

INTEREST

INVESTIGATIONS MAGAZINE 2022



Office of Inspector General

Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection

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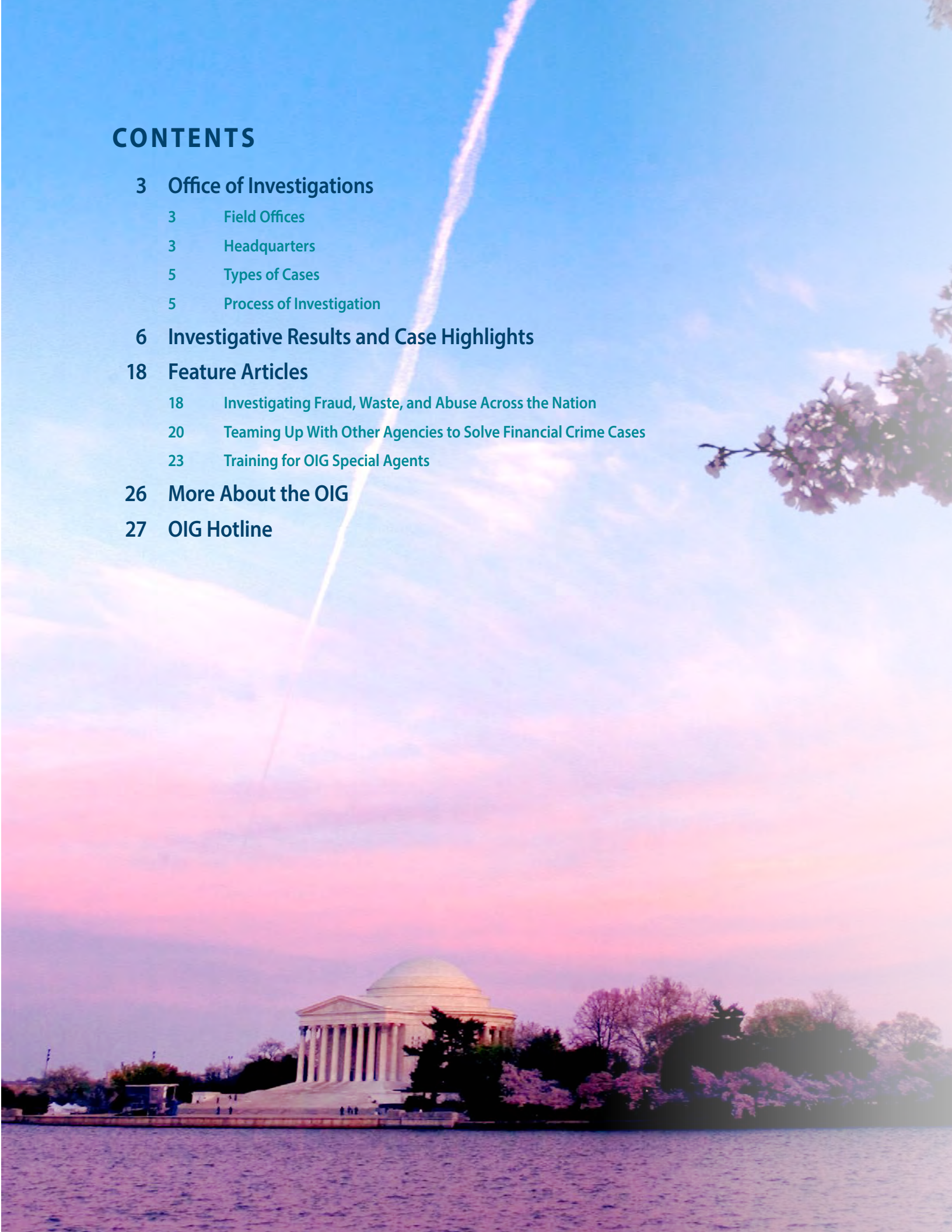
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OFFICE OF INVESTIGATIONS

Our investigative team includes about 30 federal agents, forensic analysts, technical specialists, and support staff with a broad range of experience. Our agents are law enforcement officers with authority granted by the U.S. attorney general to carry firearms, make arrests, and execute warrants for search and seizure.

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

Field Offices

We have field offices in Chicago (Midwestern Region); Miami (Southeast Region); New York City (Northeast Region); San Francisco (Western Region); and Washington, DC (Mid-Atlantic Region).

The field offices partner with the Federal Bureau of Investigation (FBI), the U.S. Secret Service, the Internal Revenue Service (IRS)–Criminal Investigation, the Federal Deposit Insurance Corporation (FDIC) OIG, the U.S. Small Business Administration (SBA) OIG, the Special Inspector General for Pandemic Recovery, and other federal law enforcement, using their extensive specialized expertise in white-collar financial fraud to develop cases prosecuted by U.S. attorney's offices across the nation. When appropriate, our agents also work with state and local law enforcement and other governmental organizations. We conduct outreach with the supervision, legal, and enforcement groups at the Board of Governors of the Federal Reserve System and the Bureau of Consumer Financial Protection, including the 12 Federal Reserve Banks that supervise financial institutions under delegated authority from the Board and regional Bureau supervision staff.

Headquarters

Headquarters Operations is part of the Washington, DC, field office.

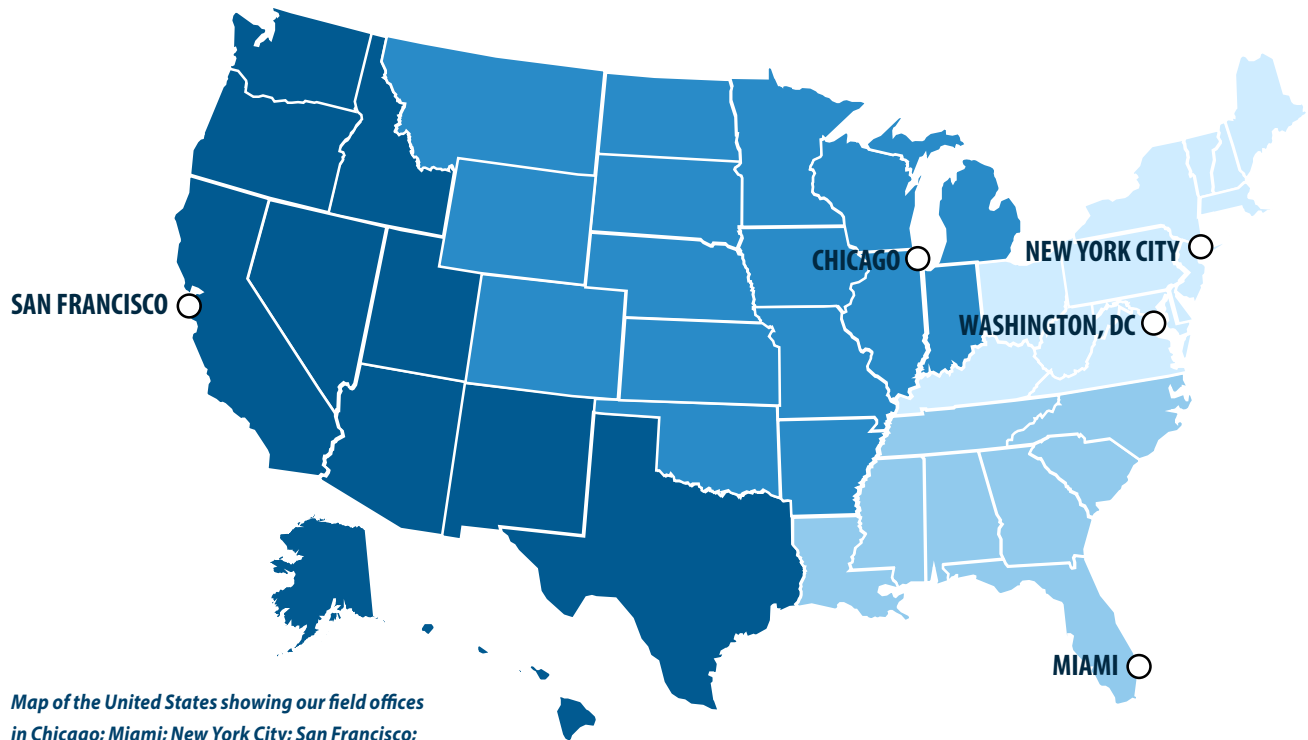
Headquarters Operations oversees all field offices and provides operational and administrative support. Headquarters Operations comprises the Special Investigations Unit (SIU), the Electronic Crimes Unit (ECU), the OIG Hotline, and the Investigative and Administrative Support team.

