criteria on the types of cases field offices should initiate, and (b) ensuring field offices effectively use enhancements that the Service is making to its Suspicious Activity Report (SAR) database. Otherwise, the Service will have less assurance that it always pursues the most significant crimes.

The Service's FIF performance measure of cases closed, as shown in its *FY 1998 Annual Performance Report*, did not fully describe the accomplishments of the FIF program. Additionally, certain reports on program accomplishments and other data on FIF investigations were not always accurate or valid. The Government Performance and Results Act (GPRA) emphasizes that agencies are to establish results oriented performance measures for programs, and to accurately report on a program's accomplishments. Headquarters officials had recognized the limitation of the existing performance measure but developing good results oriented performance measures for law enforcement programs can be difficult. Reports and other data were not always accurate or valid because controls for reporting data were either inadequate or not followed by employees. Without results oriented performance measures and accurate data, the overall quality and effectiveness of the program cannot be readily determined.

The Service has participated in working groups and task forces with other law enforcement and regulatory agencies, and financial institutions to combat FIF. However, field offices had not always complied with a Service guideline to formally notify the Federal Bureau of Investigation (FBI) of FIF investigations that field offices initiated. Adherence to this requirement is important to ensure a coordinated law enforcement approach to FIF investigations. This condition occurred for various reasons, but primarily because field office supervisors believed a formal notice to the FBI was unnecessary.

Responses from specific financial institutions and regulators to our questionnaire also reemphasized the importance of the Service's activities to coordinate with the FBI, financial institutions, and regulators. The primary concerns to specific financial institutions and regulators are for the Service to (a) regularly advise them of FIF investigative priorities, (b) dedicate resources to FIF investigations, and (c) increase its interactions with financial institutions and regulators.

Recommendations and Management Response

Our draft report, issued on August 6, 1999, made recommendations to enhance the Service's (a) case selection criteria; (b) use of Suspicious Activity Reports; (c) external performance measures and procedures; (d) monitoring reports; and (e) interactions with other law enforcement agencies, financial institutions, and regulatory agencies.

The Service, in its October 5 and November 1, 1999 responses, generally agreed with our recommendations. However, the Service did not include specific information on the time frames needed to complete certain actions. The details of the Service's responses and actions initiated to address our recommendations are contained in the body of this report. We believe that implementation of these recommendations will help strengthen the Service's FIF program and ensure completion of the actions initiated or planned by officials.

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BACKGROUND

Today, the banking industry has stabilized as shown by the reduction in the number of financial institution failures in the 1990s. As the industry continues efforts to minimize insider abuse, however, "external fraud" is occurring with increasing frequency against the Nation's 10,000 financial institutions. A 1998 survey conducted by the American Bankers Association reported that half of the financial institutions suffered financial losses from check fraud in 1997. According to other law enforcement estimates, external fraud which primarily relates to fraudulent negotiable instruments such as checks, money orders, currency, debit and credit cards comprise about 60 percent of all the fraudulent activity against financial institutions. Other law enforcement estimates indicated that if commercial banks and other institutions combined their check fraud losses, the losses would total $12 to $15 billion annually. Additionally, electronic banking, which is expected to increase 600 percent the next 2 years, will create new opportunities for FIF through advanced technology.

To help combat FIF, Congress enacted legislation in 1990[1] which gave the Service concurrent jurisdiction with the Department of Justice to investigate fraud, both civilly and criminally against any Federally insured financial institution. In 1994, Congress extended this authority for the Service to the year 2004.[2] Upon expiration of this authority, Title 18 USC Section 1029 and Title 18 USC Section 514 will provide the Service with permanent investigative authority in financial crime investigations. Using these authorities, the Service's goal is to be a leading law enforcement agency in the area of financial crime investigations, playing a critical role in maintaining public trust and confidence in the Nation's financial systems.

The Service's Financial Crimes Division (FCD) has the responsibility to plan, review and coordinate several types of criminal investigations including bank fraud. The Service's Office of Investigations (OI) through its field offices, has the responsibility to conduct the investigations. Investigations are initiated from referrals received directly from police departments, financial institutions or through SARs that financial institutions file through the Financial Crimes Enforcement Network (FinCEN). The law requires that

[1] Public Law 101-509, Section 528, "Treasury, Postal Service General Government Appropriations Act, Fiscal Year 1991," enacted November 5, 1990.

[2] Public Law 103-322, Section 320923, "Violent Crime Control and Law Enforcement Act of 1994", enacted January 25, 1994.

financial institutions file SARs for any suspicious financial transactions that involve possible violations of banking laws or regulations.

In response to the increase in high technology fraud against financial institutions, the Service initiated the Electronic Crimes Special Agent Program (ECSAP). The ECSAP provides the Service with the capability of conducting sophisticated computer forensic examinations in Secret Service offices throughout the country.

Field offices also conduct investigations in accordance with the policies and procedures in the Service's Investigation Manual. To investigate these crimes effectively, the field offices must maintain liaison relationships with financial institutions, regulatory agencies, law enforcement agencies, and local attorney offices in their field office community.

The Service records, monitors, and reports the status, disposition, and results of its investigations through computerized databases. Table 1 shows FIF cases that the Service reported as received, closed, and pending, and the related arrests from FY 1996 through FY 1998.

Table 1

FINANCIAL INSTITUTION FRAUD CASES
([redacted] CASE TYPE ONLY *)

	FY 1996	FY 1997	FY 1998
Cases Received	1,714	1,869	1,095
Cases Closed	1,595	1,767	1,369
Cases Pending	1,644	1,726	1,396
Arrests	1,326	1,336	1,131

Source: Secret Service Management and Organization Division

* *The above table only includes statistics for cases coded as [redacted] which are general FIF investigations that involve Federally insured financial institutions.*

Service officials explained that the reduction in FIF cases opened and closed in 1998, was due to increased protection duties.

OBJECTIVES, SCOPE, AND METHODOLOGY

The OIG included this review in its *Audit, Evaluations, and Information Technology Plan for FY 1998*. We performed this review because protecting the Nation's financial systems is a significant mission of the U.S. Department of the Treasury. The Service plays a role in this mission by performing FIF investigations.

Our overall objective was to evaluate the impact of the Service's FIF investigations. Our specific objectives were to determine whether the Service: (1) performed investigations that were prosecuted and met the Service's case selection criteria; (2) used information systems that contain accurate and valid data on investigative results; and (3) interacted with financial institutions, regulators, and other law enforcement agencies to facilitate investigations.

To accomplish our objectives, we conducted fieldwork at the Service's Headquarters and at field offices in Charlotte, North Carolina; Chicago, Illinois; Los Angeles, California; and Washington, DC. At the Service's Headquarters, we evaluated policies, procedures, and other documents for FIF and discussed them with officials. Officials from the OI and FCD were also interviewed about their activities and oversight of field office investigations. The Service's Management and Organization Division provided FIF case and arrest data on closed investigations from a computer database, for FYs 1997 and 1998 (through August 25, 1998). We used this data to help us determine the accuracy of certain data and reported accomplishments for the program.

At the four field offices we visited, we evaluated local policies, procedures and documents for FIF investigations. We also sampled cases closed by the field offices during FY 1997 and 1998, to help us evaluate the (a) accuracy of data entered into the Service's database and (b) investigative accomplishments. The closed cases that we reviewed were limited to cases coded as [redacted] in the Service's computer database. The [redacted] code is defined as FIF investigations that involve Federally insured financial institutions. At three field offices, 15 closed cases with the highest dollar losses for each office were evaluated. For each of these three offices we also evaluated another 15 cases that were selected randomly from the remaining closed cases. At the Los Angeles field office we only reviewed 15 cases because it had a limited number of [redacted] cases. Most of the [redacted] cases at Los Angeles consisted of investigative work performed for other offices.

It is important to note that our review included only closed cases, because an open case can contain Grand Jury material that can only be disclosed to individuals involved in these investigations.

At the four field offices, supervisors and agents were interviewed about their use of SARs as a source to initiate FIF investigations. At each field office we selected a sample of about 30 SARs to help us determine if the offices had evaluated the SARs. The field offices received these SARs during calendar years 1997 and 1998 (through October 21, 1998) and the SARs involved amounts in excess of [redacted] U.S. Attorneys we interviewed explained that fraud above [redacted] would most likely be considered for Federal prosecution.

