

CRIMINAL FRAUD INVESTIGATIVE UNIT

BUREAU OF CRIMINAL INVESTIGATION
IOWA DEPARTMENT OF PUBLIC SAFETY

EVALUATION REPORT

NCJRS

44-2402

ACQUISITIONS

49055



Systems Sciences Associates

FOREWORD

This report provides the results of the evaluation of the Fraud Section of the Iowa Bureau of Criminal Investigation. The requirement for an independent evaluation is specified in Law Enforcement Assistance Administration Discretionary Grant No. 75-07-DF-0004. In September 1975, the Iowa Department of Public Safety contracted with Systems Sciences Associates, Sacramento, California, to perform this evaluation at the half-way point in the grant period.

The responsibility for the methodology, opinions, conclusions and recommendations contained in the report rest solely with the contractor, Systems Sciences Associates.

TABLE OF CONTENTS

| | page |
|--|------|
| Foreword | |
| Table of Contents | |
| INTRODUCTION | 1 |
| Background | 1 |
| Conceptual Framework/Purpose | 4 |
| Methodology | 6 |
| General View of Results | 6 |
| FINDINGS AND RECOMMENDATIONS | 8 |
| Topic Area I - Fraud Section Performance | 9 |
| Topic Area II - Special Agent Usage | 14 |
| Topic Area III - Development and Advancement of Capabilities | 17 |
| Topic Area IV - Public and Agency Awareness | 23 |
| Topic Area V - Needs Assessment/Policy | 25 |
| Topic Area VI - System Operations | 31 |

TABLE OF CONTENTS

LIST OF TABLES

| | page |
|---|------|
| Table 1 Comparisons of Fraud Investigation Statistics 1970-1975 | 9 |
| Table 2 Fraud Section Caseload | 14 |
| Table 3 Training | 19 |
| Table 4 Case Varieties 1975 | 26 |

INTRODUCTION

BACKGROUND

In the state of Iowa, the Bureau of Criminal Investigation is the only state-level agency that has the authority to employ personnel designated as peace officers. The investigation of crime at the local levels is delegated to the county Sheriff Departments and the city Police Departments. The prosecution of criminal offenses rests primarily with elected County Attorneys, supplemented by area prosecutors from the Iowa Attorney General's Office. The prosecuting staffs at both state and local levels do not employ any criminal investigative staff. They are solely dependent on the support of local police agencies and the state's Bureau of Criminal Investigation for investigation of criminal acts.

The foremost concern of the Fraud Section of the Bureau of Criminal Investigation is the investigation of white-collar crimes encompassing fraud and embezzlement. These crimes most often involve extremely complex processes performed under the guise of legitimate business operations. For the most part they are concealed through creation of false organizational, transactional, and paper fronts intended to deceive the victims. The level of sophistication of these types of crime requires that investigators attain a level of knowledge not normally required in dealing with common and vice crimes. The business-related skills required for identification, investigation, obtaining and evaluating useable evidence, are equivalent to and sometimes require more sophistication than the skills of the people committing the crime.

Fraudulent schemes and business crimes can be intricate and complicated. The people who carry out these crimes are often intelligent individuals who have a vast knowledge of business and law. The character of such white-collar crime cannot be understood by observing the character of its practitioners. White-collar crime can be committed by a bank teller or bank president; Mafia soldier or godfather; governmental official; welfare recipient; grantee; con man; religious leader; etc. This forces the fraud investigators to concentrate on the nature and characteristics of the possible fraud. Their emphasis must be on modi operandi and objectives rather than personal background, characteristics, or status of the persons involved.

These factors demand a greater degree of ingenuity and persistence on the part of law enforcement personnel in investigation of fraud and embezzlement. There are rarely any simple indicators or initiating events which prompt law enforcement reactions, as would be the case in common crimes such as homicide, robbery, burglary, or vice crimes such as gambling, narcotics and prostitution. Adding to the complexity, an investigation sometimes involves a large number of victims, many of whom are unaware that they have been victimized and many whose primary interest is recovery of lost money rather than prosecution of the criminal.

White-collar crimes have low public visibility and also take much longer to investigate and prosecute than other crimes. Fraud prosecutors and investigators must therefore continually evaluate the worth of the case when committing investigative and prosecutorial resources.

With rare exception, the Sheriff and Police Departments in Iowa do not have the personnel nor the time and specialized capabilities to undertake lengthy investigation of complex white-collar crimes. The crimes often involve more than one county, creating both travel and jurisdictional problems for local law enforcement. The jurisdiction and laws relating to economic crime may cover a vast array of local, state and federal agencies. To pursue a complex crime effectively, a fraud investigator must develop a knowledge of the laws which are most likely to be applied successfully in a prosecution and of all other agencies which may have an interest in the problem.

In Iowa, the responsibility for investigating frauds and embezzlements for the ultimate purpose of criminal prosecution has rested with the Bureau of Criminal Investigation. In 1974, as a result of the continually increasing problem of white-collar crime and recognition of the special problems and requirements associated with the investigative process, the Bureau of Criminal Investigation applied for and received a grant from the Law Enforcement Assistance Administration to create a special fraud unit within the Bureau whose sole responsibility would be investigation of fraud and fraud-related crimes.

The grant provides funds for six special agents, a variety of supporting equipment such as vehicles, radios and office equipment, secretarial support, miscellaneous supplies and operating expenses. The grant further provides for the evaluation of the Fraud Section by an independent consultant.