Special Investigations Unit

The SIU performs a large percentage of the investigative work at the Washington, DC, field office. The SIU is a dedicated team of agents with extensive experience working cases that pose a reputational risk to the Board or the Bureau, such as leaks of confidential information or employee misconduct. The SIU regularly updates the inspector general and, when appropriate, top Board and Bureau officials on important developments.

The SIU's work is fast paced and 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.

OFFICE OF INVESTIGATIONS



Map of the United States showing our field offices in Chicago; Miami; New York City; San Francisco; and Washington, DC.

Electronic Crimes Unit

The ECU serves as the digital forensic investigative unit of the OIG. The ECU is responsible for providing detailed, complex analysis of electronic data associated with OIG investigations. The ECU uses specialized computer hardware and software to help agents find key data, sift through metadata, break encryption, and crack passwords. Our agents have discovered crucial evidence that has been used to help prosecute individuals who have committed crimes related to the programs and operations of the Board and the Bureau. Not all the work is conducted in the lab. ECU agents can also execute search and seizure of computer evidence, write warrant applications for data, and provide onsite support to help bring equipment back to the lab so that they can recover evidence.

The ECU participates in the FBI's Cyber Task Force and the U.S. Secret Service's Cybercrimes Task Force and adheres to computer forensic quality assurance standards as directed by the Council of the Inspectors General on Integrity and Efficiency.

Hotline

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

Investigative and Administrative Support

The Investigative and Administrative Support function conducts financial analysis and policy development and review; handles budgeting and procurement; coordinates firearms training, defensive tactics training, and other training; handles internal and external peer reviews, Freedom of Information Act inquiries, and congressional inquiries; manages and administers the investigative case management system; and delivers statistical reporting to Congress, the U.S. Department of Justice (DOJ), the U.S. attorney general, and the Council of the Inspectors General on Integrity and Efficiency.

Types of Cases

Criminal cases

Criminal cases are potential violations of law for which the penalties may include fines or incarceration—for example, a bank executive who obstructs the examination process or falsifies data or other information.

Administrative cases

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

Civil cases

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

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

Process of Investigation



Complaint evaluation

Incoming complaints initially undergo a limited evaluation to identify whether the potential violation is within our jurisdiction (typically 30 days).



Preliminary investigation

A preliminary investigation is a deeper evaluation of allegations of potential criminal activity during which ambiguous or incomplete information is clarified (typically 180 days). All lawful investigative methods may be used in a preliminary investigation except for electronic surveillance, physical searches, and acquisition of foreign intelligence information.



Full investigation

A full investigation is undertaken when an articulable, factual basis has been established that reasonably indicates that a federal crime may have been committed. All lawful investigative methods may be used in a full investigation.

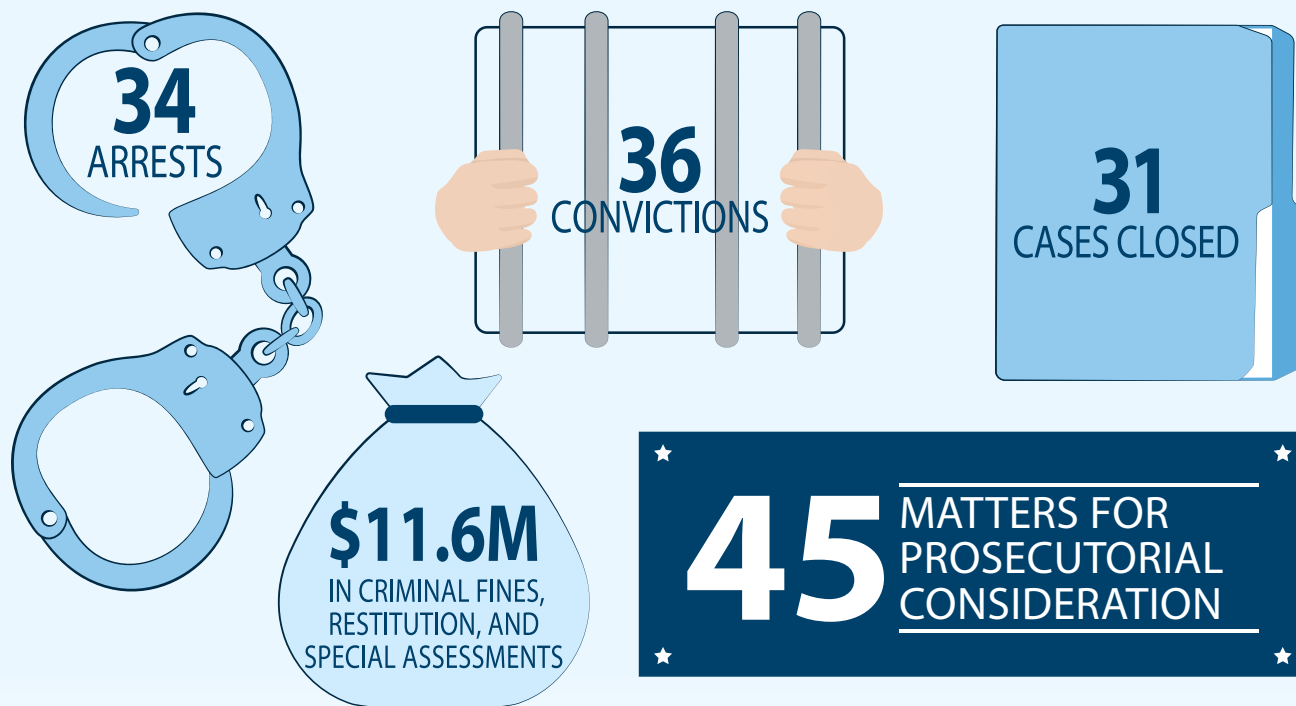


Prosecution or administrative action

Prosecution involves formal charges by the U.S. Attorney's Office that may lead to an indictment, trial, conviction, or guilty plea; administrative action may lead to oral or written reprimands, suspension, debarment, or termination.