Finally, to evaluate the Service's interactions with other entities, officials from the FBI, and U.S. Attorney Offices were interviewed about the Service's FIF investigations. Also, we either interviewed or sent questionnaires to region or district officials from the Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), and Office of Thrift Supervision (OTS), which regulate the Nation's financial institutions. We also interviewed and sent questionnaires to officials from 20 of the larger financial institutions. Through these interviews and questionnaires, we obtained information about their interactions with the Service on FIF investigations.

We performed this audit from June 1998 through March 1999. Our review generally covered the Service's activities to investigate FIF for the period October 1, 1996 through August 25, 1998.

Our work was conducted in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States, and included such audit tests as were determined necessary.

AUDIT RESULTS

Finding 1. Certain Actions Could Strengthen Efforts To Investigate The Most Significant Violations

The Service's FIF investigations have resulted in increasing prosecutions in State and Federal courts and disrupted some major schemes to defraud banks. In FY 1998, 73 percent of all cases closed were successfully prosecuted. Additionally, although the cases we analyzed generally met the Service's case selection criteria, Federal prosecutors did not prosecute other cases because of various reasons including minimal interest. Although not every case will result in a prosecution, the Service can help ensure that the most significant investigations are initiated by (a) completing efforts to review and refine criteria on the type of cases field offices should initiate, and (b) ensuring field offices effectively use enhancements that the Service is making to its SAR database. Otherwise, the Service will have less assurance that it always pursues the most significant crimes.

Recommendations

We recommend the Director ensure that officials:

1. Complete actions to refine case selection guidance to field offices based on the trends in financial institution fraud; and
2. Complete software enhancements that will permit field offices to analyze SAR data more efficiently, and ensure field office agents have adequate training to effectively use the enhancements to the SAR database.

Management Response and OIG Comments

In its October 5, 1999 response to our first recommendation, the Service stated that FCD will continue to provide selection guidance and criteria to all offices. Additionally, the FCD will continue to explore alternative methods to further enhance the case selection process in this area. In its November 1, 1999 response, the Service added that the process is explained in OI's case prioritization formula. Additionally, the Service stated it provided guidelines to each field office to use in weighing the merits of initiating an investigation.

In its October 5, 1999 response to our second recommendation, the Service stated that FCD will ensure that the software enhancements to the SAR database will be completed. Once completed, FCD personnel will conduct training seminars so all personnel can effectively use the

SAR database. In its November 1, 1999 response, the Service added that pending the resolution of any Y2K problems, the software enhancements to the SAR database would be completed within the second quarter of 2000. The completion of the enhancements and the scheduling of training seminars will depend upon (1) availability of funds to complete the software enhancements, (2) availability of agents to receive the training, (3) the Service's responsibility in the 2000 campaign and (4) availability of funds to conduct the training.

We believe that the Service's responses address the issues surrounding both recommendations. The Director should establish a time frame for conducting the training seminars. Otherwise personnel may not use the SAR database as effectively when enhancements are completed. We have requested a copy of the most recent guidelines provided to field offices and of the OI case prioritization formula.

Details

The number of FIF investigations that were prosecuted increased from FY 1997 to FY 1998. Investigations resulting in convictions should help the Service to achieve its strategic goal to deter crimes against financial institutions. Table 2 summarizes prosecutions and convictions from investigations closed by the Service in FY 1997 and FY 1998.

Table 2
RESULTS OF CASES CLOSED

	FY 1997		FY 1998	
	NUMBER	%	NUMBER	%
Cases Closed*	1,574		1,559	
Cases Prosecuted	980	62%	1,144	73%
Federal Convictions	564	36%	717	46%
State Convictions	406	25%	410	26%
No Convictions	10	1%	17	1%

Source: Secret Service Database

**Excludes "Investigations Other District" (IOD) cases (562 and 416 in FY 1997 and FY 1998 respectively) because these cases are opened by a field office to help another field office to investigate a case already opened by the other office. Duplicate cases in the database (13 and 4 in FY 1997 and FY 1998 respectively) were also excluded. However, cases closed does include cases with a [redacted]econdary code that are not reflected in Table 1.*

As Table 2 shows, the percentage of cases prosecuted had increased from 62 percent in FY 1997 to 73 percent in FY 1998. Additionally, at the four field offices we visited, specific investigations resulted in significant recoveries of funds in addition to convictions. For example:

- An investigation was completed of a complex scheme to defraud banks around the Nation through the use of counterfeit checks. This investigation resulted in restitution of $405,357 to the banks and Federal convictions of 12 individuals including the leader of the scheme.

- An investigation was completed of another complex scheme that used fictitious U.S. Government warrants to defraud banks and finance companies throughout the United States. This investigation resulted in the seizure of $1.2 million and Federal convictions of five individuals.

With respect to State convictions, FCD officials stated that as a result of inadequacies in current Federal sentencing guidelines, defendants would often face more severe sentences in State court.

The increase in the percentage of cases prosecuted may, in part, be due to Headquarters emphasis to the field offices to develop significant cases. In May 1998, OI issued a document that reemphasized high profile cases by instructing field offices to develop cases which involve:

[redacted]

Overall, our analysis of 86 cases at the four field offices showed that 74 cases met at least 1 of the above criteria. However, 24 of these 74 cases had not resulted in prosecutions for various reasons including minimal interest by Federal prosecutors.

[redacted]

Our analysis of the Service's database showed, however, that although certain cases involved significant actual dollar losses, 49 percent of the cases closed in FY 1998 involved actual dollar losses of a $1 or less.

Similarly, the database showed that 40 percent of the cases closed in FY 1997 involved actual dollar losses of a $1 or less. A breakdown of the dollar range of losses is shown in Table 3.

Table 3
CASES PROSECUTED WITH ARRESTS AND ACTUAL DOLLAR* LOSSES

	DOLLAR RANGE OF LOSSES	FINANCIAL LOSS		CASES	
		AMOUNT	% of Total	NO.	% of Total
FY 98 Actual	$200,000 +	$23,310,904	61%	48	4%
	$50,000 to $199,999	$8,982,266	23%	94	8%
	$25,000 to $49,999	$3,001,814	8%	87	8%
	Over $1 to $24,999	$3,185,338	8%	357	31%
	$1 or Less	$44	0%	558	49%
	Total	**$38,480,366**	**100%**	**1,144**	**100%**
FY 97 Actual	$200,000 +	$34,200,871	69%	42	4%
	$50,000 to $199,999	$9,342,919	19%	100	10%
	$25,000 to $49,999	$2,858,557	6%	82	9%
	Over $1 to $24,999	$2,995,539	6%	361	37%
	$1 or Less	$49	0%	395	40%
	Total	**$49,397,935**	**100%**	**980**	**100%**

Source: Secret Service Database

* *The term "actual dollar lost" represents the actual financial loss incurred by an individual/ financial institution as a result of the crime committed.*

Officials explained that the high percentage of cases with actual losses of $1 or less was in part due to agents not updating the actual loss amounts as the case progressed. As discussed in Finding 2, our review of cases confirmed officials' statements that agents did not always enter the proper dollar amount for actual losses in the Service's database or adequately support the amount.

Additionally, Headquarters officials explained that they emphasize a proactive approach to all agents in investigating FIF. As a result, cases may not involve crimes with large actual dollar losses because the Service's intent is to stop the crime before it results in large dollar losses.

Accordingly, to help reflect the results of this proactive approach, the Service has also directed agents to show the potential dollar loss of investigations[3]. Our analysis of the cases prosecuted with arrest data,

[3] Potential loss refers to the amount of total exposure or financial loss, which could have occurred if the crime had not been stopped.

however, disclosed that 46 percent of these cases closed in FY 1998 and 37 percent of the cases closed in FY 1997, involved crimes with potential losses of $1 or less. As with the actual loss amounts, officials explained that field agents might not update potential loss amounts in either the case file or the database. Further, officials acknowledged, and our analysis of cases confirmed, that agents did not always adequately support calculations for potential losses. Consequently, we were unable to tell the extent to which cases had stopped crimes before resulting in large dollar losses. As discussed in Finding 2, officials intend to implement additional controls to address this issue.

We recognize that not all cases will result in prosecutions or involve significant dollar losses. As noted by Headquarters officials and shown by our analysis, cases involving crimes with relatively low dollar losses were also accepted for prosecution because they can have a positive impact on the community. Additionally, officials stated that a case might reflect the results of only one defendant. If it is a transnational case, the cumulative losses of related defendants are not shown on each case. Thus, a case may appear insignificant when viewed alone.

