



June 15, 2006


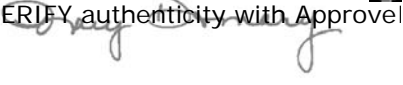
LEE R. HEATH
CHIEF POSTAL INSPECTOR

SUBJECT: Transmittal of Audit Report – Follow-up Review of the Postal Inspection Service Consumer Fraud Awareness Fund (Report Number SA-AR-06-006)

This report presents the results of our follow-up review of the Postal Inspection Service Consumer Fraud Awareness Fund (CFAF) (Project Number 06YG002SA000). Overall, the Postal Inspection Service managed the CFAF efficiently and effectively and has effective controls to reduce the risk of CFAF fraud, waste, and mismanagement. Specifically, the Postal Inspection Service has: (1) documented policies and procedures regarding the transaction and approval process; (2) implemented procedures to ensure separation of duties to reduce the risk of error, waste, mismanagement, and fraud; (3) provided senior management with regular reports on the status of the fund; and (4) reported all expenditures that could give the appearance of inappropriate use to senior management.

This report contains no recommendations. We discussed the report with management and incorporated suggested changes as appropriate. Management chose not to provide comments.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions or need additional information, please contact Sandra Bruce, director, Oversight of Investigative Activities, or me at (703) 248-2300.

E-Signed by Mary Demory 
VERIFY authenticity with ApproveIt


Mary W. Demory
Deputy Assistant Inspector General
for Headquarters Operations

Attachments

cc: Mary Anne Gibbons
William E. Kezer
Zane M. Hill
Steven R. Phelps

INTRODUCTION

Background

In 1997, the Postal Inspection Service created the Consumer Fraud Awareness Fund (CFAF) and funded it with a court-awarded settlement of approximately \$3 million from a fraud investigation in the Southern District of Iowa. The funds were deposited into the Postal Service Fund¹ and credited to the CFAF account to be used for fraud prevention, consumer awareness campaigns, and fraud investigations support.

In July 2003, the U.S. Postal Service Office of Inspector General (OIG) initiated a review of the Postal Inspection Service CFAF (Project Number 03BG067SA000) to determine the adequacy of its administration. During the review, we determined that further improvements were needed to the overall management of the CFAF, which was used to pay for the Seventh U.S. – Canada Cross-Border Crime Forum hosted by the Postal Inspection Service at the Greenbrier Resort. For example, approximately \$113,943 in expenditures for items such as entertainment, decorations, and gifts incurred during the forum gave the appearance of inappropriate use of the CFAF.

We issued an audit closeout letter in March 2004. The closeout letter noted the Postal Inspection Service management could improve the overall CFAF management by: (1) documenting policies and procedures regarding the transaction and approval process; (2) ensuring separation of duties to reduce the risk of error, waste, mismanagement, and fraud; (3) providing senior management with regular reports on the status of the fund; (4) annually reporting the status of all disbursements from the fund to the court as stipulated in the pretrial agreement; and (5) reporting all expenditures that could give the appearance of inappropriate use to senior management.

Objective, Scope, and Methodology

The objective was to determine if the Postal Inspection Service was managing the fund efficiently and effectively. Specifically, the OIG determined whether the Postal Inspection Service : (1) documented policies and procedures regarding the transaction and approval process for the CFAF; (2) implemented procedures to ensure

¹ A revolving fund in the Treasury of the United States as defined in 39 U.S. Code, Section 2003.

separation of duties to reduce the risk of error, waste, mismanagement, and fraud; (3) provided senior management with regular reports on the status of the fund; (4) annually reported the status of all disbursements from the fund to the court as stipulated in the pretrial agreement; and (5) reported all expenditures that could give the appearance of inappropriate use to senior management.

To accomplish our review, we interviewed Postal Inspection Service officials and researched applicable Postal Service and Postal Inspection Service policies and procedures. Additionally, we judgmentally sampled and reviewed expenditures to determine whether procurement procedures were followed, including procedures for requesting, approving, and justifying purchases. We reviewed whether CFAF expenditures were appropriately used for fraud prevention, consumer awareness campaigns, and fraud investigations support, as intended. We reviewed \$5.1 million of \$5.6 million and \$8.9 million of \$10.5 million of CFAF expenditures incurred in fiscal years (FY) 2004 and 2005, respectively.

We also judgmentally sampled and reviewed deposits in the CFAF to identify reporting and other requirements and to determine whether the Postal Inspection Service met those requirements. We reviewed deposit documentation for \$34.0 million of the \$35.0 million in funds received during FYs 2004 and 2005.

We conducted this audit from November 2005 through June 2006 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. We discussed our observations and conclusions with management officials and included their comments where appropriate.

Prior Audit Coverage

We did not identify any prior audits or reviews related to the objective of this audit, other than the review discussed in the background section of this report.

AUDIT RESULTS

Management of the Consumer Fraud Awareness Fund

Overall, the Postal Inspection Service managed the CFAF efficiently and effectively and has effective management controls to reduce the risk of CFAF error, waste, mismanagement, and fraud. Specifically, the Postal Inspection Service has: (1) documented policies and procedures regarding the transaction and approval process; (2) implemented procedures to ensure separation of duties to reduce the risk of error, waste, mismanagement, and fraud; (3) provided senior management with regular reports on the status of the fund; and (4) reported all expenditures that could give the appearance of inappropriate use to senior management.

Policies and Procedures

The Postal Inspection Service follows Postal Service Handbook F-20A, *Accounting Service Center Accounting Guidelines*, October 10, 2001, for depositing funds into the CFAF. This handbook provides guidance for depositing funds, including processing and accounting procedures.