INVESTIGATIVE RESULTS AND CASE HIGHLIGHTS

OCTOBER 1, 2020–SEPTEMBER 30, 2021



FORMER CROWN BANK CEO SENTENCED TO PRISON FOR FRAUD

“Dahl fraudulently used the bank’s funds to pay substantial personal debts and expenses and altered records to hide his activity.”

Peter Earl Dahl, former CEO of Crown Bank in Minnesota, was sentenced to 1 year and 1 day in prison, followed by 2 years’ supervised release, after pleading guilty to one count of wire fraud and one count of filing a false income tax return. He was also ordered to pay \$190,500 restitution and a \$200 special assessment and cannot hold employment with fiduciary responsibilities without prior approval from the probation office. Crown Bank is a subsidiary of Crown Bankshares Inc., a Board-supervised bank holding company for which the offender also served as president and member of the board of directors.

Dahl fraudulently used the bank’s funds to pay substantial personal debts and expenses and altered records to hide his activity. From 2012 to 2017, he made false entries to conduct transactions for his own benefit without notifying the bank’s board of directors and without properly notifying the appropriate state and federal regulatory agencies. Dahl also deceived investors about a pending deal for another bank to acquire Crown Bank at a premium when there was no agreement with the bank in question. Further, Dahl filed a false income tax return for 2016 by not disclosing \$720,000 in income from transactions designed to look like loans or stock purchases from third parties but that were instead going directly to him. The false tax return resulted in a tax loss of about \$285,200.

This case was investigated by our office, the FBI, the FDIC OIG, and the IRS–Criminal Investigation. It was prosecuted by the U.S. Attorney’s Office for the District of Minnesota in Minneapolis.

FORMER BANK CEO SENTENCED TO PRISON FOR FALSIFYING BANK RECORDS AND MISAPPROPRIATING MORE THAN \$1.6 MILLION

“Hager **issued and signed as CEO three unauthorized Standby Letters of Credit worth \$1.6 million on First Advantage Bank letterhead to facilitate the purchase and delivery of diamonds and gold from Africa.**”

Robert John Hager, former CEO of Border State Bank in Greenbush, Minnesota, was sentenced to 18 months in prison for making a false entry in bank records. Hager served as a director of the bank’s holding company, Border Bancshares Inc., which is supervised by the Board, and held various executive positions in other banks that Border Bancshares Inc. acquired, including the former First State Bank of Clearbrook and the former First Advantage Bank.

In late 2015 and early 2016, Hager loaned money to a bank customer to invest in a diamond and gold venture in Liberia, Ghana, and Kenya that promised a quick return. After depleting his personal funds on the investment and exhausting the amount he could borrow from the bank, Hager asked other individuals, including bank customers, shareholders, and directors of the bank, to lend him money to recover his personal funds. In 2016 and 2017, Hager requested a series of loans by having bank customers take out loans in their names or draw from loans they already had

before he transferred the funds to himself. In May 2016, Hager issued and signed as CEO three unauthorized standby letters of credit (SBLCs) worth \$1.6 million on First Advantage Bank letterhead to facilitate the purchase and delivery of diamonds and gold from Africa. SBLCs are considered obligations of a bank and can affect a bank’s financial standing. Hager concealed these actions by failing to report the SBLCs to bank personnel, who would have logged them into the bank’s general ledger where the SBLCs could be tracked by regulators. Hager abused his position as CEO and put the bank and its customers at risk.

This case was investigated by our office, the FBI, and the FDIC OIG. It was prosecuted by the U.S. Attorney’s Office for the District of Minnesota in Minneapolis.

FORMER WHITAKER BANK PRESIDENT SENTENCED FOR EMBEZZLEMENT

“[Hinkebein] **admitted to stealing golf carts and other property from a foreclosed country club owned by Whitaker Bank and admitted to being reimbursed for [intentionally misreported] personal expenses.**”

Thomas Hinkebein, former president of Whitaker Bank, a state member bank in Kentucky, was sentenced to 1 year and 1 day in prison after pleading guilty to embezzling or misapplying more than \$50,000 of the bank’s funds.

Hinkebein admitted to willfully misapplying assets of the bank from January 12, 2016, to August 13, 2018. He admitted to stealing golf carts and other property from a foreclosed country club owned by Whitaker Bank and admitted to being reimbursed for personal expenses, including vehicle repairs, technology purchases for family members, and residential landscaping, which he intentionally misreported as legitimate work expenses.

This case was investigated by our office, the FBI, and the FDIC OIG. It was prosecuted by the U.S. Attorney’s Office for the Eastern District of Kentucky.

FORMER EXECUTIVES OF FIRST NBC BANK AND A BORROWER INDICTED FOR BANK FRAUD AND FALSE STATEMENTS

“The executives **repeatedly extended new loans to borrowers** to cover their previous loans and overdraft fees.... By the time regulators closed First NBC Bank in April 2017, **the borrowers owed more than \$250 million.**”

Four former First NBC Bank executives and a borrower—Ashton J. Ryan, William Burnell, Robert Brad Calloway, Fred V. Beebe, and Frank J. Adolph, respectively—were named in a superseding indictment for defrauding the \$5 billion New Orleans-based bank that failed in April 2017. If convicted, the five defendants face, for each of the dozens of charged counts, up to 30 years in prison, a fine of \$1 million or the greater of twice the gain to a defendant or twice the loss to any victim, up to 5 years’ supervised release, and a \$100 mandatory special assessment. The fact that a defendant has been charged with a crime is merely an accusation and a defendant is presumed innocent until and unless proven guilty.

From 2006 through April 2017, the defendants allegedly conspired to defraud First NBC Bank through a variety of schemes. Specifically, they conspired with others to defraud the bank by disguising the financial status of certain borrowers and their troubled loans, concealing the true financial condition of the bank from the board, auditors, and examiners.

During the course of the conspiracy, the executives repeatedly extended new loans to borrowers to cover their previous loans and overdraft fees, which they could not have otherwise paid. To hide this practice, the executives made false statements in loan documents and elsewhere about the purposes of the loans, the borrowers’ abilities to repay the loans, and the sources of funds used to pay the loans. The new loans also prevented the borrowers from appearing on lists that the executives gave the bank’s board each month, which would have highlighted that the borrowers were unable to make loan payments or had cash flow problems. When members of the board or the bank’s outside auditors or examiners asked about loans to these borrowers, the executives made further false statements to conceal their activities.

As a result, the balance on these borrowers’ loans continued to grow, even as the executives each received millions in compensation. By the time regulators closed First NBC Bank in April 2017, the borrowers owed more than \$250 million. The bank’s failure cost the FDIC’s Deposit Insurance Fund—the fund that pays back depositors after a bank fails—just under \$1 billion.

This case was investigated by our office, the FBI, and the FDIC OIG. It is being prosecuted by the U.S. Attorney’s Office for the Eastern District of Louisiana.