CONCEPTUAL FRAMEWORK/PURPOSE

This section describes the conceptual framework used in this evaluation to provide the basis for obtaining, understanding and analyzing data. It also describes the fundamental purpose of evaluation so that the recommendations may be viewed in the correct light. It is important to note that the validity of studies such as this evaluation, is often questioned because they are the product of a consultant and not "our own management's view". This document is only meant to provide an independent perspective from which management may be stimulated to select and carry out activities which increase the effectiveness of the Fraud Section in achieving it's goals.

Quoting the grant application, "Tentative plans would call for this consultant to review the entire operation of the Criminal Fraud Investigative Unit and to make recommendations that would improve the overall operation." In compliance with this explicit indication that evaluation and design are not separable, this evaluation covers all means-oriented and ends-oriented objectives which are considered pertinent to a state-level fraud investigation unit. It covers, not only those objectives which

are specifically mentioned in the grant application, but also includes any parts of the total system which might impact upon effective fraud investigation.

The means-oriented part of this evaluation relates to internal performance measures. It covers an examination of the entire system within which the Fraud Section operates, including:

- How needs are determined
- How policy, specific objectives and priorities are established
- How organizational, functional and operational requirements are planned, managed and carried out
- Relationships with other agencies involved in fraud investigation and prosecution.

The ends-oriented part of this evaluation covers the effectiveness of the Fraud Section in combatting the fraud problem in Iowa. Although there is no single precise measurement which can be used to evaluate the unit's overall effect on fraud crimes, this study attempts to identify and measure those variables, both quantitative and qualitative, which reflect the value of the Fraud Section to the state of Iowa. It is important to note, however, that statistical data such as number of requests, investigations and arrests cannot at this stage of progress be used as a sole basis for determining the potential effectiveness of the unit. The data, although useful, may not be adequately categorized to reflect the value of a fraud section that is less than one year old and still in a relatively early stage of development. For these reasons, the underlying theme of the entire evaluation stresses the discovery of ways

to improve the overall design of the fraud investigation system. The essential purpose of the evaluation is that it might serve as a steering mechanism towards future improvement of the Fraud Section's performance and effectiveness.

METHODOLOGY

The evaluation included the following activities:

- a) Study of all pertinent documentation including the grant application, pertinent Iowas codes and Nine Month Progress Report
- b) Sampling of active files
- c) Interviews and discussions with all Fraud Section personnel with particularly extensive interviews and discussions with the Assistant Director in charge of the unit
- d) Interviews and discussions with the County Attorneys of Clinton, Blackhawk and Linn Counties (W. Pillers, D. Dutton, G. Kopecky); Auditor of State (L. Smith); Insurance Department (H. Anderson); Attorney General's Criminal Prosecution Division (G. Woodward, R. Winders)
- e) Examination of internal operations
- f) Review and analysis of operation and performance data (Nine Month Progress Report) compiled by the Fraud Section.

GENERAL VIEW OF RESULTS

As the report will indicate, the assessment of progress through the first nine months of the grant is extremely favorable. The Fraud Section performance has been exemplary in almost all of the areas studied including recruitment, training, investigative and analytical capabilities, support of prosecutorial agencies and actual statistical performance. The quality of staffing

with regard to educational background, investigative capabilities and future potential is particularly notable.

At the same time, there are some long-range considerations which need further attention. Progress can be sustained only through a process which insures that all possible areas which impact upon the success of the Fraud Section (its value to the people of Iowa) receive appropriate consideration by the Bureau of Criminal Investigation. The needs of the entire state of Iowa should be accurately assessed, policy and objectives should be specified with regard to proactive vs. reactive management and case criteria, and resources organized to meet these requirements.

FINDINGS AND RECOMMENDATIONS

The following discussions of findings and recommendations are broken down into these topic areas:

- I Fraud Section Performance
- II Special Agent Usage
- III Development and Advancement of Capabilities
- IV Public and Agency Awareness
- V Needs Assessment/Policy
- VI System Operations

This breakdown was selected to simplify the identification and categorization of specific areas of analysis and recommendations for improvement. Topic Areas I through IV deal primarily with findings and recommendations which are related directly to objectives explicit in the grant applications. Topic Areas V and VI cover findings and recommendations with regard to the overall fraud investigation system.

TOPIC AREA I - FRAUD SECTION PERFORMANCE

OBJECTIVES (from grant)

To increase requests from agencies having complaints.

To increase apprehension of persons responsible for frauds, swindles, and embezzlements by over 100%.

To increase the amount of monies recovered by 400%.

To increase complaints of victims to regulatory and local law enforcement agencies.

To increase the investigative support provided to the Attorney General's Office, Auditor of State, Department of Insurance and Securities.

FINDINGS

1. TABLE 1 provides a comparison of statistics pertinent to the above objectives for a 5-year period prior to the grant award and the period since the grant started. Note that the accomplishments during the grant period cover only nine months, whereas the prior periods each cover an entire year.

As shown in TABLE 1, the number of requests, investigations and arrests have increased over the prior year in direct accord with the statements of objectives in the grant.

