



Safeguarding America Through
Financial And Trade Investigations

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Inside this Issue

'Operation Roaming Charge' Targets Telemarketing Fraud.....	2
Garcia Testifies On ICE Efforts To Disrupt Terrorist Financing	2
Industry Alert: Counterfeit Automotive Parts A Growing Concern ...	3
ICE Active In "STOP" Piracy Initiative. ...	3
Cornerstone Investigations Update: Selected Recent Cases	4
Cornerstone Outreach: Recent/Upcoming Events	5

Cornerstone is U.S. Immigration and Customs Enforcement's (ICE) comprehensive investigative initiative focusing on financial crime, trade fraud and intellectual property crime.

Cornerstone also partners with the business community to exchange information on methods terrorists and other criminal organizations use to earn, move and store their illicit funding.

The Cornerstone Report is a quarterly bulletin highlighting key issues related to ICE financial and trade investigations.



U.S. Immigration
and Customs
Enforcement

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Industry Alert: Fictitious Instrument Fraud ICE Issues Warning About Bogus Government Bonds

"Sometime in the mid-1930s, a DC-10 belonging to the CIA crashed in the Philippines . . . The crash site had gone undiscovered until recently, when indigenous Filipino tribes discovered the existence of the wreckage and its cargo: Boxes filled with Federal Reserve bearer bonds issued by the U.S. government...

"For a small investment of \$10,000 to \$30,000, investors can buy an interest in one \$100 million note. When the Federal Reserve cashes the note in a 'secret trading room,' the investor will make a 300 to 500 percent return..."

Thus begins a recent "investment" pitch in a new fraud scheme that law enforcement agencies call "Fictitious Instrument Fraud" (FIF).

Fictitious Instrument Fraud involves the sale or transfer of counterfeit or nonexistent financial securities, often based on an elaborate back-story and claims of extravagant returns on one's investment.

Typically, these phony securities bear the name of the U.S. Federal Reserve, but fraudulent securities instruments have also been reported as coming from the central banks of Japan, Argentina, Germany, the Philippines and other countries.

While this form of fraud has been relatively uncommon in the past, there is some evidence that it is increasingly on the rise.

In one recent case, agents from U.S. Immigration and Customs Enforcement (ICE), the largest investigative arm of the Department of Homeland Security, seized more than \$3 billion worth of the phony bonds described in the pitch above. The perpetrators of the fraud claimed that

the fraudulent documents, part of a "secret" agreement between the U.S. and Chinese governments in the 1930s, were supposedly lost when the plane taking them to China crashed in the Philippines.

The con men peddling the bonds, which were supposedly discovered in the wreckage of the plane by a Filipino tribe, claimed that they could reap astronomical returns for gullible investors—for a "modest" investment of \$10,000 to \$30,000.

There is concern that some investors may have fallen prey to the scheme, but none have yet been identified—perhaps because the con artists have led investors to believe that they will suffer serious consequences if the government learns of their involvement in the scheme. ❏

To learn more about Fictitious Instrument Fraud, visit the U.S. Bureau of Public Debt Web site at www.treasuryscams.gov. The site features examples of various types of fictitious instrument schemes and related scams.



An ICE agent shows a sample of the counterfeit bonds used in a recent Fictitious Instrument Fraud scheme. The worthless phony bonds, seized in September in San Diego, were purportedly found in the wreckage of a plane in the Philippines and offered for sale to "investors" in the United States.

'Operation Roaming Charge' Targets Telemarketing Fraud

The most extensive global enforcement operation ever directed at international telemarketing fraud schemes has led to the arrest of more than 135 individuals worldwide, ICE officials announced October 5.

"Operation Roaming Charge" was launched in January 2004 as a combined effort by ICE, the U.S. Department of Justice, the Federal Trade Commission, the U.S. Postal Service, foreign law enforcement and others to coordinate the fight against telemarketing fraud.

Telemarketing fraud schemes—including bogus lottery and sweepstake schemes, phony investment pitches and business opportunities, tax fraud schemes and others—have grown increasingly sophisticated and international in scope in recent years.

Telemarketing scammers often identify themselves as lawyers, lottery officials or Customs agents in order to make their presentation appear authoritative. Typically, the perpetrator will tell victims they've

won the lottery or a court settlement in Canada and that they must first pay a tax, fee or Customs duty in order to collect their winnings. The victim, in turn, will send a check or wire transfer to the scam artist, who keeps the funds.


Under "Operation Roaming Charge," U.S. law enforcement agencies have partnered with agencies in Spain, Canada, Costa Rica, Nigeria, the United Kingdom and the Philippines to shut down illegal telemarketing operations around the world.