We do not disagree with the Service's comments, however, as a result of the above analyses the Service should address two issues which will help ensure the prosecutions continue to increase and further enhance the program's accomplishments. These issues are discussed in the following two sections and include the Service's current efforts to address the issues.

Refine Existing Case Selection Criteria

The criteria provided by Headquarters in May 1998, for selecting investigations is a positive step. However, the types of FIF crimes, as explained by officials and described in the Background Section of this report, are expected to evolve rapidly. Officials explained that they are analyzing FIF crimes continually to detect new trends and provided us examples of very recent crimes. They intend to refine criteria for case selection and provide field offices with additional information on current trends in these types of crimes. We believe that this action can be an important element to ensuring that the program achieves maximum benefits.

At the time we completed fieldwork, officials did not have a specific date when they expect to advise the field offices of current trends and

changes to case selection criteria. The Director should ensure that this step is completed and that the criteria are periodically revised.

Ensure Field Offices Maximize Their Use Of Suspicious Activity Reports

None of the four field offices we visited generally use SARs as an initial source of FIF investigations. The field offices had initiated 8 investigations for 82 SARs we sampled. All of the SARs involved suspicious financial activity [redacted] We could not, however, fully determine the extent to which the field offices evaluated the other 74 SARs because of insufficient documentation kept by the field offices.

Field office supervisors expressed the following reasons why they did not actively use SARs:

- The field offices received a sufficient number of direct referrals from financial institutions and local law enforcement.

- The SARs are not (a) received timely, (b) adequately describing the crime and identifying who to contact at the financial institution, and (c) sorted to only show the activities that the Service investigates.

Additionally, SARs may be duplicated for the same incident. Consequently, multiple SARs may exist for one case. In such situations, it would be unproductive or unnecessary to work each SAR individually.

Headquarters officials concurred with field supervisors that financial institutions provide information that is inaccurate, insufficient and untimely. In a March 11, 1999, memorandum to Treasury's Deputy Assistant Secretary, the Special Agent-in-Charge (SAC) of the FCD also stated that if SARs are not generated immediately, the Service's ability to proactively investigate certain organized and mobile crime organizations is seriously reduced. Despite these limitations, the Service, as noted in a January 1999, OIG report,[4] had acted to improve the use of SAR data because of its importance to proactive investigations. These actions have included:

[4] OIG report on "The Financial Crimes Enforcement Network Suspicious Activity Reporting System" (OIG-99-032, dated January 25, 1999.)

- Steps to more efficiently and timely provide its field offices with a listing of SARs information using the Service Intranet. Field offices can use the Intranet to conduct proactive analysis of SARs related data.

- A computer enhancement to "cluster" SARs. "Clustering" refers to the electronic identification of common items in SARs such as common suspects, addresses, and phone numbers. This information can often lead to garnering valuable investigative leads and can help increase sentencing exposure.

Additionally, the Service is expected to complete other enhancements to the analytical capabilities of the SAR database and the Intranet. These improvements, according to the SAC, will give the Service the capability of performing various proactive analyses. Headquarters officials stated that field offices are encouraged to maximize the use of SARs as an investigative/intelligence-gathering tool.

These actions should help improve the use of SARs. As part of this effort, the Service should ensure it provides agents with training on the analytical use of SAR data and types of queries that can be made. Also, the Service did not have a formal directive to the field on the use of SAR data. As noted in the SAC's March 11, 1999 memorandum, SARs are used to (a) reach prosecutive thresholds, (b) increase the exposure of defendants as it relates to Federal sentencing guidelines, (c) identify new criminal trends, (d) identify systemic weaknesses within financial systems, and (e) initiate new investigations. Accordingly, more formal instructions to the field and training to investigators would better ensure maximum use of SAR data. Otherwise, there is an increased risk that field offices will not maximize SARs usage as we observed during our field visits.

Officials needed to develop a formal timeframe for completing the software enhancements if the current estimate for the second quarter of 2000 is not achieved. Officials also stated that training has been provided to field personnel. Upon implementation of planned enhancements, notification and additional training (if necessary) will be provided.

By completing actions to (a) revise case selection criteria, and (b) maximize the use of SAR data, the Service will have greater assurance that the percentage of significant cases will be at the highest level. Accordingly, the Director should ensure that the appropriate Service officials complete the actions discussed in this finding.

Finding 2. Performance Measurements And Reporting Need Improvement

The Service's external FIF performance measure of cases closed as shown in its FY 1998 Annual Performance Report did not fully describe the results of the FIF program. Additionally, certain reports on program accomplishments and other data on FIF investigations were not always accurate or valid. The GPRA emphasizes that agencies are to establish results oriented performance measures for programs, and to accurately report on a program's accomplishments. Headquarters officials had recognized the limitation of the existing performance measures but developing good results oriented performance measures for law enforcement programs can be difficult. Reports and other data were not always accurate or valid because controls for reporting data were either inadequate or not followed by employees. Without results oriented performance measures and accurate data, the overall quality and effectiveness of the program cannot be readily determined.

Recommendations

We recommend the Director ensure officials:

1. Develop (a) results oriented performance measures for external reporting; and (b) management reports that will provide information on these measures; and

2. Complete procedures on how agents are to: (a) determine and support the actual and potential dollar losses of FIF investigations, and (b) verify the accuracy of actual and potential dollar losses that are entered into the computer system.

Management Response and OIG Comments

In its October 5, 1999 response, the Service stated that FCD, in conjunction with the Chief of the Management and Organization Division, will explore various methods to initiate the use of result oriented performance measures. The Service believed these new methods should serve both internal management reporting needs and also meet GPRA reporting requirements. In its November 1, 1999 response, the Service explained that before it could set a deadline for developing and implementing these methods, it was imperative to ensure that the measurements will accurately reflect the work being done by agents.

In its October 5, 1999 response to our second recommendation, the Service stated that FCD, in conjunction with OI, would develop guidelines to improve uniformity in the determination of actual and potential dollar losses in FIF investigations. The FCD has also initiated efforts designed to institute an auditing program that will monitor the accuracy of actual and potential dollar losses that are entered in the Master Central Index system. In its November 1, 1999 response, the Service stated that it expected to provide the field with the guidelines and implement the audit program by the end of the fourth quarter of 2000. The Service noted, however, that completion of these actions may be delayed because of efforts to ensure information systems are Year 2000 compliant.

We believe that the Service's response generally meets the intent of both recommendations. However, we continue to believe the Service should establish a timeframe to complete development of results oriented performance measures and to determine the management reports needed to provide information on those measures. Otherwise, these actions may not be completed in as timely a manner and officials' will remain less able to determine the effectiveness of the FIF program. Accordingly, we request the Director establish a timeframe for completing these actions or a date by which the Service expects to establish a timeframe.

Details

The Service's performance measure of cases closed did not fully describe the accomplishments of the FIF program. Additionally, statistical data on the results of the overall program and on specific investigations were either not fully supported or always reported accurately. Improving its external performance measures and completeness of reporting for FIF investigations will help the Service comply with the requirements of the GPRA. The following two sections discuss these areas in greater detail.

More Meaningful Performance Measures And Reports Are Needed To Determine Impact Of Investigations

At the time we began our review, the Service's primary external performance measure for the FIF program was cases closed. To develop the annual target number for this measure, officials reviewed historical data and then estimated the number of cases they believed the Service would close. To illustrate, for FY 1998, officials estimated

that the Service would close 3,000 cases and included this as the target number for FY 1998.

The number of cases closed, however, does not allow Congress or other external reviewers, to fully determine the benefits of the program. As discussed on page 8 of this report, our analysis of cases showed that certain investigations had resulted in significant benefits. However, we could not determine the overall effectiveness of the program because the current external performance measure of cases closed is not results oriented.

Additionally, the number of cases closed includes, as a separate case count, the efforts of an office to assist another office in an investigation. These efforts are defined by the Investigative Manual as "Investigations Other District" (IOD). An IOD, for example, can consist of an agent in a field office interviewing an individual or obtaining information from a business or other government agency. The information the agent obtains is provided to another field office to help it complete a case for prosecution. Our analysis of the Service's database showed that 416 (21 percent) of the 1,979 cases closed in FY 1998 were IODs.