TABLE 1
COMPARISONS OF FRAUD INVESTIGATION STATISTICS*

| | <u>1970</u> | <u>1971</u> | <u>1972</u> | <u>1973</u> | <u>1974</u> | <u>1975**</u> |
|-----------------------|-------------|-------------|-------------|-------------|-------------|---------------|
| Requests for Services | 16 | 20 | 27 | 17 | 43 | 43 |
| Investigations | 16 | 20 | 27 | 17 | 40 | 45 |
| Arrests | 9 | 15 | 8 | 9 | 9 | 27 |

* Derived from preliminary data for the Nine Month Progress Report to LEAA

** Covers only 9 month period - January 1 to September 30, 1975

The data for TABLE 1 was derived from a search and compilation of the case logs from 1970 to 1975 by the Fraud Section analyst. In these records the investigations which cover more than one county receive separate case numbers. For the purpose of reducing possible distortions caused by simply counting the case numbers, the data for 1974 and 1975 throughout this report has been adjusted downward to reflect one particular case which has 16 case numbers (FEMIC) as a single case, not as 16 cases. The quantities used in the tables will therefore differ from the Nine Month Progress Report. Even with this downward adjustment, figures in TABLE 1 indicate successful achievement of the stated objectives.

It is important to note that the numbers themselves do not indicate the quality of the case. Some cases may be small requiring a few hours of investigation work. Others may be extremely complex, such as the case mentioned above covering 16 counties, requiring hundreds or possibly thousands of hours of investigation.

2. The preliminary figures prepared for the Nine Month Progress Report indicated a significant increase in monies recovered. These figures are not tabulated here because time constraints did not permit analysis of the method of calculation and the significance of the data. Also, there are no written guidelines which specify any method for making such calculations. For example, Page 12 of the grant application states that in 1972, \$9,000 was recovered and returned to victims. The preliminary data for the Nine Month Report indicates that in 1972, \$218,445 was recovered, the total including \$130,000 restitution ordered by the Courts.

3. There are some statements in the grant application which objectify results to be expected from increasing the support provided by the Fraud Section to the Attorney General's Office, the Department of Insurance and Securities, and the Auditor of State. For example, the grant states:

"It is expected that the agents would be working more closely with the Attorney General's Office, and in those case where a "class" action could be filed that these actions would take place immediately ..."

"Through the concentrated efforts on the part of the agents assigned to this unit working with the Iowa Department of Insurance and Securities ... the licenses of persons engaged in criminal activities (would be revoked)".

These goals cannot be classified as short range goals subject to measurement after nine months of operation. They are general goals to be achieved by the continuous development and integration of relationships with other departments.

4. The above goals and the statistics developed in TABLE 1 are considered important and should be continually maintained as a measure of performance. But for the purpose of this report there are a number of measurements other than statistics which are important. These are qualitative assessments by the agencies which use the services of the Fraud Section. At this stage of the Fraud Section's development, these qualitative measurements provide a much more significant indication of the Fraud Section's impact and its future potential in combatting fraud and embezzlement. The continually increasing interest evidenced by the agencies supported by the Fraud Section is the strongest indication of the unit's value to the state of Iowa. The favorable perspective with which County Attorneys and other state of Iowa departments view the Fraud Section and the broadening of their efforts is at this point considered of greater importance than the quantitative measurements of the unit's performance. For example:

The Clinton County Attorney stated that criminal filings on fraud cases have doubled in the past year. This increase is directly related to the increased investigative support provided by the Fraud Section. There is no hesitation to call in the Bureau of Criminal Investigation regardless of agent location, case priority, or case complexity. Recent successful prosecutions of a major grain fraud case prompted the County Attorney to suggest the Bureau of Criminal Investigation further expand its analytical and investigative capabilities in fraud.

The Blackhawk County Attorney stated affirmatively that the increased manpower provided by the grant has enabled him to make more use of the Bureau of Criminal Investigation in fraud cases. Previously, fraud cases were often dropped because other criminal cases took higher priority. He feels that this no longer occurs. There is less hesitancy to call in the Bureau on cases which, although important to him, he might not have undertaken previously. This is particularly true in cases where multiple jurisdiction problems exist - a common occurrence in complex frauds. The Fraud Section's investigative experiences have been used by the Blackhawk County Attorney to encourage the local law enforcement agencies to undertake more fraud work.

The Linn County Attorney, whose term began coincidentally with the start of the new Fraud Section nine months ago, has undertaken seven new cases since that time. The results of a recent statistical study performed in his office indicated that fraud was one of his greatest problems. The existence of the investigative resources provided by the Bureau's new Fraud Section helped in establishing a higher priority for fraud cases in Linn County. The County Attorney further indicated that he was considering assigning a full-time prosecutor to handle frauds.

The Auditor of State is considering the possibility of funding a special agent's position in the Fraud Section to provide full-time support to his office.

Since the establishment of the new Fraud Section, the Insurance Department of the state of Iowa automatically refers possible criminal violations to the Bureau. They did not do this previously.

These are but a few of the qualitative indications which exemplify the growing effort by those responsible for combatting fraud, brought about in great part by the establishment of the Fraud Section in the

Bureau of Criminal Investigation. The County Attorneys interviewed have always had the desire to do more fraud prosecutions but were limited by the small amount of high quality investigative support available to them. All of the people interviewed (Assistant Attorney Generals, County Attorneys, Auditor, Insurance Department) strongly maintained that the increase in the Bureau's fraud investigation capabilities would result in more arrests and prosecutions. They further contended that these successes would create a growth in demand for this investigative support, not only in their own agencies, but in agencies which had heretofore given low priority to fraud crimes.

RECOMMENDATION

The only recommendation in this topic area relates to the above FINDINGS regarding monies recovered. In order to develop a meaningful "monies recovered" statistic which represents fraud unit accomplishment, the formula for calculation should be specified and used in a consistent manner. To add more meaning, the formula might separately identify actual recoveries by victims and fines collected by government.

TOPIC AREA II - SPECIAL AGENT USAGE

OBJECTIVE (from grant)

To employ six special agents solely dedicated to investigation of fraud.

