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Department of Justice

ADMINISTRATION'S WHITE COLLAR CRIME PROGRAM

ADDRESS

by

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to the

NATIONAL COUNCIL'S LAWYERS SEMINAR

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I appreciate this opportunity to discuss with you the Administration's White Collar Crime Program.

In May 1985, the Attorney General reaffirmed the commitment of the Department of Justice to a vigorous federal white collar crime enforcement program in a major speech in Boston. The Attorney General's statement could not have been more timely. It occurred in the midst of series of landmark events in white collar crime enforcement and at a time when the importance of effective federal white collar crime enforcement is more critical than ever.

I am particularly pleased to have the opportunity to restate our commitment to a strong white collar crime enforcement effort.

Our nation faces a white collar crime problem that infects all aspects of our economy and lives. Viewed in terms of dollar impact, the losses caused by white collar offenses are staggering. White collar crimes cost Americans hundreds of billions of dollars every year.

Over \$100 million is lost annually through high pressure "boiler room" operations fraudulently selling commodities such as precious metals by telephone. Over one-half billion dollars were lost in the past five years in real estate investment schemes in California alone. Hundreds of millions of dollars have been lost by tens of thousands of investors who have been victimized by fraudulent financial service brokers operating in Florida, California, Utah, Ohio, and New Hampshire. Approximately \$80 million was lost in the J. David investment fraud scheme on the

West Coast -- a scheme that culminated in June 1985, when the financier was sentenced to the maximum of twenty years imprisonment and ordered to repay over \$82 million to the investors he defrauded. Almost \$700 million in losses resulted from a Tennessee bank fraud scheme that concluded with Jake Butcher's plea of guilty, for which, in June 1985, Butcher received a sentence of 20 years in prison.

White collar crime seriously harms the well-being of our nation. It siphons billions of dollars a year from our economy. It steals the life savings of investors. It adds to the costs of goods and services, and diminishes the revenues otherwise available to the federal and state treasuries. It aggravates the financial burdens of all Americans, who are the indirect victims of fraudulent offenses as well as the direct ones.

The consequences of white collar crime are, however direct and visible. It causes banks to fail. In fact, fraud is a factor in over half of the bank failures in the past five years. White collar crime adds hundreds of millions, if not billions, to the cost of military purchases. It creates defective weapons and military supplies that undermine our ability to defend our nation. It destroys the public's faith in our federal programs such as Medicare and Food Stamps.

Because the economic crime problem is so widespread and the cases themselves so complex and resource intensive, it is vitally important that the federal enforcement effort not be encumbered by antiquated laws, limited techniques, or wasted efforts. The

white collar crime provisions of the Comprehensive Crime Control Act enacted by Congress in 1984 were particularly welcomed. That Act toughened the penalties for Title 31 currency act violations. It enacted a broad bank fraud statute. It created an injunctive remedy to respond to the problem of ongoing criminal conduct. The fine provisions of the Fine Enforcement Act of 1984 will substantially increase the cost of committing crime for the white collar criminal. Maximum fines per violation are now \$250,000 for individuals and \$500,000 for corporations. Using these weapons we can seek to strip the white collar criminals -- both individuals and corporations -- of every last penny of their ill-gotten gains. Considerable progress has been made. But further progress is needed. In September 1985, we submitted to the Congress a comprehensive legislative package that will improve our ability to respond to defense procurement frauds. In addition, we proposed legislation that will enhance our ability to prosecute professional money launderers and will further enhance our ability to handle bank fraud prosecutions.

The key to any federal white collar crime enforcement effort is to use our resources as efficiently and effectively as possible. That requires selecting our priorities with care, developing close cooperation among all elements of law enforcement, crafting creative strategies and carefully utilizing our resources in the most effective manner.

In 1983, Attorney General Smith created the Economic Crime Council to serve as an advisory body on white collar crime enforcement policy within the Department of Justice. The Council

is chaired by the Deputy Attorney General. Its membership includes 21 United States Attorneys and officials of the Criminal Division and the FBI, and, beginning this year, the Antitrust, Civil and Tax divisions of Department of Justice. One of the Council's principal roles has been to aid in developing white collar crime priorities. The Council, working in conjunction with the Criminal Division, has defined our law enforcement priorities sharply and clearly. We are concerned about areas that affect our national defense, our banking system, the taxpayer and the investment public. The six principal priority areas are defense procurement frauds, frauds against banks and savings and loans, investment "boiler room" frauds, money laundering, various types of securities frauds, and health care frauds. We must strike decisively and effectively against such economic crimes because they corrupt the economic integrity of our society and its institutions.

One priority area of prosecution -- bank fraud -- is of particular relevance. Fraud against banks is a major concern of the Department of Justice for one simple reason. Over one half of the bank failures in the United States in the last five years were either caused by or related to criminal conduct. That fact is deeply disturbing. The nation's economic health turns on stability in its banking institutions. With this objective in mind, former Attorney General Smith and the heads of the bank regulatory agencies created a task force in December 1984, to revise the referral mechanism that brings bank fraud cases into

the criminal justice system and to develop improved methods for handling major bank fraud cases. The result of that effort, announced by Attorney General Meese eight months ago, is an interagency agreement which has already improved our handling of significant bank fraud cases. One specific objective of the task force -- and one relevant to these hearings -- was to improve the enforcement mechanism so that action could be taken to prevent banks from failing.