Additionally, the Postal Inspection Service follows, *Postal Service Interim Internal Purchasing Guidelines*, May 19, 2005, for obtaining goods and services using CFAF funds. This policy includes procedures for requesting and approving purchases. Additionally, this policy provides guidelines for making purchases using the competitive and noncompetitive purchase methods. In most cases, competition is the most effective purchasing method because it brings market forces to bear and helps purchase teams compare the relative value of competing proposals and prices and thereby determine the best value. If the noncompetitive method is deemed the most effective business practice, the rationale for the decision must be documented in a business case.

Also, in 2005, the Postal Inspection Service established its own purchasing guidelines² which parallel the *Postal Service Interim Internal Purchasing Guidelines*. The manual describes local buying authority as having the right to buy and pay for day-to-day operational needs that do not exceed \$10,000 per purchase. Postal Inspection Service managers (such as inspectors-in-charge, designated field inspectors, and program managers) are given local buying authority. Purchases greater than \$10,000 require the approval of the Capital Investment

² U.S. *Postal Inspection Service Purchasing Guidelines*, 2005.

Committee, which is comprised of the chief postal inspector, deputy chief inspector, and assistant chief inspectors.

Separation of Duties

Procedures for depositing funds into the CFAF and purchasing goods and services using CFAF funds allowed for sufficient separation of duties. Specifically:

- Postal Inspection Service officials receive and forward CFAF checks to Postal Service accounting to process and deposit into the CFAF. A Postal Inspection Service official cannot deposit checks directly into the CFAF account without coordinating with a Postal Service accounting official.
- Purchases generally require at least two individuals, a requestor and an approving official. Furthermore, purchases of goods and services over \$10,000 require senior management approval and certain capital purchases require the approval of the Capital Investment Committee.

CFAF Expenditures

The Postal Inspection Service appropriately expended CFAF funds in FYs 2004 and 2005. Our review of CFAF expenditures of \$5.1 million for FY 2004 and \$8.9 million for FY 2005 determined that Postal Inspection Service personnel properly prepared and approved purchase requisitions for goods and services. Further, these expenditures were for fraud-related activities and, therefore, met the requirement for using the CFAF. Table 1 provides a breakdown of expenditures we reviewed.

Table 1. CFAF Expenditures By Category and Fiscal Year

Category	FY 2005	FY 2004
Investigative Support	\$7,045,194	\$3,186,179
In-Service Training	99,342	279,116
Inter-Agency Prevention Projects	187,725	165,063
Consumer Prevention Campaigns/ Multi-Media Prevention Initiatives	1,590,449	1,456,852
Total:	\$8,922,710	\$5,087,210

The following provides more details on the four categories of CFAF expenditures:

1. Investigative Support – The Postal Inspection Service uses investigative support personnel to assist with consumer fraud and financial crime investigations. For example, the Postal Inspection Service has hired former law enforcement personnel with demonstrated expertise in consumer fraud investigations and other individuals with specific technical skills (such as information technology and forensic accounting).
2. In-Service Training – The Postal Service provides training to inspectors on fraud and related topics. For example, in FY 2005, the Postal Inspection Service trained approximately 280 postal inspectors in the area of consumer fraud, with an emphasis on white collar crime.
3. Inter-Agency Prevention Projects – The Postal Inspection Service sponsored several inter-agency law enforcement initiatives and partnerships beneficial to protecting the American public against fraud.
4. Consumer Prevention Campaigns/Multi-Media Prevention Initiatives – The Postal Inspection Service protects the American public from fraudulent schemes by educating people about fraud trends that target various vulnerable groups, such as the elderly. During FY 2005, the Postal Inspection Service funded several prevention campaigns and projects, such as distributing fraud prevention videos.

Year-End Report	<p>Beginning with FY 2004, the Postal Inspection Service appropriately prepared a consumer fraud fund year-end report summarizing fund activities and financial status. The report provides background information on the CFAF, fund balances, deposits, interest earned, and expenditures. See Appendices A and B for the Consumer Fraud Fund Year-End Reports for FYs 2005 and 2004, respectively.</p>
Status of Disbursements Reported to the Court	<p>The Postal Inspection Service did not annually report the status of all disbursements to the court as stipulated in the pretrial diversion agreement. In December 2001, the U.S. District Court for the Southern District of Illinois awarded the Postal Inspection Service \$15 million, resulting from a Postal Inspection Service investigation into fraudulent marketing activities. The funds were deposited into the CFAF to support activities to facilitate preventing and investigating frauds against the public. In the pretrial diversion agreement, the chief postal inspector was required to annually report the status of all disbursements from these funds to the court. In a letter attached to the agreement, the Postal Inspection Service also agreed to make an annual accounting to the court clerk's office.</p> <p>The Postal Inspection Service received the monetary award in CY 2002 and 2003 and subsequently spent it without making any accounting to the court. The pretrial diversion agreement has expired and court records show that in October 2003, the district judge dismissed the criminal information against the complainant, ending the court's jurisdiction over the agreement. The OIG could not find any evidence of the court enforcing the Postal Inspection Service's reporting requirement. Therefore, it is the opinion of the OIG Legal Services that the Postal Inspection Service's requirement to report the disbursements to the court is no longer legally enforceable.</p> <p>In addition, in our review of documentation associated with funds received in FYs 2004 and 2005, there were no reporting requirements stipulated. Because this issue has minimal impact on the management of the fund, we have no recommendation.</p>
Overall Assessment	<p>Overall, the Postal Inspection Service has effective management controls to reduce the risk of CFAF error, waste, mismanagement, and fraud. Therefore, we are not providing any recommendations.</p>

APPENDIX A

CONSUMER FRAUD FUND FISCAL YEAR 2005 YEAR-END REPORT

Consumer Fraud Fund FY 2005 Year-End Report

Background

In 1997, the U.S. Postal Inspection Service created the Consumer Fraud Fund (CFF) that was initially funded from an Inspection Service mail fraud investigation in the Southern District of Iowa. As a result of the investigation, approximately \$3 million was ordered by the court, pursuant to a settlement agreement, to be used for fraud prevention, consumer awareness campaigns and to support fraud investigations.