FINDINGS

Advance preparation in 1974 allowed the Fraud Section to begin fully staffed operations on January 1, 1975, the starting date of the grant. Three new agents were hired and three agents with experience in other sections of the Bureau of Criminal Investigation were transferred to the Fraud Section. The transferred agents have retained responsibility for certain non-fraud cases undertaken prior to their transfer. In addition, agents are sometimes directed to work on non-fraud cases in special priority situations as determined by the Bureau management. TABLE 2 provides a detailed breakdown of the agent caseload for fraud and non-fraud areas.

TABLE 2
FRAUD SECTION CASELOAD

JANUARY 1 - SEPTEMBER 15, 1975

| | FRAUD | | NON-FRAUD | |
|-------------------------|-------|-------|-----------|-------|
| | Cases | Hours | Cases | Hours |
| Opened by Fraud Section | 35 | 3978 | 24 | 738 |
| Carryover from 1974 | 10 | 2292 | 7 | 215 |
| TOTALS | 45 | 6270 | 31 | 953 |

The following analysis is based only on the data in TABLE 2 which was derived from the Nine Month Progress Report graph entitled "Hours Spent By Fraud Unit". It does not include any allocation of 1539 hours of recorded overtime worked by the Fraud Section agents.

With regard to the stated objective of sole dedication to fraud work, 13.2% (953 hours) of the time spent by the agents was on non-fraud cases. Of this total, only 3.0% (215 hours) was a result of carrying over cases started in 1974 by the agents who were assigned to the Fraud Section from other sections of the Bureau. The remaining 10.2% (738 hours) results from special situations where fraud agents were required to work in areas considered higher priority at that time.

These figures do not reflect strict compliance with the stated objective. One might argue that if the 13% of the Fraud Section's effort spent on non-fraud work was spent on fraud work, there would be a corresponding improvement in fraud case results. On the other hand, consideration must be given to the fact that flexibility is a necessity in the management of a law enforcement agency the size of the Bureau of Criminal Investigation. As an example, in addition to the cases included in TABLE 2 which were handled by the Fraud Section, the Bureau's General Criminal Division investigated 15 additional fraud and embezzlement cases in 1975. Nevertheless, there are no written policy or priority-setting guidelines from which to determine how decisions regarding case assignment and priority are made or whether they are or should be related to the requirements of the grant. There is no way for the consultant to measure the importance

of each situation as it is decided by the management nor is there any objective method for determining whether this situation will change and what criteria would be appropriate in evaluating its impact.

RECOMMENDATION

It is important to insure that this situation does not revert to the pre-grant era wherein fraud cases were given low priority. Furthermore, Fraud Section management and other staff should never be given the occasion to view fraud investigation efforts as lessening in importance. It is therefore recommended that policy and priority-setting guidelines be developed and transmitted to the Bureau staff. (NOTE: This recommendation is an integral part of the recommendations covered in greater detail under Topic Area V.) In addition, a maximum percentage, perhaps between 5% and 10%, should be established for allowable non-fraud workload. When this percentage is exceeded, it should automatically result in a top management review of the overall, total effect on Fraud Section performance. This review should cover more than a subjective feeling of the effects of delaying operations on the fraud cases which are temporarily dropped. It should include inputs from the cognizant County Attorneys or other agencies affected. The effectiveness of the fraud investigations undertaken by the General Criminal Division must be considered. The specific effects on case progress, personnel morale, potential success, and the like, should also be reviewed.

TOPIC AREA III - DEVELOPMENT AND ADVANCEMENT OF CAPABILITIES

OBJECTIVES (from grant)

To develop the special agents' capabilities as specialists in fraud modi operandi.

To develop more up-to-date information on various criminal activities in the area of fraud.

To provide in-service training to all agents and send selected agents to the IRS School in Washington D.C.

FINDINGS

1. Prior to the receipt of the grant, one of the major problems in the investigation of fraud was the inability of the assigned agent to remain continuously with a fraud investigation. Other workload demand, such as crime against persons, often took priority over fraud investigations. Agencies having need of Bureau services were reluctant to bring in all complaints. Full scale investigations could not always be conducted on complex cases. Constraints were thus placed on expansion of fraud investigation capabilities and entrance into new and unfamiliar areas.

This situation has now changed. Since the establishment of the new Fraud Section, such limitations and constraints appear to have vanished. Major complex cases in planned bankruptcy and insurance speculation are receiving complete coverage. The management of the Fraud Section overtly encourages its investigators and the agencies it supports to penetrate and expand activities into unfamiliar areas. Actual case data studied during this evaluation provides numerous indications of this improvement. Cases in grain elevator frauds and insurance loan frauds are two areas where such expansion has taken place.

As the Fraud Section is still essentially in its early stages of development, the statistics cannot show whether all possible areas of fraud will be covered by the unit. Under present policy the areas covered, for the most part, are dependent upon the agencies that request fraud investigative services. It is not the policy of the Fraud Section to conduct affirmative searches for violations.

The Fraud Section, however, is making a major effort to provide training for the staff in preparation for any eventuality. The Section's policy and actions relating to training its personnel has been exemplary. TABLE 3 lists the training accomplishments of the Section since the grant award. These accomplishments exceed the stated objectives of the grant. They show management's recognition of the complexity and specialization requirements associated with fraud investigation. The Fraud Section should also be commended for its leadership role in trying to impact the total state capabilities to combat fraud by developing and coordinating training programs, not only for its own staff, but for personnel from other agencies.