We believe there are a number of ingredients to a successful criminal enforcement effort. Certainly the dominant one is the prosecution, conviction and imprisonment of all individuals who perpetrate crime. But that traditional solution, in many instances, does not go far enough. It does not take into account the need to prevent crimes before they occur, or to bring cases which by their scope, and the swiftness by which they become final, provide clear, dramatic warning that specific conduct will be prosecuted. It also ignores the need, in the very special setting of offenses committed to benefit corporations, to impose direct and substantial sanctions upon the corporation, in addition to those imposed on the individuals, and to force the corporation to adopt internal control mechanisms that will prevent future criminal conduct and substantially alter the ways in which the corporation conducts its affairs.

Our white collar crime enforcement program is a varied and successful one. Statistics tell us we are prosecuting more economic crime now than ever. White collar crime prosecutions have

risen as a percentage of total federal prosecutions from 8% to 1970, to 20% in 1980 and to 24% in 1983 and 1984. The number of white collar offenders serving time in federal prisons has increased 69% since 1980. Numbers, however, do not begin to tell the full story. Certainly the cases are more significant than ever. Within just the last six months our national effort includes these remarkable events:

- o An 80-year prison term and fines totalling \$352,000 imposed on Ronald R. Rewald in Honolulu, Hawaii, for his role in operating a Ponzi scheme that defrauded approximately 400 investors of over \$22 million.
- o Indictment in Los Angeles, California, of General Dynamics Corporation and four present or former executives in connection with cost mischarging on a \$40 million contract to produce the DIVAD prototyped gun systems.
- o GTE Government Systems Corporation was fined \$10,000 following its guilty plea in Alexandria, Virginia, to converting DOD documents containing classified and proprietary information to its own use and to defrauding the United States. Three GTE executives are scheduled for trial on February 18, 1986.

- o Leo Schweitzer, a defense contractor, was sentenced in Pennsylvania to 15 years in prison following his conviction for selling \$475,000 worth of defective military equipment.
- o John T. Kilpatrick, a former securities broker was sentenced in Tennessee, to 10 years in prison for his role in a \$6 million fraud involving over 700 investors lured into coal contracts through the defunct National Coal Exchange of Memphis. William Todd, a former judge of Lexington, Kentucky, was sentenced to 4 years for his part in the boiler room operation.
- o Rockwell International Corporation pleaded guilty to charges that 6 of its employees filed falsified time cards resulting in \$480,000 in overcharges to an Air Force contract. In a related civil suit, Rockwell agreed to pay \$1 million for double the amount of the mischarges and for the costs of the investigation.
- o General Electric Company was indicted and convicted in Philadelphia charges of defrauding the Defense Department and was simultaneously suspended from doing business with the United States Government.

- o Jake Butcher entered guilty pleas to several indictments and has been sentenced to 20 years in prison for looting a series of banks in Tennessee and Kentucky. Two of his accomplices have also been convicted. One was sentenced to 18 years in prison the other to 4 years.
- o Paul Thayer, former Deputy Secretary of Defense, and Dallas stockbroker Billy Bob Harris were sentenced in Washington, D.C. to four years in prison for obstruction of justice in connection with their roles in a million dollar insider stock trading scheme.
- o a 35-year prison term was imposed on Fred Soudan in Houston, Texas, for his role in masterminding the largest maritime fraud in history -- the infamous sinking of the super tanker "Salem" off the west coast of Africa.
- o the Attorney General announced a comprehensive overhaul of and improvements in the mechanism for referring bank fraud cases for criminal prosecution.
- o six defendants were convicted in Texas of Foreign Corrupt Practices Act violations in the \$10 million Pemex/Crawford foreign bribery scheme and were sentenced to fines totalling \$3,994,000.

- o the conviction and 20 year sentence of J. David Dominelli in San Diego on mail fraud charges in connection with the J. David Company an investment scheme that defrauded 1,500 people out of \$200 million.
- o conviction of the LeBlanc brothers in Detroit for an investment scheme in which 800 investors lost \$10.5 million. Bernard LeBlanc was sentenced to 21 months imprisonment and his brother Michael received 16 months.
- o Indictment in Florida of convicted con-man and boiler-room operator Jack Rose in a scheme that bilked 1,200 investors out of \$12 million in a precious metals scam. Trial is scheduled for February 6, 1986.
- o Conviction of E.F. Hutton and Company, Inc. of 2,000 counts of mail and wire fraud in a nationwide check-kiting scheme and unprecedented civil injunctive relief.

I seriously doubt whether there was ever a collection of more significant white collar crime cases resolved in such a short period of time. And I can promise you more are to come in the months ahead, most in our national priority areas.

END