FLORIDA RESIDENT SENTENCED FOR \$3.9 MILLION PPP FRAUD

“Hines **submitted multiple PPP applications** to an insured financial institution on behalf of different companies.... Within days of receiving the PPP funds, Hines **bought a 2020 Lamborghini Huracán.**”

Florida resident David T. Hines was sentenced to more than 6 years in prison for wire fraud after fraudulently obtaining some \$3.9 million in Paycheck Protection Program (PPP) loans. The court ordered Hines to forfeit \$3.4 million as well as the \$318,000 Lamborghini luxury car he bought for himself using the loan proceeds.

Hines submitted multiple PPP applications to an insured financial institution on behalf of different companies, claiming to have had dozens of employees and millions of dollars in monthly payroll. In addition to submitting false and fraudulent IRS forms to support the applications, Hines also helped others obtain fraudulent PPP loans. The financial institution approved and funded about \$3.9 million in loans. Within days of receiving the PPP funds, Hines bought a 2020 Lamborghini Huracán, which he registered jointly in his name and in the name of one of his companies. Soon after, he failed to make the payroll payments he claimed on his loan applications. He did, however, make purchases at luxury retailers and resorts in Miami Beach.

This case was investigated by our office, the FDIC OIG, the IRS–Criminal Investigation, the SBA OIG, and the U.S. Postal Inspection Service. It was prosecuted by the DOJ and the U.S. Attorney’s Office for the Southern District of Florida.

Arrests are made when sufficient evidence is collected.



COSTA RICAN CITIZEN INDICTED FOR FRAUDULENT LOTTERY SCHEME AND FALSE STATEMENTS

“Victims, believing they won the lottery and needed to pay taxes before collecting prize money, wired funds to the defendant... [who] took over \$1 million from dozens of unsuspecting individuals.”

Allan Francisco Castrillo Bastos, a citizen of Costa Rica living in El Paso, Texas, was indicted in connection with a lottery scheme to steal over \$1 million from dozens of unsuspecting individuals. The defendant was charged with 1 count each of conspiracy to commit wire fraud, making a false statement to obtain credit, and conspiracy to commit money laundering and 10 counts of wire fraud. The United States is seeking forfeiture of the proceeds derived from the scheme as well as a money judgment of over \$1.2 million against the defendant. The fact that a defendant has been charged with a crime is merely an accusation and a defendant is presumed innocent until and unless proven guilty.

Castrillo Bastos allegedly participated in or caused a series of fraudulent wire transfers in which victims, believing they had won the lottery and needed to pay taxes before collecting prize money, wired funds to the defendant. He then transferred the fraudulently obtained funds to accounts outside the United States. As a result, Castrillo Bastos took over \$1 million from dozens of unsuspecting individuals. Further, the indictment alleged that he knowingly made a false statement on an application for the renewal of a loan or line of credit with a financial institution. He misrepresented their income from the scheme, disguising it as derived from the sale of Bitcoin and failing to disclose that it was fraudulently obtained.

The case was investigated by our office, the FBI, and the U.S. Department of Homeland Security's Homeland Security Investigations. It is being prosecuted by the U.S. Attorney's Office for the Western District of Texas.

FORMER BOARD EMPLOYEE SENTENCED FOR THEFT OF GOVERNMENT PROPERTY

“Rao... printed more than 50 restricted government documents from his workstation and bypassed Board restrictions on emailing and making electronic copies of restricted materials.”

Venkatesh Rao, of Maryland, was sentenced to 1 year of supervised probation, a criminal fine of \$2,500, and a special assessment of \$25 for theft of government property from the Board, his former employer.

In 2019, the Board notified Rao that his work performance was unsatisfactory, and Rao decided to voluntarily separate from the Board. Before separating, Rao entered a Board building in Washington, DC, approximately 16 times during weekends; he printed more than 50 restricted government documents from his workstation and bypassed Board restrictions on emailing and making electronic copies of restricted materials. Rao removed the restricted documents, which contained proprietary information used by the Board to conduct bank stress tests, from the building and stored the materials at his home.

This case was investigated by our office. It was prosecuted by the U.S. Attorney's Office for the District of Maryland.

OKLAHOMA RESIDENT SENTENCED TO PRISON FOR PPP FRAUD

“ [Maturino] submitted forms that **misrepresented the company’s payroll spending, number of employees, and taxes paid**. He also admitted to misrepresenting how the loan would be used. ”

Rafael Maturino of Oklahoma was sentenced to 1 year and 1 day in prison, followed by 3 years of supervised release, after pleading guilty to bank fraud in a scheme to defraud the First Bank of Owasso by applying for a PPP loan under false pretenses. He was also ordered to pay \$97,800 in restitution and a \$100 special assessment.

Maturino applied for a PPP loan on behalf of Maturino Enterprises Inc., a company he claimed to own and operate. He submitted forms that misrepresented the company’s payroll spending, number of employees, and taxes paid. He also admitted to misrepresenting how the loan would be used, claiming that the funds would go toward retaining workers; maintaining payroll; or making mortgage interest, lease, and utility payments, as specified under PPP rules.

This case was investigated by our office, the FBI, and the SBA OIG. It was prosecuted by the U.S. Attorney’s Office for the Northern District of Oklahoma.

OKLAHOMA RESIDENT PLEADED GUILTY AFTER FRAUDULENTLY APPLYING FOR PPP LOANS

“ James **applied for a PPP loan... fraudulently claiming that [seven] individuals were employees of Velocity Innovations LLC.** ”

Adam Winston James of Oklahoma pleaded guilty to aggravated identity theft in a scheme to defraud Regent Bank when applying for a PPP loan.

James applied for a PPP loan on behalf of Velocity Innovations LLC, a company he claimed to own and operate. As part of the application, he used the identities of at least seven people without their knowledge, fraudulently claiming that those individuals were employees of Velocity Innovations LLC. James received \$125,900 from Regent Bank as a result of the scheme.

This case was investigated by our office, the FBI, and the SBA OIG. It was prosecuted by the U.S. Attorney’s Office for the Northern District of Oklahoma.

OKLAHOMA RESIDENTS PLEADED GUILTY, SENTENCED TO PRISON, FOR ATTEMPTED \$5.4 MILLION PPP FRAUD

“The Etuks and Ojo **allegedly created 12 fictitious business entities to fraudulently apply for about 22 PPP loans...to obtain over \$5.4 million in loans and received close to \$1 million from the banks.**”

Three individuals in Oklahoma pleaded guilty to charges including bank fraud, aggravated identity theft, and false statements to a financial institution for allegedly conspiring to fraudulently obtain over \$5.4 million in PPP loans. Ibanga Etuk was sentenced to 4 years in prison, was ordered to pay \$168,000 in restitution, and will be removed from the United States following his sentencing. His wife, Teosha Etuk, was sentenced to 1 year and 1 day in prison and ordered to pay \$150,000 in restitution. Adewale Matthew Abel is awaiting sentencing. Olusola Ojo, also implicated in the fraud, is awaiting trial after being charged with bank fraud, bank fraud conspiracy, and aggravated identity theft, as reported in our previous semiannual report to Congress; the fact that a defendant has been charged with a crime is merely an accusation, and a defendant is presumed innocent until and unless proven guilty.

The Etuks and Ojo allegedly created 12 fictitious business entities to fraudulently apply for about 22 PPP loans using false information about payroll spending, number of employees, taxes paid, details of business ownership, and their relationships with one another. All four defendants submitted multiple applications for the same businesses to more than 12 banks without disclosing to those banks that they were submitting duplicative applications. They conspired to obtain over \$5.4 million in loans and received close to \$1 million from the banks.