A number of recent cases have also demonstrated that organized criminal operations are engaging in telemarketing fraud, since it's perceived as a relatively low-risk but lucrative avenue for making money. Many of the schemes prey on vulnerable seniors citizens.

Investigations under "Operation Roaming Charge" have led to more than 100 arrests in the United States and an additional 35 in other countries, along with the discovery of more than five million victims, who suffered losses totaling more than \$1 bil-

lion. In addition, various state attorneys general have brought 279 criminal, civil and regulatory actions against illegal telemarketing operations under this operation.

"I'm proud of ICE's role in combating telemarketing fraud through Operation Roaming Charge," said Michael J. Garcia, Assistant Secretary for ICE. "This crime is particularly disturbing not only because it targets the elderly, but also because the callers frequently impersonate Customs officials to give the appearance of legitimacy to their schemes."

ICE has also played a leading part in fighting telemarketing fraud through "Project COLT," a joint law enforcement initiative with the FBI, the U.S. Postal Service and Canadian law enforcement to intercept funds, track suspicious wire transfers, uncover fraud, and, when possible, recover defrauded money and return it to the victims. 

For more information on telemarketing fraud schemes, visit the Federal Trade Commission consumer Web site at www.ftc.gov/ftc/consumer.htm.

Garcia Testifies On ICE Efforts To Disrupt Terrorist Financing


ICE's Cornerstone initiative is a key component of the federal government's overall effort to detect and disrupt terrorist financing schemes, Assistant Secretary Michael J. Garcia told a Senate committee on September 29.

Mr. Garcia addressed the Senate Banking, Housing and Urban Affairs Committee along with representatives from the FBI and Treasury Department at a hearing to evaluate the effectiveness of the government's fight against terrorist financing

in light of the recommendations of the 9/11 Commission Report released July 22.

The illicit schemes that criminal organizations have used to earn, move and store their funding—including smuggling and trafficking of contraband; intellectual property crimes; money laundering; and others—are equally vulnerable to exploitation by terrorist groups, Mr. Garcia said. ICE employs a "forward looking" approach to fighting terrorist financing by seeking to identi-

fy and shut down such vulnerabilities, he added.

"As the 9/11 Commission Report and other studies have found, going forward we must continually adapt our countermeasures and use all of our enforcement tools and authorities to full effect," Mr. Garcia said. "For ICE, that means addressing vulnerabilities that could be exploited by terrorists to raise money." 

A full text of Garcia's remarks is available online at www.ice.gov.



Michael J. Garcia, Assistant Secretary for ICE, testifies to the Senate Banking Committee on September 19.



Focus On Intellectual Property Crime

Industry Alert: Counterfeit Automotive Parts A Growing Concern

Page 3 of 5

Volume I: No. 4
October 2004

In recent years, intellectual property crimes have been associated largely with entertainment and technology products, such as CDs, computer software and DVDs. But counterfeiters and intellectual property fraud can strike any industry that depends on patented or copyrighted products or processes.

The automotive parts industry, for example, increasingly recognizes its own vulnerability to counterfeiting and fraud—at an estimated cost of up to \$12 billion worldwide. That's according to the Motor and Equipment Manufacturers Association (MEMA), a leading industry trade group representing auto parts makers.

In September, representatives from ICE briefed MEMA members about how the

agency's Cornerstone investigations initiative can help to protect their intellectual property rights. Auto parts makers have seen a notable increase in counterfeit auto parts being manufactured and distributed in overseas markets.

ICE has encouraged auto parts makers to report violations, as well as to pass along information they may glean from their own customers and investigations, in order to develop a unified front against auto parts piracy.

The counterfeit auto parts market represents more than lost profits for manufacturers. It also leads to lost jobs for American workers, and perhaps most alarmingly, opens up consumers to the possibility of inferior, defective and even dangerous merchandise.

The growth of intellectual property crime in recent years is attributable to several causes—including the perception of less stringent enforcement, which has led criminal organizations to view counterfeiting and piracy as relatively low-risk avenues for making money. ICE and other law enforcement agencies seek to counter that misperception through vigorous enforcement of the laws that protect intellectual property rights.

The lesson for auto parts manufacturers applies to other industries as well—your products may be vulnerable to piracy or counterfeiting. Even small manufacturers and makers of specialized parts are increasingly feeling the pinch.

If your company is victimized by counterfeit products, we encourage you to share the information with ICE. Call the IPR Hotline Number of **202-344-2410**, submit an IPR violation report online at the ICE Web site at www.ice.gov, or e-mail the IPR center directly at iprcenter@dhs.gov.