The CFF was created to receive proceeds recovered from fraudulent promotions and/or promoters when it is not feasible or practical to return recovered proceeds to the victims. The purpose of the CFF is to supplement Inspection Service consumer education programs, consumer awareness initiatives, and consumer fraud investigations.

The Chief Postal Inspector or designee (generally the Assistant Chief Inspector for Investigations and Security and/or the Inspector in Charge for Fraud, Child Exploitation and Asset Forfeiture) will act as the administrator of the fund. The CFF's budget consists of four line items: Investigative Support, In-Service Training, Inter-Agency Law Enforcement Initiatives, and Consumer Prevention Campaigns.

In December 2001, the Inspection Service was awarded, pursuant to a settlement agreement, \$15 million for the CFF based upon a mail fraud investigation by the St. Louis Division. The total payment by the defendants was \$62 million. As a result of negotiations between the Inspection Service and the Department of Justice, the \$15 million was given to the Inspection Service for the CFF.

The agreement with the Department of Justice was that the Inspection Service would spend approximately \$5 million in each of the next three fiscal years to support activities that facilitate and support the prevention and investigation of frauds against the public.

In October 2003, the Inspection Service was awarded \$20 million for the CFF, with concurrence from the Department of Justice, from a health care fraud investigation by the St. Louis Division. The corporation was ordered to pay a \$200 million criminal fine and placed on probation for five years. In Fiscal Year 04, over \$9.3 million was awarded to the Inspection Service for the CFF and earned \$579,272 in interest.

In Fiscal Year 05, over \$5.8 million was awarded to the Inspection Service for the CFF and earned over \$1.3 million in interest. Approximately \$10.5 million was expended from the CFF during Fiscal Year 05 to continue to supplement the Inspection Service's consumer education and awareness initiatives and consumer fraud investigations.

Investigative Support

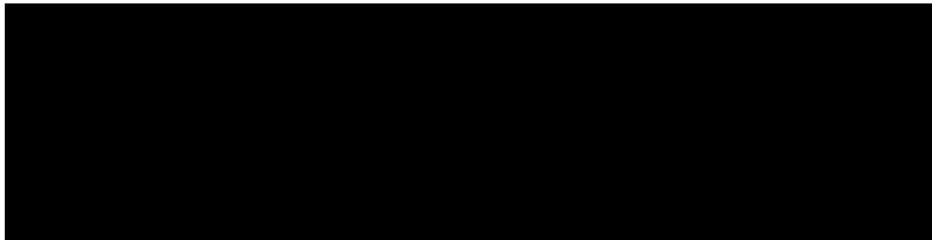
National Consumer Fraud Investigative Support Contract

In May 2003, the Postal Inspection Service entered into a three year contract with the West River Group to provide investigative support personnel for consumer fraud and financial crimes investigations. The purpose and intent of the contract is to provide a blend of experienced former law enforcement personnel with demonstrated expertise in consumer fraud investigations and/or complex financial crimes investigations; and individuals with specific technical skills (e.g., computer and forensic accounting) to support consumer fraud and financial crimes investigations.

Location	Authorized Complement
Atlanta	1
Boston	3
Charlotte	1
Chicago	3
Criminal Investigations Service Center	3
Denver	1
Detroit	1
Ft. Worth	1
Headquarters	8
Houston	6
Los Angeles	2
Miami	1
New Jersey/Caribbean	4
New York	5
Philadelphia	1
Pittsburgh	1
San Francisco	1
Seattle	4
St. Louis	7
Washington	2

Northrop Grumman Pilot

In FY 2005 a pilot program was conducted with Northrop Grumman Information Technology to provide litigation support, document and coding services, and electronic database hosting for complex investigations with volumes of paper documents. Northrop Grumman conducted a requirements analysis and process definition in order to capture current procedures and establish a methodology for improvement and standardization. The pilot was implemented in Boise, ID; Memphis, TN; and St. Louis, MO to validate the requirements and exercise the processes to determine if they were capable of supporting USPIS guidelines in a nationwide program to manage and control case related evidentiary data.



USPIS provides funding for the cooperating witnesses, the telephone service and equipment, and postage costs.

Bate Stamping

The Miami Division Fraud Team investigated nine consumer fraud cases and presented them for prosecution in the Southern District of Florida. Litigation support was necessary and required for the prosecution of these cases. In April 2005, the Inspection Service entered into a one-year contract with Discovery Site, of Miami, Florida, to provide litigation support services, in the form of "Bates Numbering" and copying of evidentiary documents. This numbering system serves as control numbers sequentially stamped on all evidentiary documents which will be used at trial.

Case/Investigative Assistance and Cross Border Travel

The Postal Inspection Service provided funding from the CFF to cover investigative assistance and travel expenses of Inspection Service personnel and members of our cross-border counterparts in support of the Canada partnerships — Project Emptor, Vancouver, British Columbia; Alberta Partnership, Calgary; Toronto Strategic Partnership, Toronto; Project Colt, Montreal and the Atlantic Partnership. The professionalism the Inspection Service has displayed in these task forces over the years and our overall performance has made a positive impact on protecting the American consumer and has developed strong working relationships with Canadian law enforcement.