This case was investigated by our office, the FBI, and the SBA OIG. It is being prosecuted by the U.S. Attorney's Office for the Northern District of Oklahoma.

BUSINESS OWNERS INDICTED IN \$7 MILLION PPP FRAUD

“The siblings [allegedly] conspired to submit and submitted at least eight fraudulent PPP loan applications...[They] **fraudulently obtained proceeds [were used] on personal expenses.**”

Two siblings, Larry Jordan and Sutukh El, owners of multiple businesses, were indicted and charged in New York with wire fraud conspiracy, bank fraud conspiracy, bank fraud, and engaging in monetary transactions with criminally derived property for their alleged participation in a scheme to file fraudulent PPP loan applications seeking nearly \$7 million. The fact that a defendant has been charged with a crime is merely an accusation and a defendant is presumed innocent until and unless proven guilty.

According to the allegations, the siblings conspired to submit and submitted at least eight fraudulent PPP loan applications. In support of their applications, they made numerous false and misleading statements about their companies' respective business operations and payroll expenses. Further, the fraudulent loan applications were supported by fake documents, including falsified federal tax filings.

Finally, the defendants used fraudulently obtained loan proceeds on personal expenses, including securities, home improvements, and a vehicle. To date, the government has seized over \$400,000 of the more than \$600,000 that the defendants obtained.

This case was investigated by our office, the FBI, the FDIC OIG, the Federal Housing Finance Agency (FHFA) OIG, and the SBA OIG. It is being prosecuted by the DOJ and the U.S. Attorney's Office for the Western District of New York.

NEW JERSEY BUSINESSPERSON CHARGED IN \$1.8 MILLION PPP FRAUD

“Malanga...received about **\$1.8 million** in funding... [This funding was] **diverted...** to various accounts belonging to **his relatives, his minor children, and other businesses.**”

Rocco A. Malanga, a New Jersey businessperson, was charged with wire fraud, bank fraud, and money laundering for his alleged participation in a scheme to file fraudulent PPP loan applications. He was approved for three loans and received about \$1.8 million in funding. The fact that a defendant has been charged with a crime is merely an accusation and a defendant is presumed innocent until and unless proven guilty.

According to the allegations, Malanga used multiple false statements regarding employees and average monthly payroll. The three PPP loan applications were submitted on behalf of three businesses. Once the PPP funds were received, Malanga diverted funds to various accounts belonging to his relatives, his minor children, and other businesses.

This case was investigated by our office, the FDIC OIG, the IRS–Criminal Investigation, the SBA OIG, the U.S. Social Security Administration OIG, and the U.S. Postal Inspection Service. It is being prosecuted by the DOJ and the U.S. Attorney’s Office for the District of Jersey.

External hard drives can contain key pieces of evidence.



FORMER BANK TELLER IN MISSOURI SENTENCED TO PRISON FOR EMBEZZLING FUNDS FROM AN ELDERLY CUSTOMER'S ACCOUNT

“Vaughn was **embezzling money from an elderly customer's accounts** and possessed several check cards issued in the victim's name.”

Missouri resident Anthony Vaughn, a former bank teller at Commerce Bank, a state member bank, was sentenced to 44 months in prison, followed by 5 years of supervised release, after pleading guilty to one count of bank fraud and one count of aggravated identity theft for embezzling funds from an elderly customer's account. The defendant was also ordered to pay \$39,559 in restitution and a \$200 special assessment. He will be prohibited from working in the banking industry.

Vaughn was embezzling money from an elderly customer's accounts and possessed several check cards issued in the victim's name, which Vaughn printed at a local bank branch. He used the cards on more than 100 occasions for his personal benefit. He also transferred funds to his wife's account from the victim's account, used the victim's funds to buy furniture and plane tickets, and forged several checks up to \$30,000 in the victim's name. Vaughn used his position at the bank to create a trail of false entries to cover up his activities. During the investigation, it was discovered that the former bank teller had earlier been involved in similar fraudulent activities while working at two other financial institutions. The total loss to all victims was over \$100,000.

This case was investigated by our office and the FDIC OIG. It was prosecuted by the U.S. Attorney's Office for the Eastern District of Missouri.

FORMER MANAGING DIRECTOR AND TWO FORMER LOAN OFFICERS PLEADED GUILTY IN WIDESPREAD BANK FRAUD SCHEME

“The scheme **resulted in 2,471 Advantage loans and more than \$876 million in credit extended by the bank.** Han, Hu, and Lu received about \$6.9 million in commissions.”

Former employees of a Michigan financial institution—YiHou Han, managing director of residential lending, and Hao Liang “Frank” Hu and Amy Lu, loan officers—pleaded guilty to participating in a conspiracy to originate fraudulent residential mortgage loan applications through the bank's low-documentation Advantage Loan Program. The bank's holding company is supervised by the Board.

From 2011 to 2019, the trio falsified and caused to be falsified borrowers' income and debt-to-income ratios, job titles, employment histories, and supporting documents, among other things. As part of the scheme, they instructed borrowers to fabricate deposit histories and to transfer funds to third parties who would then transfer the funds back to the borrowers as gifts to conceal the true source of the funds. They also knowingly facilitated the approval of loans to borrowers involved in money laundering and tax evasion. As part of the plea, Han admitted that her fraudulent actions were encouraged by members of bank's senior management to increase the bank's revenue and the coconspirators' personal commissions. In sum, the scheme resulted in 2,471 Advantage loans and more than \$876 million in credit extended by the bank. Han, Hu, and Lu received about \$6.9 million in commissions.

This case was investigated by our office, the FBI, the FDIC OIG, and the U.S. Postal Inspection Service. It is being prosecuted by the DOJ Criminal Division's Fraud Section.

FORMER BANK TELLER IN ARKANSAS PLEADED GUILTY TO BANK FRAUD FOR EMBEZZLING FUNDS FROM AN ELDERLY CUSTOMER'S ACCOUNT

“Brown engaged in 11 fraudulent cash withdrawals from the elderly victim's account.”

Arkansas resident Rashaud Brown, a former bank teller, pleaded guilty to one count of bank fraud for his role in embezzling funds from Arvest Bank, a state member bank, and from an elderly customer's account. He had been indicted by a federal grand jury in the Eastern District of Arkansas for 1 count of embezzlement by a bank official and 11 counts of bank fraud. As part of the plea agreement, the defendant will be prohibited from working in the banking industry.

Brown engaged in 11 fraudulent cash withdrawals from the elderly victim's account. Brown used his position at the bank to create a trail of false entries in an attempt to cover up his fraudulent activity.

This case was investigated by our office. It is being prosecuted by the U.S. Attorney's Office for the Eastern District of Arkansas.

FORMER BANK TELLER IN ARKANSAS INDICTED FOR EMBEZZLING FUNDS

“The indictment alleges that the defendant willfully embezzled some \$314,000 from the bank by removing money from the vault and concealing the activity by falsifying bank documents.”

Pamela Cooper, a former official vault teller at the Premier Bank of Arkansas, a state member bank, was indicted by a grand jury with one count of theft, embezzlement, or misapplication by a bank officer or employee. The fact that a defendant has been charged with a crime is merely an accusation and a defendant is presumed innocent until and unless proven guilty.