2. Another stated objective deals with agent specialization. One of the most important background requirements for investigation of fraud, and particularly embezzlement, is a knowledge of accounting. One of the agents hired by the Fraud Section has a degree in accounting. This agent has been used in special circumstances requiring his experience. TABLE 3 also indicates that special emphasis is being placed on training in financial investigative techniques.

TABLE 3
TRAINING

| | TRAIINEES | COURSE | REMARKS |
|-----------------------|--|--|---|
| TRAINING COMPLETED | 3 New Agents *All Fraud Section Agents | Iowa Dept of Public Safety Basic Academy Financial Investigative Techniques | Mandatory requirement for new police officers A 40-hour course in Financial Investigative Techniques con- ducted at Camp Dodge by the IRS |
| | 1 Manager 2 Agents | Economic Crime Investi- gation Training Course | An 80-hour course sponsored by California Department of Justice, conducted in Sacramento, Calif- ornia, by Systems Sciences |
| | 1 Agent | Criminal Intelligence Data Collector's Course | An 80-hour course sponsored by California Department of Justice, conducted in Santa Monica, Calif- ornia, by Systems Development Corp. |
| | *All Agents | Seminar | Actual case discussion on major insurance fraud |
| TRAINING PLANNED | 2 Agents *All Agents | Internal Revenue Accounting School Financial Investigative Techniques - White-collar crime | A 7-week course designed for IRS agents given in Washington D.C. A 4-day course sponsored by the FBI and conducted by the FBI and the BCI Fraud Section |
| | 1 Analyst | On-the-job Training | One week visit with Texas Dept of Public Safety Analysis Section |
| | 1 Agent | FBI Computer Crime School | A 5-week course sponsored by the FBI at the FBI Academy in Quantico, Virginia |
| | *Local Law Enforcement Agents | White Collar Crime | 3 to 5 hour course to be given in 3 cities by FBI & BCI Fraud Section |

* These programs were developed and coordinated by the BCI Fraud Section management and included participants from other units of the BCI and selected law enforcement agencies. The FBI course will also include students from other states.

The small size of the Section and the fact that it is organized so that agents have cognizance over particular large geographic areas, does not currently allow for much specialization in types of fraud. To compensate for this, there is an open and candid interchange of information amongst the agents and between the agents and management. This interchange can be very valuable in that any agent who has gained experience in a particular area can be very helpful to other agents who are unfamiliar with the area under consideration. There is little argument about the value of such informal training on an individual case. Nevertheless, it is an informal procedure and lacks the thoroughness of formal training.

RECOMMENDATIONS

1. In order to insure that the knowledge gained by agents, through their experience in actual case investigation becomes part of the total Fraud Section capability, it is recommended that a formal method be devised to insure technology transfer amongst agents and other agencies. Until such time where an agent who specialized in a particular type of fraud could be guaranteed assignment on that fraud, there is a need for a formal method of transferring technology. This could be done by having monthly meetings in which the agents make each other aware of their work. At these meetings, agents would discuss their successes and failures, their methods of operation, and investigative techniques which worked well and those which did not.

As a reinforcement to this recommendation, it should be noted that TABLE 3 identifies one such seminar which has already taken place.

Personnel from the entire Fraud Section, other sections of the Bureau, and other agencies participated in discussions of an actual major insurance fraud case. All personnel interviewed acknowledged that this seminar was valuable and significantly enhanced their knowledge and understanding of this type of fraud.

2. To further enhance its future growth, it is recommended that the Fraud Section initiate the development of a fraud library. Although individual agents have acquired a significant amount of written material, there is no established index of books, documents, pertinent case law, and the like, which would further support the expansion of agents' capabilities. Fraud Section management currently monitors case law by reading the appeals on their own cases, the Iowa Criminal Law Bulletin, and also the State of Nebraska Department of Justice Law and Court Decisions. These documents are distributed to the agents for their information but are not indexed. The dynamics of frauds and fraud investigation and the difficulties inherent in detecting hidden crimes, requires a continual updating of knowledge through reading of case histories in unfamiliar areas. There is a great deal of material which has been developed by Law Enforcement Assistance Administration and also private publications which could be of direct value to Fraud Section staff.

The bibliography contained in the course notebook in the Economic Crime Investigation Training Course might provide a good starting point. In addition, the Fraud Section should request the Law Enforcement Assistance Administration and other federal agencies to place it on the distribution list for any material related to fraud and embezzlement investigation.

The library should also contain copies of the case law reports which can be of utmost significance in investigation and prosecution of fraud cases.

3. As stated in the above FINDINGS, the Fraud Section's effort in development and presentation of training programs has been outstanding. This recommendation is merely a suggestion that the unit expand its coverage to help develop local expertise in the geographical areas of the state which are not now covered.

TOPIC AREA IV - PUBLIC AND AGENCY AWARENESS

OBJECTIVE (from grant)

To increase victim reporting by generating increased awareness of fraud problems through the news media.

FINDINGS

1. The County Attorneys interviewed stated that there has been a great deal of local publicity generated on the fraud cases investigated and prosecuted in their counties. The Nine Month Progress Report contains 25 samples of news articles relating to the work of the Fraud Section. The report states that:

"The Bureau has received numerous inquiries when investigations are mentioned in the newspaper and on radio and TV. Several new leads have developed and new victims discovered as a result of the news releases to the media."

It is too early in a new program of this nature and beyond the scope of this study to determine quantitatively the significance of any relationship between victim reporting and media publicity.