Although these IOD activities are necessary to develop the case, the IOD should not be counted as a separate case if the IOD consists of an interview or obtaining information. External reviewers could misinterpret these IODs as investigations of different crimes.

Headquarters officials explained, however, that an IOD is often a multi-district organized criminal investigation and not the investigation of a single criminal activity. As a result, FCD officials advised us that they would place greater emphasis on assigning multi-district cases a separate number. This step, according to officials will allow for the better identification of total losses attributed to a multi-district case that is investigated by several offices.

In such instances, when investigations result in separate prosecutions we concur that they should be counted as separate cases. However, when the IOD consists of an interview, to assist another office in developing a case, that interview should not be reflected as a separate case in accomplishment reports.

Output measures, like cases closed, were long recognized by the Department of Justice's Law Enforcement Assistance Administration as increasing the risk that management will concentrate on statistics that

do not necessarily reflect the overall quality of the program. In enacting GPRA, Congress recognized the limitations of output measures and emphasized that agencies were to develop results oriented performance measures that show the actual impact of the program. In other words, Congress intent was to hold agencies accountable for program results as measured by the differences the program makes in the economy or the lives of citizens.

Headquarters officials explained that the quantity of cases closed is one small part of the overall performance level of any law enforcement agency. To rely on this statistic alone would provide an incomplete picture of an agency's overall performance. Recognizing this, officials explained that they have other performance measures that are used internally for program management. Performance reports are disseminated to officials and the reports are used for decision making. For example, for internal purposes, officials stated they have the following measures:

- Indictments and convictions in the highest priority cases such as those that involve criminal organizations and result in disrupted operations or dismantled infrastructure;

- Effective use of forfeiture, restitution, and recoveries to support other investigations and prosecutions; and

- Percentage of cases resolved by civil settlements.

Service officials advised us they are developing additional meaningful performance measures to better show the results of the program for external reporting. However, developing results oriented performance measures for external GPRA reporting which satisfy all stakeholders is difficult for enforcement programs. Service officials explained that the Office of Management and Budget has recognized that agencies may have difficulty in developing good results oriented measures for law enforcement programs. Congress has also recognized that implementation of results oriented measures is evolutionary in that proficiency comes with time and experience.

To illustrate the difficulty in developing measures for external reporting, officials explained that they had offered the first two internal measures listed as examples above to its stakeholders for consideration. However, these two measures were rejected. Officials stated that the Office of Enforcement agreed that no Treasury law enforcement bureau would use these measures after discussions with U.S. Attorney Offices.

All Department of Justice law enforcement bureaus were also to discontinue the use of these measures. There was a concern that defense attorneys might claim that their clients were targeted for arrest and indictment to meet organizational performance quotas.

In its effort to develop better performance measures, officials stated the Service is a member and active participant, along with other Federal law enforcement agencies, in several GPRA measurement advisory and working groups. At the conclusion of our review, officials had advised us that they intended to include two additional measures in the Service's FY 2001 Performance Plan. These measures are actual and potential dollar losses from FIF investigations.

We believe that the efforts of the Service to incorporate additional meaningful performance measures is proper. Accordingly, the Director should ensure officials include these measures in the Service's Performance Plan. Once included in the plan, the Service should ensure that the new performance measures are linked to the field offices investigative activities. This concept was recently emphasized in a May 1997 General Accounting Office (GAO) guideline, *Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review* (GAO/GGD-10.1.16). The guideline specifically asks, "Are the strategies logically linked to the goals and day-to-day activities of the managers and staff?" Also, once appropriate FIF performance measures are established, oversight reports should be developed to determine if the new measures are accomplished.

As discussed in the next section of this finding, once appropriate reports are developed, the Service should ensure that the controls for reporting accurate data are adequate.

Reported Accomplishments Data Not Fully Supported

The Service's information systems did not fully support accomplishment data for either cases closed or for the dollar losses associated with the cases. Table 4 summarizes the discrepancies between the [redacted] FIF cases closed that the Service reported for FY 1997 and the number of [redacted] FIF cases recorded in the Service's computer database.

Table 4
DIFFERENCES IN CASE CLOSED DATA
FY 1997

SOURCE	FINANCIAL INSTITUTION FRAUD	
	CASES CLOSED	FINANCIAL LOSS
SECRET SERVICE REPORTS (Feb. 98)	1,767	$129,300,446
OIG ANALYSIS	1,641	$117,834,320
SECRET SERVICE RESPONSE (April 99)	1,741	$125,537,595

We provided the details of these differences to officials and they provided several reasons for the discrepancies. With respect to the OIG analysis, they stated that the Service's reports included foreign office cases. These cases, however, were not included in the data that the OIG analyzed. Additionally, officials indicated that the data given to the OIG is from a live database in that employees are adding and editing data from prior years. Consequently, data historical in nature is changing over time.

Service officials reviewed our analysis and advised us that their data system showed that 1,741 cases were closed or a difference of 26 cases from its reported accomplishments. Officials explained that the difference between their analysis and the Service's reports does not rise to the level of "significant error" as discussed in GAO's *Guide to Assessing Agency Performance Plans* (GAO/ GGD-10.1.20). Officials added that Treasury's Office of Strategic Planning and Evaluation has also stated that historical data not be revised unless there is substantial error. Employees, however, did not provide us supporting documentation, such as a historical record, to show the adjustments that were made to the database after the accomplishments were initially reported. Therefore, we could not validate the Service's analysis that showed a difference of only 26 cases.

In our recent report on counterfeit performance measures (OIG-99-093, dated June 16, 1999), we recommended and the Service agreed to develop procedures for documenting adjustments that employees make to accomplishments reported for the counterfeit program. We similarly believe that maintaining an accurate record of the detailed transactions that support accomplishments and subsequent edits is important. Accordingly, the Service should keep a record to support management reports. The GPRA also requires that a description of the means used to verify and validate measured data be provided in an agency's

performance plans. GAO's *Guide to Assessing Agency Annual Performance Plans* (GAO/GGD-10.1.20) also states:

> In order for measures to be valid and reliable, the data on which they are based must be free from significant error.... Significant error...would affect conclusions about the extent to which performance goals have been achieved.

In addition to the differences shown in Table 4, the next two sections discuss other issues that impact the validity of the FIF statistical data.

Better Procedures Are Needed For Calculating And Reporting Actual And Potential Dollar Losses

The Service field offices did not (a) consistently calculate and support calculations of loss amounts for FIF cases, or (b) accurately report actual and potential loss amounts in the computer system. The following examples illustrate these variances:

- Field offices lacked consistency in the methods used to determine the potential loss amounts for crimes involving credit cards. For example, two field offices determined the potential loss amount at one times the credit card limit while another office used two times the credit card limit.

- Our review of 86 FIF cases for the four sites visited found inadequate support in the case files for the calculations of actual and potential losses. In 24 cases, the case files lacked adequate documentation to support the calculation of the actual loss amounts. Similarly, 41 case files lacked adequate documentation to support the calculation of the potential loss amounts.

- In 21 of 86 cases, the computer system reflected a different actual dollar loss than that shown in the case file. The differences in the 21 cases ranged from $765 to $9,873,500 for actual losses and had a total gross variance of $14,273,283. In these 21 cases, the total actual dollar loss was $4,601,949 according to the case files.

- Similarly, 13 of the 86 case files reflected a different potential dollar loss than that shown in the case file. The potential loss amount differences ranged from $1,499 to $9,000,000 and had a total gross variance of $22,472,116.

The Service's Investigative Manual requires field personnel to reflect actual losses in an investigation. However, the variances in calculating and documenting loss amounts occurred because the manual lacks specific procedures that instruct agents on how to calculate and document the actual and potential dollar losses for FIF cases. Data was not accurately entered in the computer system, in part, because procedures do not require an independent verification of data entry for FIF case amounts to ensure the agent accurately recorded the data. Currently, the agent is responsible for ensuring the accuracy of data entered in the computer system.

As a result, should the above conditions continue or become more significant, managers, Congress and others who use these reports and data may arrive at inaccurate conclusions about the program. For example, the potential and actual loss amounts are useful to measure performance and are needed by U.S. Attorneys and judges to determine the significance of the crime. Judges consider the potential loss amount for sentencing purposes.

Officials advised us that FCD is working with the Information Resources Management Division to initiate system enhancements, which will ensure the accuracy of potential and actual loss amounts associated with FIF cases. They intend to implement a procedure that requires each field office to revise the potential and actual loss amounts to properly reflect the investigations final results in order to close the case in the computer system.