The indictment alleges that the defendant willfully embezzled some \$314,000 from the bank by removing money from the vault and concealing the activity by falsifying bank documents. If convicted, the defendant faces a maximum sentence of 30 years in prison and a \$1 million fine.

This case was investigated by our office and the FBI. It is being prosecuted by the U.S. Attorney's Office for the Eastern District of Arkansas.

TWO CALIFORNIA SIBLINGS PLEADED GUILTY TO SEPARATE PANDEMIC RELIEF FRAUD SCHEMES NETTING OVER \$2 MILLION

“The siblings each submitted fraudulent applications to multiple banks to obtain about \$2.2 million in PPP loans and Economic Injury Disaster Loans.”

Caesar Oskan and Ester Ozkar, siblings from California, pleaded guilty to making false statements to a financial institution in separate schemes to defraud the federal government of pandemic relief funds.

The siblings each submitted fraudulent applications to multiple banks to obtain about \$2.2 million in PPP loans and Economic Injury Disaster Loans. Oskan admitted that he submitted 27 fraudulent applications, backdating documents to reflect earlier creation dates for the entities so that the entities could qualify for the loans. He further created fake IRS tax documents that contained false statements about the number of employees, payroll costs, and wages paid. Separately, Ozkar admitted that he submitted 14 fraudulent applications using the same methods.

This case was investigated by our office, the FBI, the IRS-Criminal Investigation, the U.S. Treasury Inspector General for Tax Administration, the SBA OIG, and the U.S. Secret Service. It is being prosecuted by the U.S. Attorney's Office for the Northern District of California.

NEW YORK AND FLORIDA RESIDENT CHARGED IN \$3.8 MILLION PPP FRAUD SCHEME

“Based on these alleged misrepresentations, the **lenders approved** Blotnick’s PPP loan applications and provided his purported business with about **\$3.8 million in loans.**”

Gregory J. Blotnick, a dual New York and Florida resident, was charged with eight counts of wire fraud and six counts of money laundering for his alleged role in fraudulently obtaining \$3.8 million in PPP loans. The fact that a defendant has been charged with a crime is merely an accusation, and a defendant is presumed innocent until and unless proven guilty.

Blotnick allegedly submitted eight fraudulent PPP loan applications to several lenders on behalf of seven purported businesses. The applications contained fraudulent representations, including bogus federal tax returns for entities with no history of wages paid during the relevant time period. Blotnick also fabricated the existence of employees listed in purported payroll expense sheets submitted to the various financial institutions. Based on these alleged misrepresentations,

the lenders approved Blotnick’s PPP loan applications and provided his purported business with about \$3.8 million in loans. Blotnick then transferred most of the proceeds into a brokerage account and lost most of the money in stock trading.

The case was investigated by our office, the FDIC OIG, the FHFA OIG, the IRS–Criminal Investigation, and the U.S. Social Security Administration OIG. It is being prosecuted by the U.S. Attorney’s Office for the District of New Jersey.

Surveillance plays a role in many investigations.



TWO TEXAS RESIDENTS AND ONE OREGON RESIDENT CHARGED WITH FRAUD SCHEME TO OBTAIN OVER \$14 MILLION IN PPP LOANS

“They **coordinated or directly submitted applications containing false information...** to maximize the loan amounts. The scheme **resulted in the approval of \$4 million in loans** to two companies in New York.”

Apocalypse Bella, Mackenzy Toussaint, and Amos Mundendi were charged with participating in a fraud scheme to obtain over \$14 million in PPP loans. Bella, an Oregon resident, and Toussaint and Mundendi, both of Texas, were charged with one count of conspiracy, one count of major fraud against the United States, and one count of wire fraud and wire fraud conspiracy. The fact that a defendant has been charged with a crime is merely an accusation, and a defendant is presumed innocent until and unless proven guilty.

According to the allegations, Bella, Toussaint, and Mundendi were involved in an extensive scheme to prepare and submit fraudulent applications to the SBA and to at least one company that processes PPP loan applications. The defendants devised and executed the scheme by conspiring with individuals who own, operate, or otherwise are affiliated with multiple businesses. They coordinated or directly submitted applications containing false information, such as the number of employees, to maximize the loan amounts. The scheme resulted in the approval of \$4 million in loans to two companies in New York. However, the funds were deposited in a series of bank accounts located in the United States and elsewhere, including accounts controlled by Toussaint and Bella.

This case was investigated by our office, the FBI, the IRS—Criminal Investigation, and the SBA OIG. It is being prosecuted by the U.S. Attorney’s Office for the Southern District of New York.

THREE OKLAHOMA RESIDENTS CHARGED WITH PPP FRAUD

“The defendants, acting together and separately, are **alleged to have fraudulently applied for and received over \$795,000 in PPP loans** under bogus businesses.”

Aleta Necole Thomas, Pepper Jones, and Katrina West, all of Oklahoma, were charged with multiple counts of false statements to a financial institution and aggravated identity theft in a scheme to fraudulently obtain PPP loans. The fact that a defendant has been charged with a crime is merely an accusation, and a defendant is presumed innocent until and unless proven guilty.

The defendants, acting together and separately, are alleged to have fraudulently applied for and received over \$795,000 in PPP loans under bogus businesses such as Lead Us Kids Home Daycare, Lead Us Kids Daycare II, Coming Correction Community Ministries, and Coming Correct Community Ministries II.

This case was investigated by our office, the FBI, the SBA OIG, and the U.S. Treasury Inspector General for Tax Administration. It is being prosecuted by the U.S. Attorney’s Office for the Northern District of Oklahoma.



INVESTIGATING FRAUD, WASTE, AND ABUSE ACROSS THE NATION

OIG special agents collaborate with law enforcement and other agencies across the nation to investigate a variety of possible violations of law, regulation, or policy related to the programs and operations of the Board and the Bureau.

OIG special agents engaged in quarterly firearms training.

Recently, much of our work has focused on detecting and preventing the fraudulent use of COVID-19 relief funds. Many businesses relied on these funds to survive the COVID-19 pandemic, but some people have attempted to misuse these funds for their own personal gain. To help ensure the integrity of the pandemic relief programs, we investigate cases of potential fraud and ensure that fraudsters are brought to justice.

In May 2021, for example, in a case investigated by our New York field office, a dual resident of New York and Florida was charged for his role in fraudulently obtaining federal PPP loans totaling \$3.8 million. Gregory J. Blotnick submitted eight fraudulent PPP loan applications to several lenders on behalf of seven purported businesses. After receiving the funds, he transferred most of the money into a brokerage account and lost most of it through stock trading. In October 2021, Blotnick pleaded guilty to one count of wire fraud and one count of money laundering, and he faces a maximum total penalty of 30 years in prison.

In another case, investigated by our Miami field office, a Florida resident fraudulently obtained approximately \$3.9 million in PPP loans and used the money, in part, to buy himself a 2020 Lamborghini Huracán sports car for \$318,000 and to pay for other personal expenses. David T. Hines admitted that he fraudulently sought millions of dollars in PPP loans through applications to an insured financial institution on behalf of different companies, claiming that he had dozens of employees and millions of dollars in monthly payroll. In May 2021, he was sentenced to more than 6 years in prison for wire fraud and was ordered to forfeit \$3.4 million and the Lamborghini.