2. Another very important aspect of this problem which has been recognized by the management is the need for awareness by other law enforcement agencies. As an organization which operates primarily in response to requests for assistance from County Attorneys, Sheriff's and Police Departments, and state agencies, it is necessary to inform these agencies about the Fraud Section capabilities. The Director of the Bureau has given talks covering the new capabilities of the Fraud Section to various groups such as the Iowa County Attorneys Association, Sheriff's Association and other regional associations. The Fraud Section agents have on occasion spent some time in developing the awareness of their section among law enforcement agency personnel.

There is, however, no formal program for increasing awareness of law enforcement, prosecution and regulatory agencies. The level of knowledge of the County Attorneys in the western part of the state regarding the Fraud Section policies and capabilities is unknown. One of the County Attorneys interviewed, who works regularly with the Fraud Section, was unfamiliar with some of the new organizational aspects and total capabilities of the unit.

RECOMMENDATION

The process of developing awareness and interest in fraud on the part of part-time County Attorneys is particularly difficult. Only through a process of continuous interchange can such interest be developed to a point where they are given the appropriate priority. It is recommended that the Bureau of Criminal Investigation prepare a bulletin for distribution to all agencies throughout the state summarizing the policies and capabilities of the Fraud Section and how such capabilities might be used by law enforcement, prosecution and regulatory agencies. The bulletin should also contain a summary of the cases handled by the Fraud Section in order to stimulate the readers toward thinking about fraud. To increase its impact, the bulletin should not be issued as a periodical, but only when major changes in Fraud Section capabilities have occurred or when an important case has been completed.

TOPIC AREA V - NEEDS ASSESSMENT/POLICY

This Topic Area covers the requirements for developing a more formal method of objectifying the total process by which the Bureau determines the managerial, organizational, functional and operational needs of the Fraud Section. Two important managerial processes are discussed: (1) assessment of the problems and needs of the Bureau's clients; and (2) development of policy and objectives which will solve these problems and satisfy these needs.

FINDINGS

1. The Fraud Section currently operates as a service organization that responds to requests for assistance. The request may be initiated by local law enforcement agencies, state agencies, or other divisions of the Bureau of Criminal Investigation. The Fraud Section may sometimes receive a complaint directly from a victim.

There are no specific written criteria or policy guidelines for determining which fraud cases are undertaken and in what priority order. Some of the criteria used by management to establish case priorities are as follows:

- Value of property or money involved
- Whether or not the fraud is ongoing
- Whether or not the perpetrator has fled the jurisdiction
- Availability of evidence.

These criteria and other workload commitments combined with various subjective measures are applied by management in responding to requests for assistance.

Those agencies which are regularly supported by the investigative staff have become aware of Bureau policy and capabilities by virtue of their continuous contact with Bureau agents. The field agents have only been provided with verbal guidelines regarding case criteria. This situation has in the past created problems for field agents. In one instance, an agent had agreed to undertake a case for a County Attorney but was unaware that the case should not have been undertaken because it did not meet the case initiation criteria. Since these criteria are not documented, such situations may very well arise in the future.

2. TABLE 4 indicates the variety of case types handled by the Fraud Section. 38% of the cases are embezzlements. The remainder range from complex fraud cases involving many counties, other states and federal jurisdiction (bankruptcy frauds, insurance frauds) to an individual con man operating in a single county. As in all fraud work, it is rare that investigation and preparation of any case for prosecution is simple.

TABLE 4
CASE VARIETIES

| | |
|--|---|
| Embezzlement - Public | 9 |
| Embezzlement - Private | 8 |
| Insurance Fraud | 5 |
| Bankruptcy Fraud (obtaining goods under false pretenses) | 6 |
| Securities Fraud | 2 |
| Grain Fraud | 4 |
| Investment | 2 |
| Unlicensed Psychiatrist | 1 |
| Stolen Credit Card | 1 |
| Larceny - State Car Parts | 1 |
| Lawyer Defrauding Client | 1 |
| Other Fraud-related | 5 |

There have been no investigative activities in the area of consumer fraud. This area is handled by the Attorney General's Office as purely civil matters.

3. Almost all of the Fraud Section activities are concentrated in Eastern Iowa. It is conjectured that this is to be expected because Eastern Iowa is more populated and industrialized. A prevalent view amongst the Bureau's fraud agents was that the County Attorneys from the less populated counties did not know what the Fraud Section could do. In any case, there is no data currently available from which to determine the scope of the fraud problem in Western Iowa. Whether this situation is due to a lack of knowledge on the part of local Sheriffs, Police and County Attorneys regarding fraud or their lack of close acquaintance with the investigative policies and capabilities of the Fraud Section is unknown.

The County Attorneys interviewed in the course of this evaluation, all of whom are active in the prosecution of fraud cases, stated that in their opinion, most County Attorneys give fraud a low priority because it is extremely difficult to investigate and prosecute. It is hard for part-time prosecutors to realize how complex fraud schemes can be and the extent of victim losses in property and money. Two of the County Attorneys strongly suggested that the Fraud Section should improve its capabilities to actively seek out and develop cases on its own. The general tone of all persons interviewed was that of "if you look hard enough" you will indeed find very serious problems in the area of fraud.

RECOMMENDATIONS

1. The Fraud Section should undertake a program to initiate and maintain contact on a one-for-one basis with every Sheriff, Police Chief, County Attorney and regulatory agency head in the state of Iowa. The contacts should be made through personal visit, letters or questionnaires as appropriate. The purpose of these contacts is three-fold.

- a) To educate all agencies about the Bureau's Fraud Section capabilities and the support it can provide to these agencies.
- b) To assess the needs of these agencies with regard to investigative support required in the area of fraud.
- c) To assess the strengths and weaknesses of the Criminal Codes which cover fraud and embezzlement and recommend appropriate legislation.