Additionally, officials explained that they are actively working with the credit card industry to formulate a standard for reporting potential losses. Due to potential losses associated with different varieties of credit card fraud, (i.e., account takeovers, counterfeit, false applications), they anticipate that several categories to report the losses may need to be created.

Finding 3. Communications With Specific Outside Parties Could Be Enhanced

The Service has participated in working groups and task forces with other law enforcement and regulatory agencies and financial institutions to combat FIF. However, field offices had not always complied with a Service guideline to formally notify the FBI of FIF investigations that field offices initiated. Adherence to this requirement, however, is important to ensure a coordinated law enforcement approach to FIF investigations. This condition occurred for various reasons, but primarily because field office supervisors believed a formal notice to the FBI was unnecessary.

Responses from specific financial institutions and regulators to our questionnaire reemphasized the importance that the Service coordinate with them. The primary concerns to specific financial institutions and regulators are for the Service to (a) regularly advise them of FIF investigative priorities, (b) dedicate resources to FIF investigations, and (c) increase its interactions with financial institutions and regulators.

Recommendations

We recommend the Director ensure officials:

1. Clarify to all field offices the specific situations and case types where the FBI must be formally notified when an FIF investigation is initiated.
2. Analyze the results of our questionnaire and determine additional actions that could strengthen coordination with both specific financial institutions and regulators or with them as a group.

Management Response and OIG Comment

In its October 5, 1999 response to our first recommendation, the Service stated that the FCD would ensure that all field offices are provided with guidelines on when to formally notify the FBI of the Service's FIF investigation. However, in its November 1, 1999 response, the Service stated that it had not set a specific goal for when to provide guidelines to the field offices. First, the FCD must review the Memorandum of Understanding (MOU) between the Service and the FBI to determine if the language in the MOU is current. Once FCD has reaffirmed both parties commitment to the MOU, OI will

issue updated guidelines to the field relating to the Service's policy in notifying the FBI about the Service's involvement in bank fraud cases. Set forth in those guidelines will be instructions requiring the field to document their notification to the FBI. Review by field office agents assigned to financial crimes will monitor adherence to the policy.

In its October 5, 1999 response to our second recommendation, the Service stated that FCD has been assigned the task to analyze results of the questionnaire. This process has begun and will continue with goals to (1) develop a more effective and efficient investigative program, and (2) strengthen partnerships with the financial community and regulators. The FCD will also ensure that when measures are implemented to achieve these goals each field office will be notified and steps taken to monitor the results. In its November 1, 1999 response the Service stated that the analysis would be completed in the second quarter of 2000. If necessary, the Service will establish a working group to resolve issues raised by the analysis.

We believe that the Service's response meets the intent of both recommendations. The Service's response, however, did not include a date by which the Service expects to complete action to provide guidelines to the field offices on when to notify the FBI. We believe a timeframe for completing this action should be established. As noted in our report, completion of this action is important to ensuring the most coordinated law enforcement approach to FIF investigations.

We request documentation to support the actions described by the Service when the actions are completed.

Details

Officials in the FCD and in the field offices have participated in various working groups and associations and exchanged information regarding crimes against financial institutions. For example, FCD officials attend monthly meetings of the Bank Fraud Working Group with banking regulators and other law enforcement agencies to discuss issues concerning bank fraud. Among the issues that the working group has discussed are (a) SAR developments, (b) cyberbanking, and (c) check fraud or other fraud schemes and actions to combat these schemes. Further, the Service is developing a training tool for law enforcement agencies that will include detailed descriptions of all types of evidence commonly encountered in financial crime investigations. The above activities are in accordance with a Service directive that requires FCD and Service offices to maintain a liaison with other law enforcement agencies, regulatory agencies, and financial institutions.

The directive indicates that it is imperative that personal contact be established at the field level to ensure that the financial community and prosecutors are aware of the Service's investigative responsibilities.

The following two sections discuss the Service's interactions with the FBI, regulators, and financial institutions in greater detail and include actions the Service could take to further enhance these relationships.

Field Offices Should Formally Advise FBI Of Cases Initiated

Three of the four field offices visited did not comply with a Service requirement, implemented in October 1997, to formally notify the FBI of FIF investigations initiated. In an October 20, 1997 letter to the FBI, the Service's Assistant Director of OI stated that the Service's field offices would first call the applicable FBI field office about the investigation. The field office would then send a letter to the FBI field office within ten days. A primary purpose of the requirement was to prevent duplication of investigative effort and to promote efficiency and initiate a structured and coherent law enforcement approach on FIF investigations.

Field office supervisors gave various reasons why they did not comply with the requirement. At one office, the supervisor indicated the office notifies the FBI telephonically when an FIF investigation is opened, but indicated written correspondence is an administrative burden. At another office, the supervisor indicated that because of the volume of FIF, the risk of law enforcement agencies duplicating the Service's efforts is remote. Additionally, bank investigators would advise them if another agency were investigating the same fraud. Although field offices did not always formally notify the FBI, the offices may provide an informal notice during interagency meetings or during participation on a task force.

Unless the Service notifies the FBI, there is a risk that the Government's effort to investigate specific crimes will not be as efficient as possible. For example, our review of 86 FIF cases at four field offices, found that the Service initiated three investigations of FIF which the FBI also was investigating. As an FBI official explained in a

December 1998 letter, the FBI and the Service, in accordance with the requirement, work together to ensure investigative efforts are not duplicated and that crimes are addressed in an expeditious manner. FCD officials concurred with the FBI official's comments. They explained that duplication of investigative efforts with the FBI was not

an issue but they added that they will continuously monitor the investigative efforts between the two agencies.

We concur with officials' comments and believe that adherence to the formal reporting requirement will help ensure the effectiveness of these monitoring efforts. Accordingly, OI should ensure field offices comply with the guideline to notify the FBI by clarifying the guideline and identifying the specific situations where notice to the FBI must be made. The revised instructions should then be reemphasized to the field offices to comply with the requirements. Headquarters officials explained they would advise the Service's Office of Inspections to check for compliance with this requirement during their internal reviews.

Interactions With Financial Institutions And Regulators

Because of the Service's requirement to maintain a liaison with regulatory agencies and financial institutions, we contacted large banks and regulators of financial institutions about their interactions with the Service. The questionnaire responses showed that the following areas are of most concern to the financial institutions and regulatory agencies:

- **Dedicated Resources to FIF investigation** (*Refer to responses to survey questions 15a and 15b in Appendix 2*)

  Thirteen of 17 financial institutions and 5 of the 10 regulatory agency offices that responded had comments concerning the efficient use and need for additional resources for the Service's fraud investigations. Regulators suggested that the Service should coordinate its resources with them to combat FIF. For example, two financial institutions stated that an investigative unit with little or no protection duties for FIF should be formed. Five institutions also stated that more agents should be available for FIF investigations.

- **Better communications and clearly defined FIF investigative priorities** (*Refer to responses to survey questions 15a and 15b in Appendix 2*)

  From the survey, 7 of 17 financial institutions and 5 of 10 regulatory agency offices expressed a need for more involvement from the Service in areas like networking and on-going communications regarding case investigations and trends in FIF. In

addition, three institutions and five regulators stated that the Service's investigative priorities could be more clearly defined.

- **Presentations on FIF topics** (*Refer to responses to survey questions 11, 13a, and 13b in Appendix 2*)

  Of those who responded, 14 of 24 financial institutions and 2 of 20 regulatory agency offices had attended seminars and presentations by the Service. Many of them suggested FIF topics that they are interested in the Service presenting at educational seminars.

In discussing these comments, Headquarters officials stated that they also believe that the Service could effectively use additional staffing for FIF investigations and that prior year appropriations did not include specific funds for this program. In reviewing the comments, the officials believed that they have a good relationship with members of the financial service community, especially on referrals. They believe the three areas of concern expressed by financial institutions and regulatory agencies do not accurately portray their relationships with financial institutions and regulators as a whole.

Responses to our questionnaire also indicated the Service interacted effectively with specific financial institutions and regulators. However, the Service should consider other comments from specific financial institutions and regulators, where applicable, to further enhance its interactions with them. For example, the Service could explain to specific banks and regulators its current FIF priorities.