In-Service Training

In Fiscal Year 2005, approximately 280 Postal Inspectors and others were trained in the area of consumer fraud, with an emphasis on white collar crime. Four, week long classes were provided: two in-service Advanced Mail Fraud classes and two white collar crimes classes held at the Department of Justice's National Advocacy Center in Columbia, South Carolina. In addition, the Inspection Service hosted the annual International Association of Financial Crimes Investigators conference.

Advanced Mail Fraud

During April and July 2005, at Arlington, Virginia and San Francisco, California, 88 Inspectors, with more than a basic knowledge of investigating mail fraud/white collar fraud schemes, received instruction in advanced mail fraud investigative techniques and tools, criminal prosecution, civil-administrative actions, asset seizure and forfeiture, and pre-trial and trial stages of complex fraud investigations. The training included several complex mail fraud case studies and addressed the investigation and prosecution of complex mail fraud schemes with an international nexus. Ten Inspector subject matter experts and thirteen outside agency speakers, including the First Assistant for the Middle District of Pennsylvania and a representative from the Netherlands, assisted in preparing and/or teaching the course.

International White Collar Crime and Telemarketing Fraud

The Department of Justice (DOJ) and the Postal Inspection Service sponsored an International White Collar Crime and Telemarketing Fraud Seminar, held at DOJ's National Advocacy Center (NAC) in Columbia, South Carolina during February 2005. The seminar emphasized the investigation and prosecution of foreign-based telemarketing schemes. Over 120 Postal Inspectors, investigators, prosecutors, and members of the international law enforcement community received instruction on the history of criminal telemarketing and the proliferation of telemarketing schemes outside the borders of the United States. Foreign evidence gathering and the creation and implementation of multi-country task forces were also covered. Four Postal Inspectors assisted in teaching this course.

Basic White Collar Crime Fraud

The Inspection Service and DOJ sponsored a second course at the NAC in Columbia, South Carolina. Nearly 70 Postal Inspectors, FBI agents and AUSAs from throughout the country, as well as law enforcement officers and prosecutors from the Netherlands and the United Kingdom

attended the seminar in June 2005. This course included instruction on case development with special emphasis on Inspector-AUSA partnerships and decision making to include planning the investigation, grand jury strategies, statement and deposition analysis, charging decisions and drafting indictments, as well as Inspector/witness testimony.

Consumer Fraud Forums

In Fiscal Year 2005, Group 3 sponsored five Consumer Fraud Forums hosted by divisions. The purpose of the forums was to promote the Postal Inspection Service's consumer fraud program, initiatives and strategies; share information regarding national and local fraud schemes and trends; and foster working relationships among various local law enforcement and consumer protection agencies. Forums were hosted by the following divisions, with attendance ranging from 30 – 140 per session:

Chicago Division (Milwaukee Field Office)	November 18, 2004
St. Louis Division (Division HQ)	January 13, 2005
Atlanta Division (Division HQ)	April 11, 2005
Charlotte Division (Division HQ)	June 24, 2005
Pittsburgh Division (Cincinnati Field Office)	September 21, 2005

International Association of Financial Crimes Investigators

The International Association of Financial Crimes Investigators (IAFCI), is a non-profit international organization, which provides services and shares information about financial fraud, fraud investigation, and fraud prevention methods. IAFCI members consist of law enforcement, banking and retail/service members to the industry. The Inspection Service hosted the 2005 IAFCI annual training conference in Orlando, Florida during the third quarter of Fiscal Year 05. About 900 members, including 65 Postal Inspectors, attended the five-day event. The training program included a significant number of sessions related to consumer fraud, identity theft, credit card fraud, as well as banking and credit card industry best practices.

Inter-Agency Prevention Projects

During Fiscal Year 05, the CFF sponsored several inter-agency law enforcement initiatives and partnerships beneficial to protecting the American public against fraudsters.

Federal Trade Commission/Postal Inspection Service Consumer Fraud Forum

In order to further enhance the investigation and prosecution of consumer fraud schemes, the Postal Inspection Service and Federal Trade Commission (FTC) held a Consumer Fraud Forum on November 30 and December 1, 2004, in Arlington, Virginia. Approximately 175 participants from both agencies networked and gained knowledge and insight into both agencies' mission statements, goals, jurisdictions and consumer fraud priorities. Speakers from the Inspection Service and FTC, as well as the Department of Justice and members of the Canadian-U.K. cross-border partnerships discussed investigative tools and techniques, information sharing and leveraging, consumer education initiatives, cross-border fraud enforcement priorities and various case studies and parallel investigations. The meeting was intended for Fraud Team Leaders and interested Inspectors in Charge and Assistant Inspectors in Charge.

Multi-National Mass Marketing Fraud Planning Meeting

The Postal Inspection Service hosted this inter-agency meeting in Washington, DC during July 13-15, 2005. Over 100 U.S., Canadian, United Kingdom, Australian, New Zealand, and Costa Rican law enforcement and regulatory agency representatives discussed and shared investigative tools, techniques and issues relating to international mass-marketing fraud. Also discussed was the coordination and planning of the upcoming fraud sweep – *Operation Global Con* – which will be announced in December 2005. A panel of agency representatives discussed cases they plan to contribute to the sweep. Issues such as future coordination of the sweep, press/media coverage, local events by respective agencies and the Inspection Service fraud

prevention campaigns were also discussed. The meeting also provided a great opportunity for representatives from these countries to network with each other.

Canadian Partnership Contractors

Project Colt: The CFF provided funds to the Royal Canadian Mounted Police (RCMP) for one contract investigator and one investigative assistant, domiciled at Project Colt Cross Border Fraud Task Force, Montreal, Canada. Both positions are directly supervised by the RCMP and support the ongoing investigative and enforcement activities of Project Colt. The Inspection Service has funded the contract investigator position since May 2003 and the investigative assistant position since May 2004.