ICE Active In “STOP” Piracy Initiative

ICE will play a key role in a new government initiative to protect intellectual property rights (IPR)—the “Strategy Targeting Organized Piracy” (STOP).

Developed over the last year, STOP is the most comprehensive initiative ever advanced to smash the criminal networks that traffic in fakes, stop trade in pirated and counterfeit goods at U.S. borders, block the flow of bogus goods around the world, and help small businesses to secure their rights in overseas markets.

ICE, as the host agency for the Intellectual Property Rights Coordination Center (see sidebar on “IPR Center” at right), coordinates the U.S. fight against IPR crime both in the domestic and international arenas.

Bogus products—including pirated CDs, DVDs, software, electronic equipment, clothing, auto parts and many others—are

estimated to account for up to seven percent of global trade and cost legitimate rights holders around the world billions of dollars per year.

The growing global trade in pirated and counterfeit goods threatens America's economy by stifling innovation and competitiveness in companies of all sizes. In addition, the dampening effect of counterfeiting and piracy ultimately leads to job losses in the United States.

The STOP initiative was launched on October 4 by Commerce Secretary Donald Evans, DHS Under Secretary Asa Hutchinson, Attorney General John Ashcroft and U.S. Trade Representative Robert Zoellick.

To learn more about the STOP initiative, visit us online at www.ice.gov.

Spotlight On Investigative Resources: The National Intellectual Property Rights Center

The National Intellectual Property Rights (IPR) Center is a multi-agency resource for investigations and outreach, responsible for coordinating a unified U.S. government response in enforcing intellectual property laws.

Staffed with investigators from ICE and the FBI, the IPR Center addresses a full range of intellectual property rights violations, with a special emphasis on targeting major criminal organizations and the use of the Internet to facilitate intellectual property crimes.

In addition to coordinating U.S. law enforcement responses to these crimes, the IPR Center serves as a collection point for intelligence on intellectual property crimes provided by private industry. The center also serves as a channel for cooperation between the U.S. government and the private sector for fighting IPR crimes.

For more information, the IPR Center can be reached via e-mail at iprcenter@dhs.gov.

Cornerstone Investigations Update: Selected Recent Cases

ICE Shuts Down Arizona Smuggling Scheme

(Phoenix, Ariz., October 4)—In early October, ICE agents, working with officials in Arizona, shut down a major smuggling operation that was providing transport vehicles to criminal smuggling organizations.

The multi-agency investigation led to 21 individuals being indicted for money laundering, participating in a criminal syndicate and other charges. In addition, 349 cars worth almost \$1.4 million were seized and 11 used car lots were shut down.

A task force comprised of ICE agents and state officials uncovered an elaborate scheme under which used car dealers provided criminal organizations with untraceable used cars that the criminal groups could use to smuggle illegal immigrants, cash or drugs.



An ICE agent inspects the vehicle identification number on a car seized as evidence after ICE, working with authorities in Arizona, shut down a major smuggling transport scheme.

ICE Cracks Major Cigarette Smuggling Case

(Los Angeles, Calif., July 9)—Two Los Angeles men were charged July 9 with conspiracy and trafficking in counterfeit cigarettes after being arrested by ICE agents—the culmination of a year-long investigation.

ICE agents arrested Geoffrey Liu and Xing Wu after they were caught delivering more than 8,000 cartons of counterfeit

Marlboro cigarettes to a storage facility in El Monte, Calif. During the investigation, an ICE agent had purchased 900 cartons of the counterfeit cigarettes from Liu and had arranged for another \$100,000 purchase.

The potential illegal profits from cigarette smuggling are staggering. A carton of counterfeit cigarettes can cost as little as two dollars to produce in Asia; the same carton can then be sold in the United States for \$70 or more.

Sixteen Charged in Phony Federal Loan Conspiracy

(San Francisco, Calif., September 14)—Sixteen individuals and two companies were indicted in San Francisco in September for their involvement in an elaborate conspiracy to obtain fraudulent federal loans—the result of a cooperative investigation between ICE and several other federal and state agencies.

The indictment charges the defendants—including a married couple who own and control a chain of convenience stores in Northern California and the Bay Area—with entering into a series of separate but interconnected conspiracies to defraud the federal government by securing small business and rural development loans to which they are not legally entitled. The conspirators were indicted on various fraud and money laundering charges.

ICE, Colombian Authorities Seize 78 Properties Valued at \$11.6 Million

(Washington, D.C., July 21)—ICE agents in Colombia, working with their counterparts from Colombian law enforcement, seized 78 properties valued at \$11.6 million in July in association with a major ongoing investigation into the laundering of drug money.