Regarding comments that regulators provided on SARs/case referrals, officials stated that regulators do not have a role in this process as it relates to law enforcement activities, since SAR data is now available from FinCEN. Officials believed Federal regulators would not be able to provide significant assistance to their FIF investigative activities.

However, we believe the Service's liaison with regulators could be helpful because regulators also monitor SARs and examine financial institutions. For example, regulators may identify FIF that institutions had not reported, such as fraud by financial institution employees. Also, the regulators may be able to assist investigators in gathering documentation and testifying.

ABBREVIATIONS

ECSAP	Electronic Crimes Special Agent Program
FBI	Federal Bureau of Investigation
FCD	Financial Crimes Division
FDIC	Federal Deposit Insurance Corporation
FIF	Financial Institution Fraud
FinCEN	Financial Crimes Enforcement Network
FY	Fiscal Year
GAO	General Accounting Office
GPRA	Government Performance and Results Act
IOD	Investigations Other District
OCC	Office of Comptroller of the Currency
OI	Office of Investigations
OIG	Office of Inspector General
OTS	Office of Thrift Supervision
SAC	Special Agent-in-Charge
SAR	Suspicious Activity Report

SUMMARY OF QUESTIONNAIRE RESPONSES

The questionnaire concerning the Secret Service's FIF Program was sent to 20 larger financial institutions and 20 regulatory agency offices (OCC, OTS, and FDIC). The questionnaire responses were received from the 20 regulatory agency offices and 19 of the 20 financial institutions. Some institutions provided more than one response from different geographical areas. Thus, 25 financial institution responses were received. The questionnaire participants did not provide responses to all the questions and for some questions they provided more than one response. As a result, the percentage shown in each question may not total to 100 percent. For each question, the number of responding financial institutions or regulatory agency offices is shown in parenthesis.

The following abbreviations are presented in the survey results:

- FI Financial Institutions
- RA Regulatory Agency Offices

QUESTIONNAIRE RESULTS

I. Referral Process

1. Do you refer significant FIF matters to the Secret Service?

FI (25)	RA (20)	
84%	25%	YES
16%	75%	NO

2. How are FIF referrals made to the Secret Service?

FI (25)	RA (16)	
88%	59%	Referral on Suspicious Activity Report (SAR) via FinCEN
72%	14%	Direct referrals to Secret Service-Special Agents
68%	14%	Direct referrals to Secret Service- Field Offices
4%	5%	Others Means
0%	9%	Direct referrals (directly communicated) to Secret Service- Headquarters

3. Does the Secret Service investigate the most significant referrals concerning FIF?

FI (24)	RA (18)	
25%	5%	Yes
42%	17%	No
33%	78%	No basis for judgment

II. Communications

4. Why are FIF cases directly referred to the Secret Service?

FI (23)	RA (15)	
100%	13%	Good relationships with investigators
61%	13%	Show interest and frequently communicate on FIF activities
57%	13%	Good communication of case status
48%	20%	Perform significant investigations
22%	80%	Other (See below)

Other reasons for direct referrals to the Secret Service

a.) Regulatory agencies (12 regulatory agency offices responded to the question)

	OTHER REASONS
4	Not applicable
2	A developing situation that warrants the Secret Service's immediate action
3	Designated agency and/or investigative expertise/jurisdiction of certain suspicious activities
1	A criminal referral or SAR was filed by the bank but not picked up by the local FBI or Secret Service
1	Timeliness
1	Dictated by prevailing policy and practice

SUMMARY OF QUESTIONNAIRE RESPONSES

b.) Financial Institutions (five financial institutions that responded to the question)

OTHER REASONS
A specific interest has been shown in the fraud and/or the fraud meets a particular Secret Service's investigation criteria
Great response and quick action
Efficiency purposes
Fraud Task Force
Willingness to take cases

5. How often are FIF referrals made to the Secret Service?

SAR			DIRECT CONTACT		
FI (21)	RA (18)	Per month	FI (25)	RA (18)	Per month
5%	55%	None	8%	61%	None
43%	6%	1 - 5	60%	6%	1 - 5
9%	0%	6 - 10	16%	0%	6 - 10
19%	0%	11- 25	4%	0%	11- 25
14%	0%	26 - 50	0%	0%	26 - 50
5%	0%	51 - 100	4%	0%	51 - 100
0%	0%	101 or more	0%	0%	101 or more
		Others (per year) :			Others (per year) :
0%	22%	Blank	0%	5%	Blank
0%	11%	1 - 5	4%	17%	1 - 5
5%	0%	5 - 10	4%	11%	5 - 10
0%	6%	11 - 25	0%	0%	11 - 25
0%	0%	26 - 50	0%	0%	26 - 50

6. Identify the types of communication between your organization and the Secret Service?

TYPES OF COMMUNICATION	FINANCIAL INSTITUTIONS (25)		REGULATORY AGENCIES (18)	
	%	NO.	%	NO.
a. telephone	100%	25	67%	12
b. networking groups or professional associations	84%	21	44%	8
c. informal conversations	64%	16	28%	5
d. meetings	64%	16	39%	7
e. correspondences (letters, memorandums)	44%	11	39%	7
f. reports (formal - of activities and results of investigations)	40%	10	0%	0
g. industry periodicals, journals, magazines	4%	1	0%	0
h. e-mail	0%	0	0%	0

SUMMARY OF QUESTIONNAIRE RESPONSES

7. Is there sufficient exchange of information between the Secret Service and your representative (person responsible for FIF investigations) during the investigation of a referral (including status reports)?

FI (25)	RA (19)	Written
32%	10%	YES
32%	32%	NO
36%	58%	No basis to judge

FI (25)	RA (19)	Oral
56%	26%	YES
8%	11%	NO
36%	63%	No basis to judge

8. Does the Secret Service notify your organization of the completed FIF investigations?

FI (25)	RA (20)	
36%	5%	YES
4%	25%	NO
48%	20%	Sometimes
12%	50%	No basis to judge

9. In general, does the Secret Service make beneficial suggestions and recommendations for corrective actions and improvements to prevent future Financial Institution Fraud?

FI (22)	RA (14)	
45%	29%	YES
55%	71%	NO

10. Does Secret Service inform your organization when they open an investigation from your referrals?

FI (25)	RA (19)	Written
16%	10%	YES
36%	32%	NO
48%	58%	No basis to judge

FI (25)	RA (19)	Oral
68%	21%	YES
16%	16%	NO
16%	63%	No basis to judge

III. Seminars and Presentations

11. Has the Secret Service held or participated in any seminars or presentations on FIF within the last two years that you attended?

FI (24)	RA (20)	
58%	10%	YES
42%	90%	NO

12. What was the benefit of the seminar or presentations:

FI (14)	RA (2)	
77%	0%	Increased awareness of Secret Service investigations and goals regarding FIF
69%	100%	Increased awareness of FIF schemes
46%	0%	Presented prevention philosophies and methodologies
8%	0%	Other *(Special Intelligence Information)*
0%	0%	No Benefit *(Explain)*

13. Are there any specific FIF topics that your organization would like Secret Service to present? (See below)

FI (20)	RA (18)	
30%	78%	YES
70%	22%	NO

Presentations (Continuation of Question 13)

a.) Regulatory agencies (12 regulatory agency offices provided suggestions to the question; some had multiple answers)

	SEMINARS/PRESENTATIONS REQUESTED
7	Credit card fraud including groups
4	Check fraud including groups
3	Money laundering
3	Nigerian solicitations/scheme
3	USSS jurisdictional responsibilities and methods of cooperation and support between the USSS and the regulatory agencies
2	Counterfeiting issues
1	Currency & financial instrument counterfeiting schemes
1	BSA (Bank Secrecy Act)
1	Common forms of FIF
1	Computer Fraud
1	Identity Fraud
1	New trends in financial crimes

SUMMARY OF QUESTIONNAIRE RESPONSES

b.) Financial institutions (five institutions provided suggestions to the question; some had multiple answers)

SEMINARS/PRESENTATIONS REQUESTED
USSS jurisdictional responsibilities and methods of cooperation and support between the USSS and the financial institutions.
General information relative to industry/regional trends
Training and intelligence sharing seminars on issues such as check fraud, counterfeit documents and money laundering
Updates on counterfeiting currency, credit card and other access devices
Updates on beneficial information regarding foreign/ethnic fraud rings such as Nigerian, Asian, and Russian Groups
Organized Crime of financial institutions
Money Laundering
Trends regarding credit card fraud

V. Profile and Trends

14. In what areas of FIF do you perceive a threat? Some institutions and regulatory agency offices had multiple answers.)