Toronto Strategic Partnership: The CFF provided funds to the Toronto Police Service (TPS) for one detective constable and one investigative assistant domiciled at the TPS Fraud Squad office, which serves as the headquarters for the Toronto Strategic Partnership Cross Border Fraud Task Force. Both positions are directly supervised by the TPS and support the ongoing investigative and enforcement activities of the Toronto Strategic Partnership. The Inspection Service has agreed to fund the detective constable position since November 2004 and the investigative assistant position since February 2003.

FTC/Postal Inspection Service Hispanic Outreach and Law Enforcement Workshops

In Fiscal Year 2005, Group 3 sponsored three FTC/Postal Inspection Service Hispanic Outreach and Law Enforcement Workshops. The purpose of the workshops was to help Hispanic consumers recognize, avoid, and report fraud. Postal Inspectors and FTC representatives hosted workshops in the following locations:

Dallas, Texas	January 27, 2005
Miami, Florida	May 17, 2005
Phoenix, Arizona	July 26, 2005

Consumer Prevention Campaigns

The Inspection Service works to protect the American public from fraudulent schemes, by educating people about fraud trends that target various groups, including some of the most vulnerable citizens, the nation's older Americans. During FY 05, the CFF funded the following fraud prevention campaigns and projects.

Fraud Prevention Videos

In 2003, a contract was initiated with High Noon Production Company to create a series of fraud prevention videos for field inspector presentations. All of the prevention films conclude with prevention tips for the public describing how to not fall prey to these schemes. In Fiscal Year 2003, the first in the series was completed on identity fraud, called *Identity Crisis*.

Three additional videos were shot and available in FY 05:

- *Long Shot*, involves the scheme of lottery fraud and depicts a story of an unscrupulous individual who perpetuates a scheme against older Americans involving a fraudulent Australian lottery.
- The second, *Work@Home Scams: They Just Don't Pay!* involves a work-at-home scheme, specifically addressing the latest of these schemes called reshipping fraud. This story describes a work-at-home mother who falls prey to a reshipping scheme and is implicated by shipping computer electronics to a fraudulent "employer".
- *Dialing for Dollars* is a story about older Americans and the unfortunate predatory nature of fraudulent telemarketers. As the story unfolds, a very business savvy older American has fallen prey to an unscrupulous telemarketer and eventually loses his entire life savings. The film ending provides important prevention tips to avoid criminal telemarketers and stresses the Federal Trade Commission's *Do Not Call* list.

Prizes, Sweepstakes, Foreign Lotteries Campaign

A Prizes/Sweepstakes Fraud Prevention Campaign took place in June to inform consumers of prizes and sweepstakes fraud and to protect the public from mailings where they have to pay a fee to receive prize/sweepstake winnings. An overlapping campaign on foreign lotteries was also held to inform consumers of the illegality of playing foreign lotteries in the United States and to protect the public from scams that take their money with the purchase of "tickets" or charge a fee to collect non-existent winnings. The campaigns were developed in partnership with the Direct Marketing Association (DMA).

Separate advertisements were published in various magazines selected to reach targeted households, with a combined circulation of more than 13 million readers. In addition, the Postal Service's Stamp Fulfillment Center included envelope stuffers in its mailings for 30 days beginning in June 2005. Members of the DMA (e.g., Publishers Clearinghouse, etc.) provided the artwork for promoting the prizes/sweepstakes campaign with their customers. During July – September the Foreign Lotteries prevention DVD, *Longshot*, was available at the Postal Store and circulated throughout the law enforcement and consumer protection communities.

Work-at-Home Campaign

During National Consumer Protection Week (NCPW) in February 2005, Postal Inspectors joined other federal, state, and local consumer-protection agencies to educate the public about ways to avoid becoming victims of work-at-home fraud schemes. During the campaign a consumer awareness DVD entitled, *Work-at-Home Scams: They Just Don't Pay* was distributed to all 34,000 post offices and over 18,000 police chiefs and sheriff's offices, consumer protection agencies, state Attorney General's offices and state AARP chapters.

Advertisements appeared in 16 major newspapers and five Spanish-language newspapers with a circulation of over 13 million. A full-color ad appeared in six key magazines with a combined circulation over 29 million. In addition, North American Precis Syndicate distributed articles to over 10,000 newspapers, radio spots to over 6,600 radio stations and video news releases to over 600 television stations. In addition, over 600,000 Postal employees received pay check stuffers, highlighting NCPW and focusing on a theme of Postal Inspectors protecting postal employees from becoming victims of mail fraud.

Dialing for Dollars Campaign

Consumers lose more than \$40 billion a year to telemarketing fraud. People over 50 years of age are especially vulnerable and account for about 56 percent of all victims and 70 percent of the wealth in the country, making them a very attractive target of investment scams. In conjunction with a multi-agency effort, *Operation Roaming Charge*, the Inspection Service initiated a consumer awareness campaign focusing on older Americans warning of the dangers of investment scams. To signify the importance of creating awareness about telemarketing fraud, the Senate Special Committee on Aging sponsored a resolution designating October 2004 as "Protecting Older Americans from Fraud Month."

The purpose of the campaign was to educate older Americans and their families about telemarketing fraud and mail fraud schemes. The campaign created awareness about the emotional and financial impact older Americans experience from being victimized by these types of fraud schemes, promoted the Postal Inspection Service as the federal law enforcement agency that protects consumers, particularly older Americans, from consumer fraud and provided sources for victims to direct complaints and obtain additional information.