Through this direct process of education and assessment, the Bureau will be able to objectify its knowledge of the fraud problems in Iowa and gain a fuller understanding of the total statewide needs for combatting fraud. The assessment results will provide an objective basis for the Commissioner of Public Safety, the Director of the Bureau of Criminal Investigation, and the Manager of the Fraud Section to establish policy regarding:

- a) Types of fraud to be covered by the Fraud Section
- b) Case initiation criteria
- c) Whether to remain reactive or become proactive in initiating cases*

(It should be noted that at the time of this evaluation the management of the Fraud Section had begun to plan for an assessment of Western Iowa.)

* Proactive Management - where managers actively participate in determining needs, resultant direction, objectives and activities

Reactive Management - where managers do not anticipate the needs and the opportunities, but merely respond to immediate forces that impact the organization

2. With regard to the "reactive" vs "proactive" policy, some explanation is necessary. In the monograph prepared for the LEAA by H. Edelhertz entitled, "The Nature, Impact and Prosecution of White-Collar Crime", the author points out that there are three basic sources of detection of white-collar crime. They are (1) complaints by victims, (2) informants, and (3) affirmative searches for violations by law enforcement agencies. As stated previously, the Fraud Section primarily responds to requests for assistance from other agencies (i.e. complaints by victims). There is also one case in which the Assistant Director, by virtue of his position as supervisor of both the Fraud and Intelligence Sections, has initiated a fraud case from intelligence information. For the most part, it can be assumed that victim complaints to other agencies are the most prevalent source for detection of fraud or initiating an investigation.

It would be presumptuous for this consultant to recommend a policy change. Nevertheless, in the event that a policy decision were made by the Bureau to become proactive in initiating and developing fraud cases, then the following additional recommendations would apply:

- a) Develop a system in the Fraud Section for categorizing and compiling all victim complaints on a statewide basis.
- b) Develop a formalized system for transferring investigations from the Intelligence Section to the Fraud Section when intelligence indicates that any element of a fraud crime may exist in any of its investigations. This should be done regardless of other related criminal activites simultaneously under investigation by the Intelligence Section. Although

fraud crimes are hard to uncover, they often provide a more effective means for deterring and prosecuting certain individuals, such as those involved in higher levels of organized crime activities.

- c) Develop a procedure for receiving, analyzing, compiling and management review of information from media and regulatory agencies regarding suspect persons and transactions in business, land and securities.

TOPIC AREA VI - SYSTEM OPERATION

This topic area covers miscellaneous managerial, organizational and operational considerations which have not been covered under the previous topic areas.

FINDINGS

1. Management - The Fraud Section is managed and supervised by the Assistant Director of the Bureau of Criminal Investigation who is in charge of the Special Investigations Division. The Fraud Section consists of a field office with one agent in Cedar Falls, which covers 21 counties in the northeast section of the state; a field office with two agents in Cedar Rapids, which covers 20 counties in the southeast portion of the state; and the headquarters in Des Moines with three agents, which covers the remainder of the state. A Staff Analyst supports both the Intelligence and Fraud Sections and receives assignments directly from the Assistant Director.

The Assistant Director, in addition to direct supervision of six agents in the Fraud Section, is responsible for supervising the following areas:

- a) Intelligence Section (six agents)
- b) Staff Analyst
- c) Issuing, equipping, and performing quarterly maintenance inspection of Bureau automobiles
- d) Surveillance camper, surveillance equipment, office equipment and other personnel equipment including guns and ammunition
- e) Acquisition of staff for clerical pool
- f) Polygraph operation.

The Assistant Director's administrative duties for the Fraud and Intelligence Sections include scheduling of road trips, maintenance of informant files, administration of undercover funds, administration

of training, establishing and maintaining record keeping systems and report procedures.

In operational areas, the Assistant Director approves requests for opening investigations. These requests may be forwarded through the agents or may come directly from agencies requesting support. The Assistant Director reads and analyses all the fraud reports and confers with agents on the method of attack.

The approximate distribution of the Assistant Director's workload is as follows:

| | |
|--------------|--------------|
| Fraud | - 45% to 50% |
| Intelligence | - 30% to 40% |
| Remainder | - 10% to 30% |

It is difficult to analyze whether this amount of supervisory workload and broad span of control by a single individual has affected the performance of the Fraud Section. A survey was conducted covering the staff's perspective of management. All six agents and the analyst were interviewed. The following list of topics and related scales were discussed with each member of the staff.

| <u>TOPIC</u> | <u>SCALE</u> |
|-------------------------------|--|
| Understanding of Objectives | <i>Confused</i> <i>Clear</i> <i>Diverse</i> |
| Communication With Management | <i>Cautious</i> <i>Open</i> <i>Candid</i> |
| Priorities | <i>Confused</i> <i>Based on</i> <i>Viable</i> <i>Need</i> |
| Leadership | <i>Not</i> <i>Being</i> <i>Being Met</i> <i>Met</i> |
| Management Decisions | <i>Do Not</i> <i>Decisions Made</i> <i>Get Made</i> <i>Fully Supported</i> |
| Agent Decisions | <i>Agents Not</i> <i>Expected to Make</i> <i>Expected to</i> <i>Independent</i> <i>Make Inde-</i> <i>Decisions</i> <i>pendent</i> |

The responses were overwhelmingly on the right side of the scale. Only two adverse comments were made which might be pertinent to management workload. One stated that it was sometimes "difficult to see the boss" causing delay in progress on a case. Another stated that communication with management "was not too good". On the other hand, all agents were extremely gratified that management expected them to make independent decisions. It should be noted that consultant interviews of this nature are relatively brief (1-4 hours). The validity of the results cannot always be ascertained by the consultant. Nevertheless, the interviews indicate a general high morale, job satisfaction and few problem areas.