CATEGORIES OF FIF	FINANCIAL INSTITUTIONS (25)		REGULATORY AGENCIES (18)	
	%	Number of FI	%	Number of RA
a. Counterfeit Checks	84%	21	17%	3
b. Check Fraud	72%	18	78%	14
c. Organized Crime Groups	60%	15	17%	3
d. Credit Cards	52%	13	56%	10
e. Identity Fraud	52%	13	17%	3
f. Embezzlement	36%	9	72%	13
g. Debit Cards	28%	7	0%	0
h. Access devices	20%	5	0%	0
i. Teller Fraud	16%	4	17%	3
j. Check Kiting	12%	3	39%	7
k. Fraudulent Negotiable Instruments	12%	3	6%	1
l. Wire Transfer Fraud	12%	3	17%	3
m. Computer Fraud	8%	2	28%	5
n. Electronic Fund Transfer	8%	2	0%	0
o. Consumer Loan Fraud	4%	1	22%	4
p. Desktop Publishing	4%	1	6%	1
q. Mortgage Fraud	4%	1	39%	7
r. Telecommunication Fraud	4%	1	0%	0
s. Counterfeit Securities/Notes	0%	0	0%	0
t. Money Laundering	0%	0	61%	11
u. Structuring	0%	0	6%	1
v. Others (*Any form of insider abuse*)	0%	0	6%	1

SUMMARY OF QUESTIONNAIRE RESPONSES

15. The comments on how to improve the Secret Service-FIF Program and program functions were extracted from the survey questionnaire.

a.) The following comments were given by 17 financial institutions; some had multiple answers.

	COMMENTS TO IMPROVE THE FIF PROGRAM
	RESOURCES
6	The agents should stay engaged with the case investigation. There should be a balance between the protection and investigation missions while maintaining continuity in the case investigation.
5	There should be additional resources given to fraud investigation. Also, there should be an increase in the number of Secret Service agents for the investigative mission.
2	There should be a separate unit dedicated to fraud investigation with little or no protection responsibilities.
	AWARENESS
5	There should be more networking by the Secret Service.
3	The Service should present its FIF program to financial institutions including criteria for opening cases, and the Service investigative priorities versus other officials law enforcement agencies.
1	The Secret Service Management (Headquarters) should have a meeting with officials from at least the top 15 banks.
1	The law enforcement personnel should have an awareness of the banking industry and its operations.

b.) The following comments were given by 10 regulatory agency offices;(some offices had multiple answers).

	COMMENTS TO IMPROVE THE FIF PROGRAM
	COMMUNICATIONS
5	Communication with the regulatory agencies on a regular basis and coordination of resources with the regulatory agencies to combat FIF
2	More participation in the Bank Fraud Working Group Meetings
2	Offer educational seminars and/or short topics presentations to the bank regulators and bankers associations
1	Maintain on-going dialogue concerning case investigations and trends in bank fraud
	INVESTIGATIVE PRIORITIES
5	Need to clearly defined FIF investigative priorities
1	Outreach program direct to the regulatory agencies
1	Increase Secret Service profile

MANAGEMENT RESPONSE

DEPARTMENT OF THE TREASURY
UNITED STATES SECRET SERVICE

October 5, 1999

MEMORANDUM FOR ROBERT K. BRONSTRUP
OFFICE OF INSPECTOR GENERAL
DEPARTMENT OF THE TREASURY

THRU: Kevin T. Foley
Assistant Director
Office of Investigations

Gordon S. Heddell
Assistant Director
Office of Inspection

FROM: Gregory J. Regan
Special Agent in Charge
Financial Crimes Division

SUBJECT: Response to Recommendations in Audit

The following attachment is Financial Crimes Division's response to the Department of the Treasury's Office of the Inspector General (OIG's), FY 1999, Audit Report on the U.S. Secret Service's Investigations of Financial Institution Fraud. This response includes corrective measures to be taken with regard to the U.S. Secret Service's investigations concerning Financial Institution Fraud.

MANAGEMENT RESPONSE

The Office of Inspector General's (OIG) report of its audit concerning the U.S. Secret Service's involvement in the investigation of Financial Institution Fraud contains six recommendations. For each of these recommendations the Office of Investigations has taken corrective action to ensure compliance.

Certain Actions Could Strengthen Efforts To Investigate The Most Significant Violations

Recommendations:

- Complete actions to refine case selection guidance to field offices based on the trends in financial institution fraud; and

Response:

- For the past two years the Secret Service, Office of Investigations has provided case selection guidance/criteria to all offices and personnel. The Special Agent in Charge (SAIC) of Financial Crimes Division (FCD) will ensure that these actions will continue with the goal of providing guidance to the offices and their Financial Institution Fraud case selection (FIF). Additionally, the SAIC of FCD will continue to explore alternative methods (i.e.: supervisors conferences, teleconferences) to further enhance the case selection process in this area.

Recommendations

- Complete software enhancements that will permit field offices to analyze SARs data more efficiently, and ensure field office agents have adequate training to effectively use the enhancements to the SARs database.

Response:

- The Special Agent in Charge of Financial Crimes Division will ensure that the software enhancements to the SAR's system which were initiated prior to the Treasury IG audit will be completed. Once completed, personnel from FCD will conduct training seminars that will allow all personnel to effectively utilize the SAR's database.

MANAGEMENT RESPONSE

Performance Measurements and Reporting Need Improvement

Recommendations

- Develop (a) results oriented performance measures for external reporting; and (b) management reports that will provide information on these measures; and

Response:

- The Special Agent in Charge of Financial Crimes Division in conjunction with the Chief of the Management and Organization Division will explore various methods to initiate the use of result oriented performance measures. These new methods should serve both internal management reporting needs and also meet the Government Performance and Results Act (GPRA) reporting requirements.

Recommendations

- Complete procedures on how agents are to: (a) determine and support the actual and potential dollar losses of FIF investigations, and (b) verify the accuracy of actual and potential dollar losses that are entered into the computer system.

Response:

- The Special Agent in Charge of Financial Crimes Division in conjunction with the Office of Investigations will continue to develop guidelines will provide guidance and uniformity in the determination of actual and potential dollar losses in FIF investigations. The SAIC of FCD has already initiated efforts designed to institute an auditing program that will monitor the accuracy of actual and potential dollar losses that are entered into the Master Central Index (MCI) system.

  Once implemented this measure will ensure that prior to closing out a case, office personnel must make modifications to the actual and potential loss screens. Additionally, dollar levels will be established requiring justification for an unusually high actual/potential dollar loss figure.

3

MANAGEMENT RESPONSE

Communications With Specific Outside Parties Could Be Enhanced

Recommendations

- Clarify to all field offices the specific situations and case types were the FBI must be formally notified when an FIF-type investigation is initiated.

Response:

- The Special Agent in Charge of Financial Crimes Division will ensure that all field offices are provided with guidelines and case types for the requirement to formally notify the FBI with the U.S. Secret Service is initiating and FIF - type investigation. The SAIC of FCD will develop measures to ensure these requirement are met.

Recommendations

- Analyze the results of our questionnaire and determine additional actions that could strengthen coordination with both specific financial institutions and regulators or with them as a group.

Response:

- The process of analyzing results of the questionnaire has already been initiated. This process will continue with the goal being to not only develop a more effective and efficient investigative program but also to better strengthen our partnerships with the financial community and regulators. The SAIC of FCD will also ensure that when measures are implemented to achieve these goals each field office will be notified and steps will be taken to monitor the results.

MANAGEMENT RESPONSE

DEPARTMENT OF THE TREASURY
UNITED STATES SECRET SERVICE

November 1, 1999

MEMORANDUM FOR: ROBERTA N. RICKEY
DIRECTOR, PROGRAM AUDIT
OFFICE OF INSPECTOR GENERAL
DEPARTMENT OF THE TREASURY

FROM: GREGORY J. REGAN
SPECIAL AGENT IN CHARGE
FINANCIAL CRIMES DIVISION
U.S. SECRET SERVICE

THRU: AD – OFFICE OF INVESTIGATIONS
AD - OFFICE OF INSPECTION

SUBJECT: TREASURY OIG AUDIT
FINANCIAL INSTITUTION FRAUD

Reference is made to the most recent correspondence dated October 14, 1999, concerning the U.S. Secret Service Financial Institution Fraud program, as prepared by the Department of Treasury OIG Audit staff.