The components of the campaign included the above-mentioned DVD, *Dialing for Dollars*; newspaper and magazine advertisements in selected markets and publications; a national press release and video news release; North American Precis Syndicate campaign including press article and radio campaign; media and awareness events with Call for Action affiliates and congressional members; Web sites linking to partner sites and providing messaging for internal and external USPS and Inspection Service sites; a direct mailing piece to selected mailing list of

older American households; use of inserts in stamp order fulfillments; reprint of Publication 281, *Consumer Fraud by Phone or Mail*, with special messaging and artwork used in conjunction with the DVD; and pre- and post-campaign surveys to measure effectiveness.

Internet Project

Internet fraud awareness and prevention is the topic of the next consumer fraud prevention campaign. This effort will begin in October 2005 and continue throughout the holiday shopping season. The campaign will include partnerships with the FBI, Internet Crime Complaint Center (IC3), National White Collar Crime Center, FTC, Merchants Risk Council and corporations such as Monster.com and Target.

Although the Internet is a safe and convenient place to do business, fraudsters use it to target unsuspecting consumers. The objective of the Internet fraud campaign is to inform consumers of these scams and provide information to protect them and their personal information from the reach of Internet scam artists and the use of the mails.

Information on Internet frauds will be available to the American consumer through a variety of mediums. A free consumer awareness DVD, *Web of Deceit*, will be available through our Web site and the Postal Store starting in October. In addition, a joint law enforcement/industry Web site has been developed to provide educational and prevention information. The site, www.LooksTooGoodToBeTrue.com, will go live also in October and will be promoted with a joint press release/media event later in October. Also included in this campaign will be magazine and newspapers ads to a combined circulation of over 22 million readers, radio spots distributed by the North American Precis Syndicate, and inserts in stamp fulfillment orders.

**CONSUMER FRAUD FUND
FY 2005**

Beginning Balance	\$	37,681,077
Deposits	\$	5,822,969
Interest	\$	1,363,450
Sub-Total	\$	7,186,418
Expenditures	\$	10,456,776
Total	\$	(3,270,358)
Ending Balance	\$	34,410,719

Expenditures

Investigative Support

West River Group	\$	6,523,419
Northrop Grumman Pilot	\$	521,780
	\$	8,334
Bate Stamping (Miami)	\$	69,538
Case/Inv Assistance Travel	\$	25,214
Cross Border Travel	\$	35,151
Investigators Workshop - North Bay - Ontario	\$	1,829
	\$	7,185,265

In-Service Training

Adv Mail Fraud - Apr - Arlington, VA	\$	3,085
Adv Mail Fraud - Jul - SFO	\$	3,142
NAC - Telemarketing - Feb - Columbia, SC	\$	99,399
NAC - White Collar Crime - SC - June	\$	67,181
Fraud Forum - Milwaukee	\$	5,926
Fraud Forum - St. Louis	\$	4,234
Fraud Forum - Charlotte	\$	3,870
IAFCI - Orlando - Aug	\$	60,848
	\$	247,685

Inter-Agency Prevention Projects

FTC Fraud Forum	\$	82,924
Mass Marketing Fraud Mtg - Jul - DC	\$	64,506
Royal Canadian Mounted Police	\$	85,552
Toronto Police Service	\$	102,173
Fraud Forum - Phoenix	\$	1,849
	\$	337,003

Consumer Prevention Campaigns

High Noon Film	\$	470,347
Prizes, Sweepstakes, Foreign Lotteries	\$	460,693
Work at Home Campaign	\$	630,785
Dialing for Dollars	\$	1,018,893
Identity Theft Campaign	\$	72,463
Internet Fraud	\$	17,681
Other	\$	15,962
	\$	2,686,823

APPENDIX B

CONSUMER FRAUD FUND FISCAL YEAR 2004 YEAR-END REPORT

Consumer Fraud Fund FY 2004 Year-End Report

Background

In 1997, the U.S. Postal Inspection Service created the Consumer Fraud Fund (CFF) that was initially funded from an Inspection Service mail fraud investigation in the Southern District of Iowa. As a result of the investigation, approximately \$3 million was ordered by the court, pursuant to a settlement agreement, to be used for fraud prevention, consumer awareness campaigns and to support fraud investigations.

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The Chief Postal Inspector or designee (generally the Assistant Chief Inspector for Investigations and Security and/or the Inspector in Charge for Fraud, Child Exploitation and Asset Forfeiture) will act as the administrator of the fund. The CFF's budget consists of four line items: Investigative Support, In-Service Training, Inter-Agency Law Enforcement Initiatives, and Consumer Prevention Campaigns.

In December 2001, the Inspection Service was awarded, pursuant to a settlement agreement, \$15 million for the CFF based upon a mail fraud investigation by the St. Louis Division. The total payment by the defendants was \$62 million. As a result of negotiations between the Inspection Service and the Department of Justice, the \$15 million was given to the Inspection Service for the CFF.

The agreement with the Department of Justice was that the Inspection Service would spend approximately \$5 million in each of the next three fiscal years to support activities that facilitate and support the prevention and investigation of frauds against the public.

In October 2003, the Inspection Service was awarded \$20 million for the CFF, with concurrence from the Department of Justice, from a health care fraud investigation by the St. Louis Division. The corporation was ordered to pay a \$200 million criminal fine and placed on probation for five years.

During FY 04, over \$9.3 million was awarded to the Inspection Service for the CFF, from various fraud investigations around the country, including \$3 million each from two investigations; one in the New York Division and the other in Philadelphia, and earned \$579,272 in interest.

Over \$5.5 million was expended from the CFF during FY 04 to continue to supplement investigative support for major domestic and international consumer fraud investigations by contracting for professional and technical expertise. In addition, the CFF funded training for Postal Inspectors and others in the areas of consumer fraud and asset forfeiture; as well as interagency law enforcement initiatives and fraud prevention campaigns geared toward being beneficial to protecting the American public.