The properties—including various residences, country houses, farms, businesses, garages, expensive automobiles and

firearms—were titled in the name of or otherwise tied to Harold Velez-Restrepo, an accused member of Colombia's Cali drug cartel.

Velez-Restrepo was arrested in December 2003 and awaits extradition to the United States. He was indicted in Florida on charges of money laundering and conspiracy to distribute a controlled substance.

ICE's Financial Investigations Unit lent its expertise to this ongoing investigation, working in conjunction with Colombian law enforcement and the U.S. Drug Enforcement Administration (DEA) to disrupt and dismantle the Cali drug cartel over the last several years.

ICE, Chinese Government Break Global DVD Piracy Ring

(Washington, D.C., July 30)—In July, ICE worked with the Chinese government to break up a major international distribution network dealing in counterfeit DVDs, arresting six individuals, including two U.S. citizens, and seizing a substantial amount of cash and more than 210,000 counterfeit DVDs.

That same investigation led to Chinese authorities locating and destroying three warehouses that were being used to store those DVDs for distribution around the globe, including into the United States.

The case was a joint effort between ICE, the IPR Center and Chinese law enforcement. In addition, the Motion Picture Association of America provided crucial industry assistance. [S](#)



Cornerstone Calendar

Recent Events

- From June 6–10, 2004, representatives from the ICE Financial Investigations Cornerstone Unit and the ICE Office of Public Affairs (OPA) attended and participated in the International Association of Financial Crimes Investigators (IAFCI) Annual Convention, in Chicago, Ill. These ICE representatives operated an exhibit booth outlining ICE's financial investigative accomplishments and the Cornerstone program.
- On September 9, 2004, field and headquarters representatives from ICE's Commercial Fraud and Intellectual Property Rights Unit met with representatives from the automotive industry and the Motor Equipment Manufacturing Association (MEMA), at an ICE-Industry Quarterly Meeting in Dearborn, Mich., to address intellectual property crimes facing that industry.

- On September 21, 2004, managers from the ICE Financial Investigations Cornerstone Unit conducted a financial presentation/outreach to attorneys and compliance officers at the America's Community Bankers (ACB) Annual Compliance and Attorneys Conference, in Philadelphia, Penn.
- On October 4, 2004, Marcy Forman, ICE's Director of Investigations, spoke at the International Banking Security Association Conference in Dallas, Tx., offering an overview of Cornerstone financial investigations for security officers and investigators from the financial industry.

Upcoming Events

- Representatives from the ICE Financial Investigations Cornerstone Unit will attend the America's Community Bankers (ACB) Annual Convention in Washington, D.C., October 17–20, 2004. On October 19, 2004, Mr. Kevin Delli-Colli,

Acting Deputy Assistant Director of the ICE Financial Investigations Divisions, will co-chair a panel focusing on financial crime.

- Field and headquarters representatives from ICE will attend the Annual Bank Secrecy Act Conference, in Los Angeles, Calif., on October 21–22, 2004.
- Marcy Forman, ICE's Director of Investigations, will offer a special presentation on ICE financial investigations at the American Bankers Association (ABA) Annual Money Laundering Enforcement Conference in Washington, D.C., October 24–27, 2004. Representatives from the ICE Financial Investigations Cornerstone Unit and the ICE Office of Public Affairs will also be on hand at the conference to outline ICE investigative accomplishments and the Cornerstone program.



The Official Newsletter of Cornerstone

U.S. Immigration and Customs Enforcement (ICE) is the largest investigative arm of the Department of Homeland Security (DHS).

ICE's mission is to secure the homeland by enforcing immigration and customs laws and by protecting U.S. commercial aviation and federal facilities. Cornerstone, ICE's comprehensive enforcement initiative focusing on financial and trade fraud investigations, is a key component of that mission.

In addition to financial and money laundering investigations, Cornerstone targets commercial fraud, smuggling and trafficking, export and trade violations and intellectual property crimes. ICE's global reach allows the agency to investigate these crimes around the world.

The Secretary of Homeland Security has determined that the publication of this newsletter is necessary in the transaction of business required by law of U.S. Immigration and Customs Enforcement (ICE).

Invitation For Cornerstone Report Article Submissions

The Cornerstone Report covers a broad range of topics related to financial investigations and potential vulnerabilities in the financial and trade sectors.

We strive to present clear thinking by knowledgeable observers that can be read with ease and pleasure by both professionals and a general audience, and we're happy to review unsolicited submissions for potential publication in the newsletter.

If you would like to submit an article for publication or simply find out more about how you can participate in the Cornerstone initiative, drop us an e-mail at tripwire@dhs.gov for more information.