In a case in Texas, investigated by our San Francisco field office, a man was charged with seven counts of wire fraud and three counts of making false statements to a bank for allegedly submitting fraudulent applications for over \$3 million in PPP loans. Sinoj Kallamplackal Joseph allegedly submitted fraudulent applications for over \$3 million in PPP loans to a lender guaranteed by the SBA in the names of MK Analytics, LLC; Sanbi Solutions, LLC; and KMS Traders Group, LLC. In these applications, he allegedly fabricated payroll records, including the number of employees working for his companies and the amounts of his payroll costs, and allegedly submitted fraudulent documentation in support of his applications. Joseph was charged in October 2021 and, if convicted, faces up to 20 years in

federal prison for the wire fraud charges and up to 30 years in federal prison for making false statements to a bank.

We also continue to investigate other types of financial fraud. For example, in late 2015 and early 2016, Robert John Hager, a bank CEO, loaned money to a bank customer to invest in a diamond and gold venture in Liberia, Ghana, and Kenya that promised a quick return. After exhausting his own personal funds and taking out the maximum loan he could borrow from the bank, he asked bank customers, shareholders, and directors of the bank to lend him money. Hager arranged for bank customers to take out loans in their own names or draw from loans they already had and then transfer the funds to him. Hager then issued three unauthorized SBLCs, using the letterhead of First Advantage Bank and signing the letter as CEO of First Advantage, worth \$1.6 million to facilitate the purchase and delivery of diamonds and gold from Africa. He did not report the SBLCs to his bank. In March 2021, Hager was sentenced to 18 months in prison for making a false entry in bank records. This case was investigated by our Chicago field office.

Finally, we also investigate internal Board and Bureau matters, such as employee misconduct, ethics violations or conflicts of interest by agency officials, contract and procurement irregularities, theft and abuse of property, and travel card or purchase card fraud. For example, in a recent case investigated by special agents at our Washington, DC, headquarters, a Board employee who had been notified that his work performance was unsatisfactory decided to quit his job. Before he left, however, Venkatesh Rao went into the office several times on the weekend to print more than 50 restricted government documents, which he then took home. The documents contained proprietary information about bank stress tests. Rao was sentenced to 1 year of supervised probation and a \$2,500 fine for theft of government property.

While OIG special agents work all over the country on a variety of cases, they share the same mission. Whether defending the integrity of the largest aid package in U.S. history, protecting against financial fraud that affects our agencies' ability to supervise and regulate the financial community, or ensuring that the Board and the Bureau run effectively and efficiently, our special agents are trained and committed to preventing and combating fraud, waste, and abuse.

TEAMING UP WITH OTHER AGENCIES TO SOLVE FINANCIAL CRIME CASES

Outreach, partnership, and collaboration lead to successful investigations.

Financial crimes like bank fraud and loan fraud tend to be complex. The evidence for such crimes often includes tens of thousands of documents—bank statements, emails, Call Reports, text messages, loan files, and other records—which can be time consuming to analyze. Moreover, criminal statute violations often fall within the jurisdiction of multiple agencies. To effectively investigate financial crimes, our special agents often collaborate with other agencies.

OIG special agents from Headquarters Operations and the New York, Chicago, and Miami field offices, along with OIG audit staff, conducting a search warrant in Tampa, Florida, with assistance from Homeland Security Investigations, the U.S. General Services Administration OIG, and the Tampa Police Department.



Why We Work Together

Personnel. We have field offices in Chicago; Miami; New York City; San Francisco; and Washington, DC. Each field office carries multiple cases and is responsible for several states. Interviews are usually conducted with two agents, and we leverage our relationships with partner agencies when needed. Other agencies often assist with surveillance, undercover operations, and arrests, which may require additional personnel. And because agents sometimes work cases that are based several states away, it can be valuable to partner with an agent in the geographic vicinity of the person being investigated in order to better access local contacts and information.



Access to technological resources. Working together allows agencies to share technological resources. For example, the FDIC has resources to efficiently retrieve and search records from banks that have closed. We have a forensic analysis team that can retrieve records, emails, and text messages from computers, smart phones, and other electronic devices. Sharing resources helps us solve cases effectively and save money.

Sharing expertise. Special agents have diverse backgrounds and experiences that position them to contribute in varied ways. For example, some agents have financial backgrounds, while others are skilled at undercover operations or surveillance techniques. Agencies also have different types of resources, such as dedicated analysts, surveillance teams, and access to investigative systems or information. As one agent described it, everyone who is part of the investigative team contributes a piece of the puzzle to solve the crime.

Referrals. Sometimes a case doesn't exactly fit what we do. Knowing agents at various agencies and understanding what kinds of cases fall into their jurisdiction makes it easier to provide and receive case referrals.

Concurrent jurisdiction. In many cases, several OIGs have concurrent jurisdiction, so it makes sense to work together. For example, while a bank may be supervised by a Reserve Bank, the FDIC may also have concurrent jurisdiction because of the Deposit Insurance Fund (the fund that pays back depositors after a bank fails). Cases of loan fraud may also involve the SBA or FHFA OIGs.

Building Collaborative Relationships

Our collaborative relationships with other agencies are essential to our work, and we prioritize building and maintaining these relationships through outreach. For example, our Chicago field office cohosts the Illinois Fraud Working Group with the U.S. Attorney's Office for the Northern District of Illinois. The quarterly meetings, attended by financial OIGs, federal regulators, and other federal law enforcement, provide an opportunity to discuss cases and trends. In addition, the Chicago and San Francisco field offices often schedule their quarterly firearms training with other agencies as an opportunity to share resources and build relationships.

FEATURE ARTICLES

We also maintain collaborative relationships with staff within the Board, the Bureau, and the Reserve Banks, like bank examiners, who are essential to solving cases. These experts can provide firsthand knowledge that can make them a key witness in a case.

Of course, collaboration can be challenging. Agents travel frequently, and coordinating plans can be difficult. In addition, an agency's priorities can change at any time, so an agent may be required to abruptly switch to a different case. But dealing with the drawbacks is clearly worth it.

Agency OIGs We Collaborate With

- Federal Bureau of Investigation
- Federal Deposit Insurance Corporation
- Federal Housing Finance Agency
- Internal Revenue Service
- U.S. Department of the Treasury
- U.S. Small Business Administration

Collaboration Pays Off

Many of our recent cases were solved through collaboration.

CFG Community Bank. In a recent case, the former acting president of CFG Community Bank, a state member bank, diverted more than \$900,000 in funds for his own benefit. After pleading guilty to one count of bank fraud and one count of income tax evasion, he was sentenced to 3 years in federal prison. This was a joint investigation by our office, the FBI, the Social Security Administration OIG, and the IRS–Criminal Investigation and was prosecuted by the U.S. Attorney's Office for the District of Maryland.

Société Générale S.A. In another case, Société Générale paid \$1.34 billion in penalties for conspiring to violate the Trading with the Enemy Act—the second-largest penalty ever imposed on a financial institution for violations of U.S. economic sanctions. We conducted this investigation with the IRS–Criminal Investigation; the case was prosecuted by the U.S. Attorney's Office for the Southern District of New York.