Further reference is also made to the previous memorandum submitted by the Special Agent In Charge Financial Crimes Division to the Treasury OIG Audit Staff dated October 5, 1999.

Below please find our responses to the Treasury OIG Audit Staff's recommendations.

Recommendation Number 1:

"The response should indicate that this process would be formalized in a procedure. A procedure would help ensure the process continues if the current SAIC assumes another position. We will also request supporting documentation to show that the guidance has recently been provided to the field offices."

[5]

[5] This response included the OIG's comments from a October 14, 1999 memorandum to the Service concerning the Service's October 5, 1999 response. The Service's November 1, 1999 memorandum provides responses to each OIG comment.

MANAGEMENT RESPONSE

Response:

The current process is spelled out in the Office of Investigation's case prioritization formula. Because each district is different and subsequently the crimes affecting that district are different we do not believe our investigative mission would be properly served by formalizing a procedure when choosing a case. Historically the Secret Service has had many successful investigations because an agent or supervisor familiar with that particular district felt the need to become involved in the case. Feedback from the local police and financial communities are still our most effective tools when choosing cases. By formalizing the procedure for case selection we would effectively remove the local SAIC's discretion in case selection.

Attached please find the guidelines sent to each field office to be used when weighing the merits of initiating an investigation. Even though these are guidelines which the Office of Investigations feels an office should use when selecting a case, this does not preclude an office from becoming involved in an investigation which will benefit both the Secret Service and the local community.

Recommendation Number 2:

"The response should indicate a timeframe for completing the software enhancements and for conducting the training seminars. Also, we request documentation supporting these actions when they have been completed."

Response:

Because of the Treasury Department's focus on Y2K issues and the government wide mandate to ensure the uninterrupted operation of mandatory systems, it is anticipated, pending the resolution of any Y2K problems, the software enhancements to the SAR's database will be completed within the second quarter of 2000. Training seminars that will teach agents to effectively utilize the SAR's database will be scheduled depending on a number of factors: availability of funds to complete the software enhancements, the availability of agents to receive the training, the Secret Service's responsibility in the 2000 Campaign, and the availability of funds to conduct the training.

When these actions are completed we will furnish the supporting documentation.

MANAGEMENT RESPONSE

Recommendation number 3:

"The response states that the Service will explore various methods to initiate the use of results oriented performance methods. We believe the Service should establish a deadline for developing specific measures that are results oriented. Additionally, the response does not mention what steps if any are underway to develop management reports for these measures. We request supporting information addressing these specific matters."

Response:

The Office of Investigations is currently working with the Chief of the Management and Organization Division to determine the best possible methods to measure results oriented performance. Before the Office of Investigations can set a deadline for developing and implementing these methods, it is imperative to ensure that the measurements will accurately reflect the work being done by our agents. In addition the measurement needs to take into account the enormous protective responsibilities of each of our agents. We do not feel it would be advantageous or is it in the best interest of all parties, to set an arbitrary deadline. Each division is committed to developing and implementing in a timely fashion the best possible program for measuring results oriented performance. We believe that when the program is developed it will address the concerns of Treasury while accurately reflecting the fine work being done by our agents. Once our program is established we will provide the necessary supporting documentation.

Recommendation Number 4:

"The response does not indicate a date by which the SAIC expects to finish guidelines providing guidance and uniformity in the determination of actual and potential dollar losses in FIF investigations. Also, the response does not indicate a date by which efforts to institute an auditing program will be completed. We request a date by which the Service expects to complete these actions and documentation supporting the actions when they have been completed."

Response:

We believe that by the end of the fourth quarter of 2000, we will be able to provide the field with updated guidelines for determining actual/potential losses in FIF investigations. Once again in an effort to provide the most comprehensive and accurate formula for these measurements, we do not want to be governed by an arbitrary deadline.

MANAGEMENT RESPONSE

The SAIC of Financial Crimes Division is actively working with both the financial community and the Chief of the Management and Organization Division to ensure that when the new guidelines are in effect not only will our figures reflect the types of cases being worked by our agents but the auditing program will also be in effect ensuring quality control. Once again, due to unrelated Y2K issues full implementation of this project may be delayed.

Recommendation Number 5:

"There appears to be language missing from the response. We request, however, a date by which the Service expects to complete action to provide guidelines to the field offices on when to notify the FBI. Additionally, we request a date by which the Service expects to complete development of measures to ensure the requirement is met. Once these actions have been completed we request the Service provide us supporting documentation."

Response;

We have not set a specific date for providing guidelines to the field. The SAIC of Financial Crimes Division is currently reviewing the MOU between the Secret Service and the FBI to determine if the language in the MOU is current. Once the SAIC has had the opportunity to reaffirm both parties' commitment to the MOU, the Office of Investigations will issue updated guidelines to the field relating to the Service's policy in notifying the FBI about the Service's involvement in bank fraud cases. Set forth in those guidelines will be instructions requiring the field to document their notification to the FBI. Review by FCD regional SA's will ensure that the policy is adhered to.

Recommendation Number 6;

"We request documentation to show that the analysis of the questionnaire responses has been initiated. We also request a timeframe by which the Service expects to complete the analysis and determine what additional actions, if any will be taken to strengthen coordination."

Response:

The analysis of the responses to this questionnaire has already been assigned to personnel within Financial Crimes Division. Upon completion of that review in the second quarter of 2000, it is anticipated that Financial Crimes Division will establish a working group that will address and resolve any issues raised by the analysis of the responses.

Upon review of this document, please feel free to contact the coordinator for this project ASAIC Edward Kitlas at 202/ 406- 5039.

MANAGEMENT RESPONSE

Additional Information In Response to Recommendation Number 1

The Secret Service believes that the methods used to track performance in counterfeit currency and financial crimes investigations, while striving to achieve the same goal must be different. Because the Secret Service is the sole repository for counterfeit U.S. currency, it is relatively easy to track counterfeit notes passed, seized, and percentage in circulation.

When attempting to measure performance in our financial crimes investigations we are faced with an entirely different challenge. Some financial institutions are reluctant to categorize losses as fraud and instead choose to report these losses as bad debt, while other institutions are reluctant to report fraud because of the fear of having customers lose confidence in the institution. When attempting to quantify fraud losses the Secret Service is often dependent upon the financial institutions which suffered the losses for our figures. Although this information is useful , this method has proven to be somewhat unreliable when evaluating performance. We believe that to present a true overall performance measure we need to evaluate factors which are not easy to quantify.

The Secret Service has learned from experience that one of the best ways to measure an office's performance in the financial crimes arena is by feedback. By developing and maintaining a professional relationship with both the financial and law enforcement communities we are better able understand the problems facing each of these communities and address specific problems within different regions. Our goal as an agency is not to keep producing greater and greater statistics each year, but to identify and address problems which impact our communities. Financial frauds and schemes which affect the communities of California and other west coast states may not be the same problems affecting communities on the east coast.

When evaluating a field office's performance, we emphasize a proactive approach. By looking at the actual and potential fraud losses, we are able to gain an insight into our office's ability to suppress a financial fraud before it was able to adversely affect the community. We also look at an office's ability to develop and investigate cases which involve organized groups operating in multiple districts. Recently we have seen a dramatic increase in the number of financial crimes being committed by organized transnational criminal groups. These groups are becoming more sophisticated, and diverse in their criminal endeavors. The feedback we receive from our relationships help us formulate an strategy which enables us to fulfill our investigative mission while serving the community.

Another measurement used in the evaluation of our offices is the investigation of new and emerging criminal schemes. By stressing the need to be proactive and aggressive our investigation and prosecution of newly emerging schemes, we are able to help both the financial and law enforcement communities identify systemic flaws and develop technological solutions to these problems, thereby having a positive impact upon the community.

Although statistics can be helpful when trying to determine the performance of an office we have learned that in a world where payment systems are global, communications instantaneous, and travel inexpensive today's financial crimes are only limited by the imagination of the criminal. To accurately measure our success in combating these crimes we need to rely on more than just numbers on a sheet, we need to humanize the equation. The feedback we receive from our partnerships with local and state police departments, state and federal prosecutors, financial institutions and the community in which we operate all help make up the overall picture of an office's performance. Statistics can be used to either prove or disprove a point but, we feel the intangibles often times are the true indicators of an office's performance.

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