Investigative Support

National Consumer Fraud Investigative Support Contract

In May 2003, the Postal Inspection Service entered into a three year contract with the West River Group to provide investigative support personnel for consumer fraud and financial crimes investigations. The purpose and intent of the contract is to provide a blend of experienced former law enforcement personnel with demonstrated expertise in consumer fraud investigations and/or complex financial crimes investigations; and individuals with specific technical skills (e.g., computer and forensic accounting) to support consumer fraud and financial crimes investigations.

Location	Authorized Complement
Atlanta	1
Boston	3
Charlotte	1
Chicago	3
Criminal Investigations Service Center	3
Denver	1
Detroit	1
Ft. Worth	1
Headquarters	5
Houston	5
Los Angeles	1
Miami	1
New Jersey/Caribbean	3
New York	5
Philadelphia	1
Pittsburgh	1
San Francisco	3
Seattle	4
St. Louis	7

In-Service Training

In FY 2004, over 330 Postal Inspectors and others were trained in the areas of consumer fraud and asset forfeiture. Four week long in-service classes were provided, each held in two separate sessions, in the areas of Basic Mail Fraud, International Fraud, Forensic Accounting, and Corporate Fraud. In addition, the Inspection Service hosted the annual International Association of Financial Crimes Investigators conference.

Basic Mail Fraud

During March and June 2004, at Potomac, Maryland and San Francisco, California, 77 Inspectors, assigned to fraud for less than three years, received instruction in mail fraud and related fraud statutes, case development and investigative sources, investigative techniques, civil-administrative options, asset forfeiture and seizure, and fraud case presentation and prosecution. Case studies covering work-at-home schemes, U.S.-

Canadian cross-border fraud investigations, telemarketing and investment fraud were also discussed. Nine Inspector subject matter experts (SMEs) and four outside agency speakers, including the First Assistant for the Middle District of PA, assisted in preparing and/or teaching the course.

International Fraud

Two courses were held at Washington, D.C. in April and August 2004 where 74 Postal Inspectors received a general overview of the growing problem of international fraud schemes and their complex nature. The course covered the many challenges involved in investigating and prosecuting these cases, specifically, common international fraud schemes and investigative challenges, investigative tools and techniques, domestic and foreign inter-agency cooperation and assistance, international finance and money laundering and asset forfeiture. Seven Inspection Service SMEs and ten outside agency speakers, including U.S. DOJ Attorneys, participated.

Forensic Accounting

During April and June 2004, in Philadelphia, Pennsylvania and Denver, Colorado 48 participants learned forensic and investigative accounting techniques, including: methods of detecting concealed income (i.e. net worth and expenditures methods), tracing funds through financial institutions and money laundering and evidence/inventory organization issues. Two contractors were hired to instruct these courses.

Corporate Fraud

During May and July 2004, at Chicago, Illinois and Crystal City, Virginia, 137 participants were instructed on the detection of financial statement fraud. Topics included the improper recognition of revenue and deferral of cost, improper asset valuation and recording of liabilities, inadequate disclosures and the responsibilities of corporate management. Corporate fraud investigative techniques were covered, including recognizing fraud conducive business cultures, exposing business fronts as fraud structures, sham transactions as red flags of fraud, proving nominees, hidden interest and pretext income, proving intent, knowledge and responsibility, preparing for defenses and rebuttals, and packaging and presenting corporate cases for prosecution. Two contractors and two Government employees were instructors for this class.

International Association of Financial Crimes Investigators

The International Association of Financial Crimes Investigators (IAFCI), is a non-profit international organization, which provides services and shares information about financial fraud, fraud investigation, and fraud prevention methods. IAFCI members consist of law enforcement, banking and retail/service members to the industry. The Inspection Service hosted the 2004 IAFCI annual training conference in Chicago, Illinois during the first quarter of FY 04. The training program included a significant number of sessions related to identity theft, credit card fraud, banking and credit card industry best practices and consumer fraud. Two Inspectors from each field division were sponsored to attend the conference.

Inter-Agency Prevention Projects

During FY 04, the CFF sponsored several inter-agency law enforcement initiatives and partnerships beneficial to protecting the American public against fraudsters.

Cross-Border Telemarketing Fraud Inter-Agency Meeting

The Postal Inspection Service hosted this inter-agency meeting in Chicago, Illinois during May 25-27, 2004. Over 100 U.S., Canadian and United Kingdom law enforcement and regulatory agency representatives attended the meeting to discuss and share investigative tools, techniques and issues relating to telemarketing fraud. Also discussed was the coordination and planning of the upcoming telemarketing sweep – *Operation Roaming Charge* – which was announced in October 2004. A panel of agency representatives discussed telemarketing fraud cases they plan to contribute to the sweep. Issues such as future coordination of the sweep, press/media coverage, local events by respective agencies and a telemarketing fraud prevention initiative being developed by the Inspection Service were also discussed. The meeting also provided a great opportunity for the U.S., Canadian and United Kingdom attendees to network with each other.

Canadian Partnership Contractors

Project Colt: The Postal Inspection Service provided funding from the CFF to the Royal Canadian Mounted Police (RCMP) to hire and manage two full-time investigative support positions for Project Colt. The RCMP directly supervises both contractors, and determines how best to utilize their services.

The first position is a full-time contract investigator, who is a retired former provincial police detective and provides investigative support. Inspection Service funding for this position began during May 2003. This position receives and agreed to \$45,000 annually in salary and benefits funding from the Inspection Service.