Fighting Financial Crime

Financial crimes aren't just a matter of money. Although such crimes may seem abstract and victimless, they generate costs and consequences at a real, human level. Financial crimes often cause banks to close, which can have a communitywide effect, especially in rural areas. A recent Federal Reserve report found that when bank branches close, accessing financial services becomes more expensive and less convenient, especially for small business owners, older people, and those who have lower incomes and less reliable access to transportation. These effects can reverberate through the entire community.

Our work not only helps bring those who commit crimes to justice, but also deters crime by sending a clear message that there will be consequences for such crimes. We could not work as effectively and efficiently without the help of other agencies. Ultimately, collaboration helps the Office of Investigations achieve the OIG's mission—to improve economy, efficiency, and effectiveness, and to prevent and detect fraud, waste, and abuse.



OIG special agents engaged in down and disabled officer shooting training.



TRAINING FOR OIG SPECIAL AGENTS

White-collar crime investigations involve myriad law enforcement skills that special agents develop through years of training and experience. In fact, an OIG special agent's training never ends.

Special Agent Candidates

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



Criminal Investigator Training Program: Law Enforcement Basics

All special agents are required to pass an 11-week course called the Criminal Investigator Training Program (CITP) through the Federal Law Enforcement Training Centers (FLETC). CITP is held on the FLETC campus in Glynco, Georgia, and incorporates lectures, laboratory work, practical exercises, and written exams to teach arrest and search techniques, self-defense, marksmanship, and other

skills. In addition to CITP, newly hired first-time agents also take an OIG-specific course, while current special agents participate in a shorter transitional training.

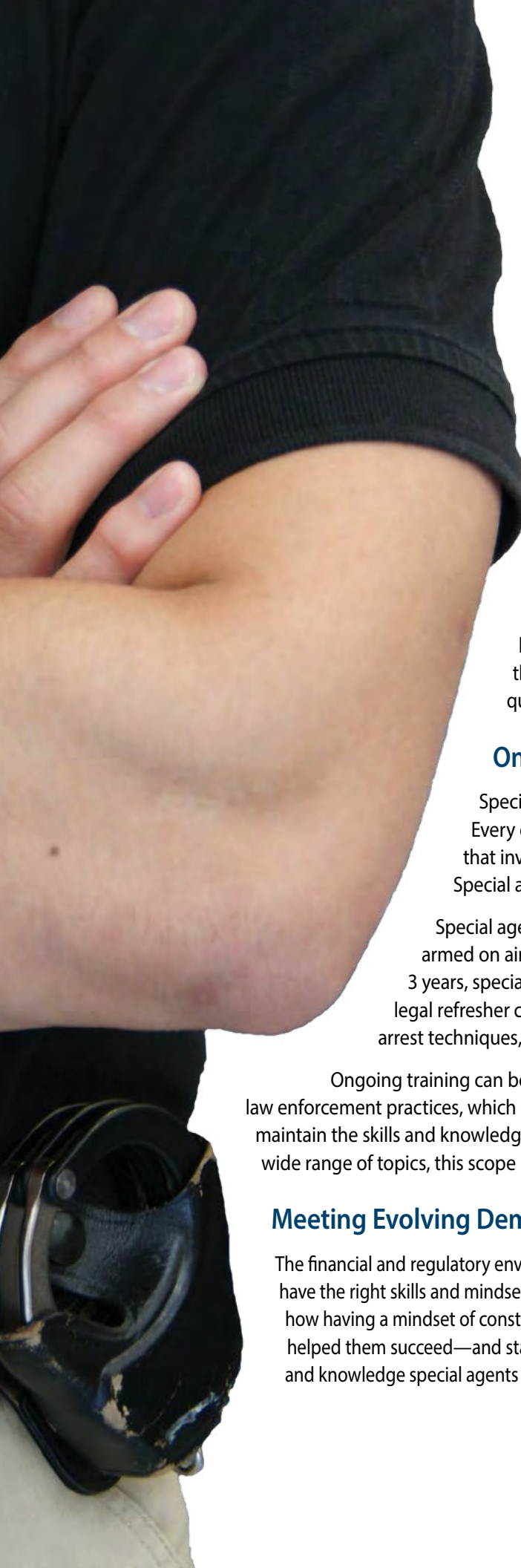
During CITP, trainees work a simulated case—for example, an allegation that computers have been stolen and are being sold online—and use that case to practice skills they are learning, including interviewing suspects and witnesses, performing surveillance and undercover operations, writing and executing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

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

Trainees must endure paramilitary-style training, including living in dorms, wearing uniforms, adhering to regimented schedules, running in cadence, and embracing a team mentality. They must also balance the academic course load and physical demands with the challenges that come from being away from home for several months. Getting through the program requires commitment, mental and physical toughness, and grit.

IG Investigator Training Program: OIG-Specific Training

Within their first year of OIG employment and within 3 to 6 months of completing CITP, special agents take the Council of the Inspectors General on Integrity and Efficiency's IG Investigator Training Program. In this 3-week course, also held in Glynco, Georgia, special agents learn how to apply the framework of legal considerations and tactical training to the OIG environment. They also learn about the authorities, duties, responsibilities, and obligations associated with



the Inspector General Act of 1978, as amended. Topics covered include IG subpoenas, employee misconduct investigations, and government workplace searches, among many others.

Specialized Training: Developing Expertise

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

Having special agents who specialize in different areas ensures that the OIG will be prepared to investigate a variety of cases. For example, if a special agent is interviewing a banker, the agent must have enough subject-matter knowledge to understand whether the banker's responses make sense and to know which follow-up questions are appropriate.

Ongoing Training: Maintaining Skills and Knowledge

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

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

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

Meeting Evolving Demands

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

MORE ABOUT THE OIG



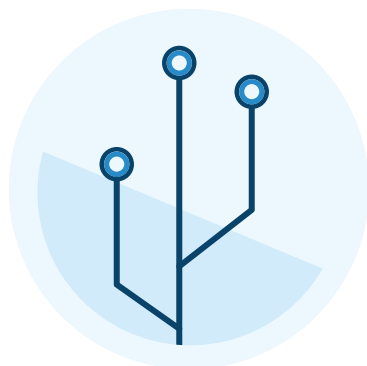
Audits and Evaluations

Auditors conduct audits and evaluations of the economy, efficiency, and effectiveness of the programs and operations of the Board and the Bureau; the agencies' compliance with applicable laws and regulations; the effectiveness of their internal controls; and the presentation and accuracy of the Board's and the Federal Financial Institutions Examination Council's financial statements.



Front Office

Front office staff plan and execute our strategic direction, manage communications, execute our internal quality assurance function, provide general support for our IT infrastructure, and provide administrative and human resources services.



Information Technology

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



Legal Services

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

OIG HOTLINE

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

What should I report?

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

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.

What happens after I report?

We evaluate the complaint and, if appropriate, refer our findings to the Board or the Bureau for administrative action (for example, taking personnel action against the offender) or to the DOJ for criminal or civil action.

How do I report?



oig.federalreserve.gov/hotline
oig.consumerfinance.gov/hotline



1-800-827-3340



Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Mail Center I-2322
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