Extensive interviews with the Assistant Director also failed to provide a basis for negative findings regarding span of control. There is nevertheless a degree of uncertainty based simply on this writer's experience. This is a situation which could develop into a potential problem if the unit continues to expand its coverage of fraud problems throughout the state.

2. Miscellaneous Operational Areas -

- a) According to Bureau policy, an agent assigned to a case is essentially working for the County Attorney. The agents maintain a continuous dialogue with County Attorneys during the course of an investigation. They are responsible for following each case completely through its disposition. Written correspondence is channeled through and monitored by the Assistant Director in Des Moines. Each agent is required to submit activity reports which identify his daily activities. With regard to interrelationships between Fraud Section agents and other agencies, no significant adverse situations were detected.

b) Legal advise is provided by a member of the Attorney General's Office who also screens all Bureau cases to determine if there might be a need for area prosecutor's support.

c) The Fraud Section is currently considering the acquisition of additional agents whose position would be funded by the Auditor of State and the State Revenue Department.

d) Cases which occur in Western Iowa present difficulties because of the extensive travel required. Long distance drives combined with the normal uncertainties regarding the process of an investigation create a particular problem in planning. The negative effect for the most part has been in efficiency rather than effectiveness. Other than substituting air travel for automobile travel, the large size of the state and the small size of the Fraud Section preclude any viable solution to this problem.

e) Only a perfunctory check was made of the filing system. A previous evaluative study performed in July, 1974, made extensive recommendations with regard to the filing system used by the Fraud and Intelligence Sections. This writer endorses the conclusions and recommendations of the above report.

f) The case filing system currently used by the Fraud Section is a standard, workable system. As stated elsewhere in this report, management is now developing a method for including Investigative Summaries in these files. This will be a valuable addition since the County Attorneys indicated that they do not relish digging through volumes of data to extract significant material.

g) The management of the Fraud Section is developing a data base for self-evaluation. This data base will be used not only for measuring efficiency and effectiveness, but also for development of standards of performance in various aspects of investigation such as interviews, research, dictation, travel, court preparation and trial, informant contacts, surveillance, administrative duties, and the like.

h) Each of the County Attorneys interviewed was asked to discuss any areas in which he might recommend improvement in Bureau operations. Two of the three County Attorneys interviewed indicated that the long lead time required for handwriting analysis was a problem in the preparation and prosecution of fraud cases. In many investigations involving fraudulent documents, the time tested and usually conclusive evidence is the determination rendered by the handwriting expert. Although this service is not directly provided by the Fraud Section, it is a very significant tool of the fraud investigator and prosecutor. The total need and responsiveness is therefore of direct interest to the management of the Bureau in improving its fraud investigation capabilities.

3. Specialist Requirements -

a) Although fraud investigators do not have to be accountants, they must be able to understand the results of accounting examinations and audits and any other findings resulting from examination of a business's books. This capability is often essential in determining what course of action should be taken in frauds relating to business and in embezzlements.

The following quotation from the book "Fraud Investigation - Fundamentals for Police" by Newsom and Glick emphasizes this point:

"An imperative area of knowledge for a competent fraud investigator is accounting. When one considers the type of information which must be developed especially in embezzlements, real estate, corporate and insurance fraud inquiries to name a few, it is axiomatic. An accounting system is the very foundation upon which a business operation is built. If the investigator doesn't possess, at least in a basic degree, an understanding of the principles involved and the terminology he will be lost."

All of the fraud agents and County Attorneys interviewed, to varying degrees, emphasized the need for accounting expertise particularly in the area of embezzlement which comprises 38% of the Fraud Section's cases. At the present time, this expertise is being developed by management through a number of special training programs as indicated under Topic Area III. Further support in this area is being contemplated through the acquisition of additional personnel to be funded by the Auditor of State and Department of Revenue.

b) The level of analytical support required on a fraud case varies with the complexity of the case. The Staff Analyst, who is not supported by this grant, has worked on a number of complex investigations. The work has included reducing vast quantities of data to manageable form and analyzing this data for planning further investigation and preparing cases for prosecution. This latter need is emphasized by the fact that the County Attorneys interviewed recommended that the Bureau expand its capabilities in this area.

RECOMMENDATIONS

1. Top management should continually examine the possible effects of assigning duties and responsibilities to the Assistant Director which are not directly related to fraud or intelligence such as auto-

mobile equipment, polygraphs, and the like. The ability of a manager to provide more than purely administrative support to his staff and concentrate on critical areas should not be impaired by excessive assignment of unrelated functions. It should be noted that this recommendation does not suggest any action at this time, but only that an awareness be maintained as the unit continues to expand its coverage of fraud problems throughout the state.

2. As an enhancement to future operations, it is recommended that whenever a case disposition results in a failure (e.g. case dismissal, not guilty, etc.) the case should be analyzed by the Fraud Section staff for possible investigative failures. The results of such analysis should be disseminated to all investigators and County Attorneys so that they might avoid similar problems in the future.

3. Consideration should be given to creating a position for a full time investigative accountant to support all the other agents and adding an additional analyst. Management should perform a study of all 1975 cases to determine the extent of these requirements. A final determination would be based on the combined results of this study and the needs assessment recommended under Topic Area V.



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