The second recently created position is a full-time investigative assistant, who provides administrative support, research and clerical support to Project Colt. This position was created in order to allow Project Colt investigators to devote more investigative time towards task force investigations. Inspection Service funding for this position began during May 2004. This position receives and agreed to \$30,000 annually in salary and benefits funding from the Inspection Service.

Toronto Strategic Partnership: The CFF also provided funds to the Toronto Police Service (TPS) to manage a full-time investigative assistant, who provides administrative, research and clerical support to the TPS Fraud Squad, which serves as the task force headquarters for the Toronto Strategic Partnership. This position also provides investigative support for Postal Inspectors and liaison with TPS Fraud Squad detectives. Inspection Service funding for this position began during February 2003. This position receives and agreed to \$43,800 annually in salary and benefits funding from the Inspection Service. The TPS Fraud Squad directly supervises this contractor position, and determines how best to utilize her services.

Multi-Media Prevention Initiatives

The Inspection Service works to protect the American public from fraudulent schemes, by educating people about fraud trends that target various groups, including some of the most vulnerable citizens, the nation's older Americans. During FY 04, the CFF funded the following fraud prevention campaigns and projects.

Fraud Prevention Videos

In 2003, a contract was initiated with High Noon Production Company to create a series of fraud prevention videos for field inspector presentations. All of the prevention films conclude with prevention tips for the public describing how to not fall prey to these schemes. In FY 2003, the first in the series was completed on identity fraud, called *Identity Crisis*.

Three additional videos were shot in December of 2003:

- *Long Shot*, involves the scheme of lottery fraud and depicts a story of an unscrupulous individual who perpetuates a scheme against older Americans involving a fraudulent Australian lottery.
- The second involves a work-at-home scheme, specifically addressing the latest of these schemes called Reshipping fraud. This story describes a work-at-home mother who falls prey to the Reshipping scheme and is implicated by shipping computer electronics to a fraudulent "employer".
- *Dialing for Dollars* is a story about older Americans and the unfortunate predatory nature of fraudulent telemarketers. As the story unfolds, a very business savvy older American has fallen prey to an unscrupulous telemarketer and eventually loses his entire life savings. The film ending provides important prevention tips to avoid criminal telemarketers and stresses the Federal Trade Commission's *Do Not Call* list.

Dialing for Dollars Campaign

Consumers lose more than \$40 billion a year to telemarketing fraud. People over 50 years of age are especially vulnerable and account for about 56 percent of all victims and 70 percent of the wealth in the country, making them a very attractive target of investment scams. In conjunction with a multi-agency effort, *Operation Roaming Charge*, the Inspection Service initiated a consumer awareness campaign focusing on older Americans warning of the dangers of investment scams. To signify the importance of creating awareness about telemarketing fraud, the Senate Special Committee on Aging sponsored a resolution designating October as "Protecting Older Americans from Fraud Month."

The purpose of the campaign was to educate older Americans and their families about telemarketing fraud and mail fraud schemes. The campaign created awareness about the emotional and financial impact older Americans experience from being victimized by these types of fraud schemes, promoted the Postal Inspection Service as the federal law enforcement agency that protects consumers, particularly older Americans, from consumer fraud and provided sources for victims to direct complaints and obtain additional information.

The components of the campaign included the above-mentioned DVD, *Dialing for Dollars*; newspaper and magazine advertisements in selected markets and publications; a national press release and video news release; North American Precise Syndicate campaign including press article and radio campaign; Web sites linking to partner sites and providing messaging for internal and external USPS and Inspection Service sites; a direct mailing piece to selected mailing list of older American households; use of inserts in stamp order fulfillments; reprint of Publication 281, *Consumer Fraud by Phone or Mail*, with special messaging and artwork used in conjunction with the DVD; and pre- and post-campaign surveys to measure effectiveness.

Internet Project

The Inspection Service is working with the FBI and the Merchant Risk Council to address various schemes involving the Internet, particularly phishing. Phishing schemes have become prevalent in the last year as a means for criminals to gain access to important financial information via the Internet. A project is in the infancy stages to plan a prevention project involving fake websites controlled by the FBI and Inspection Service and provide prevention tips to consumers hitting the Web sites. For similar liaisons with the FBI, an Inspection Service representative has recently been assigned to the Internet Crime Complaint Center (IC3) in West Virginia.

**CONSUMER FRAUD FUND
FY 2004**

Balance (Beginning FY 2004)	\$	13,502,841
Deposits (During FY 2004)	\$	29,151,416
Interest (During FY 2004)	\$	579,272
	\$	43,233,529
Expenditures (During FY 2004)	\$	5,552,452
Balance (End of FY 2004)	\$	37,681,077

Expenditures

Investigative Support

West River Group - Consumer Fraud Analysts \$ 3,186,179

In-Service Training

Advanced Mail Fraud (Held in FY 03)	\$	12,121
Basic Fraud	\$	101,101
Corporate Fraud	\$	207,939
International Fraud	\$	77,753
Forensic Accounting	\$	82,799
Re-Shipper Meeting	\$	4,180
IAFCI	\$	31,490
Corporate Fraud DOJ/FBI	\$	4,229
Carder Planet	\$	12,477
Other Training-Miscellaneous	\$	17,323
DOJ ID Theft Conference	\$	21,797
	\$	573,209

Inter-Agency Prevention Projects

Royal Canadian	\$	42,023
Toronto Police Department	\$	49,064
Cross Border Travel	\$	58,661
National Law Enforcement Mailing	\$	75,590
Telemarketing/Chicago	\$	36,862
	\$	262,201

Multi-Media Prevention Initiatives

High Noon	\$	589,854
Associated Costs w/High Noon	\$	7,685
Identity Theft Campaign	\$	859,971
Dialing for Dollars	\$	73,353
	\$	1,530,863