Lou Bock

SENIOR SPECIAL AGENT, RETIRED

Verbal Testimony

Good morning

I would like to thank the chairman and the committee for this opportunity and your interest in the program that I had helped to develop for the past 25 years.

My name is Lou Bock, I'm a retired Senior Special Agent who worked as a criminal investigator at the DEA, USDA, and fraud, financial and intel at Customs/Treasury and, later, ICE/DHS. For much of my career I generated and worked large, complicated criminal cases involving trade fraud and money laundering worth billions of dollars. I did so with a team of import and tax specialists, agents, and analysts, by detecting patterns of criminal behavior that stretched across large amounts of diverse trade and financial data including import/export, manifest, BSA, and other data sources. The software and methodologies that my team and I pioneered were successfully deployed in over three dozen countries which led, with the insight and vision of John Cassara, to Trade Transparency Units or TTU's.

Unfortunately, today's TTU initiative has been largely ineffective in terms of revenue collection or in targeting major patterns of fraud or obtaining significant convictions. The TTU has veered from its initial financial and customs focus, in part because of the culture of the agency in which it is administered, DHS. Cassara writes in Trade-Based Money Laundering, “The forced merger with the former Immigration and Naturalization Service and expansion of Customs' mission into immigration enforcement has not been successful. Its expertise, skillsets, budget, and staffing were diluted...The resulting dysfunction within the DHS has been well documented." DHS has neither the customs nor financial expertise to make the TTU initiative a success. The loser here is our ability to tackle trade-based money laundering and tax revenue loss on a grand scale along with a missed opportunity to target funding flowing to terrorist targets such as ISIS which, of necessity, do participate in global trade.

What data is needed in support of an efficient, functional TTU? Detailed, transactional import and export data, as well as movements of money data, for the United States and partner nations, are key. Movement of goods data ideally will include bill of lading / manifest records, both for import and export for the U.S. and

7

partner nations, as well as intermediate container movements. BSA suspicious activity reports greatly enhance targeting capabilities. It is important to point out that commercially available sources of data can supplement, and in many cases replace, government data sources where key nations (or even some US agencies) choose not to participate in data sharing. The targeting magic occurs when this data, and TBML-specific analytic tools, are used by knowledgeable financial analysts.

Existing DHS TTU focus is 95% South America. That perhaps made some sense given DHS's focus on immigration and on drugs but does very little to attack the evolving terrorist threats. The real money flowing to ISIS involves the Middle East and frequently involves Europe including Turkey. With a proper focus on terrorist financing and trade based money laundering, with a home in a financial organization such as FinCEN, we could make a serious dent in the core funding sources of entities such as ISIS.

I've attached to my testimony some background information including previous success stories both in the U.S. and other countries. That information, along with what I've said here today, leads me to a strong recommendation.

I recommend the creation of a reinvigorated TTU, with an associated line item from Congress, and move it to FinCEN under Treasury, an agency capable of addressing the nexus of TBML and tax revenue loss. Giving FinCEN this focus immediately, and full access to the necessary trade data, is the obvious right step whatever the eventual status of the TTU initiative within DHS. Let's return to our earlier vision, focus, and effectiveness, built on a rapidly increasing number of TTU's analogous to the Egmont Group of Financial Intelligence Units. We have the opportunity to lead and help our nation and indeed the world, while generating a huge revenue surplus. Let's get back on track. Thank you for listening.

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BACKGROUND / BACKSTORY

Backgrounder / Backstory

Lou Bock Testimony

I'm a retired Senior Special Agent who worked as a criminal investigator at the DEA, USDA, and fraud, financial and intel at Customs/Treasury and, later, ICE/DHS. For much of my career I generated and worked large, complicated criminal cases involving trade fraud and money laundering worth billions of dollars. I did so with a team of import and tax specialists, agents, and analysts by detecting patterns of criminal behavior that stretched across large amounts of diverse trade and financial data including import/export, manifest, Bank Secrecy Act, and other data sources. The software and methodologies that my team and I pioneered were successfully deployed in over three dozen countries which led, with the insight and vision of John Cassara, to Trade Transparency Units or TTU's.

To give you some sense of my history targeting crime, I would like to provide you with some background on myself and on some of the cases I've been involved with, along with the methodologies I've developed and used to identify financial and trade fraud. I want you to understand that I know what I'm talking about: I've been doing this for 25 years and I know that trade-based money laundering (TBML) and associated crimes are solvable problems. We already know how to do this--we just need to have the will to implement the proven methodologies and assign a team with the appropriate mission.

Originally, I was assigned to the Customs Service headquarters Fraud Division, to develop a system whereby non-technical individuals such as criminal investigators or intelligence analysts could access core Customs databases. Specifically, we were to look at Customs import documents and look for problems or anomalies that would be indicative of over or under invoicing / valuation of goods. Once we found these indications, we could investigate the activities for fraud against the revenue of the United States Customs Service.

Specific data that we were looking at was maintained by the main United States Customs data center in Newington, Virginia. Newington housed one of the largest computer centers in the United States, consisting of a number of mainframe computers. Their core database was updated by a system that was approximately 40 years old at the time and was accessible to the user by way of a special application that queried the data by essentially asking one question at a time.

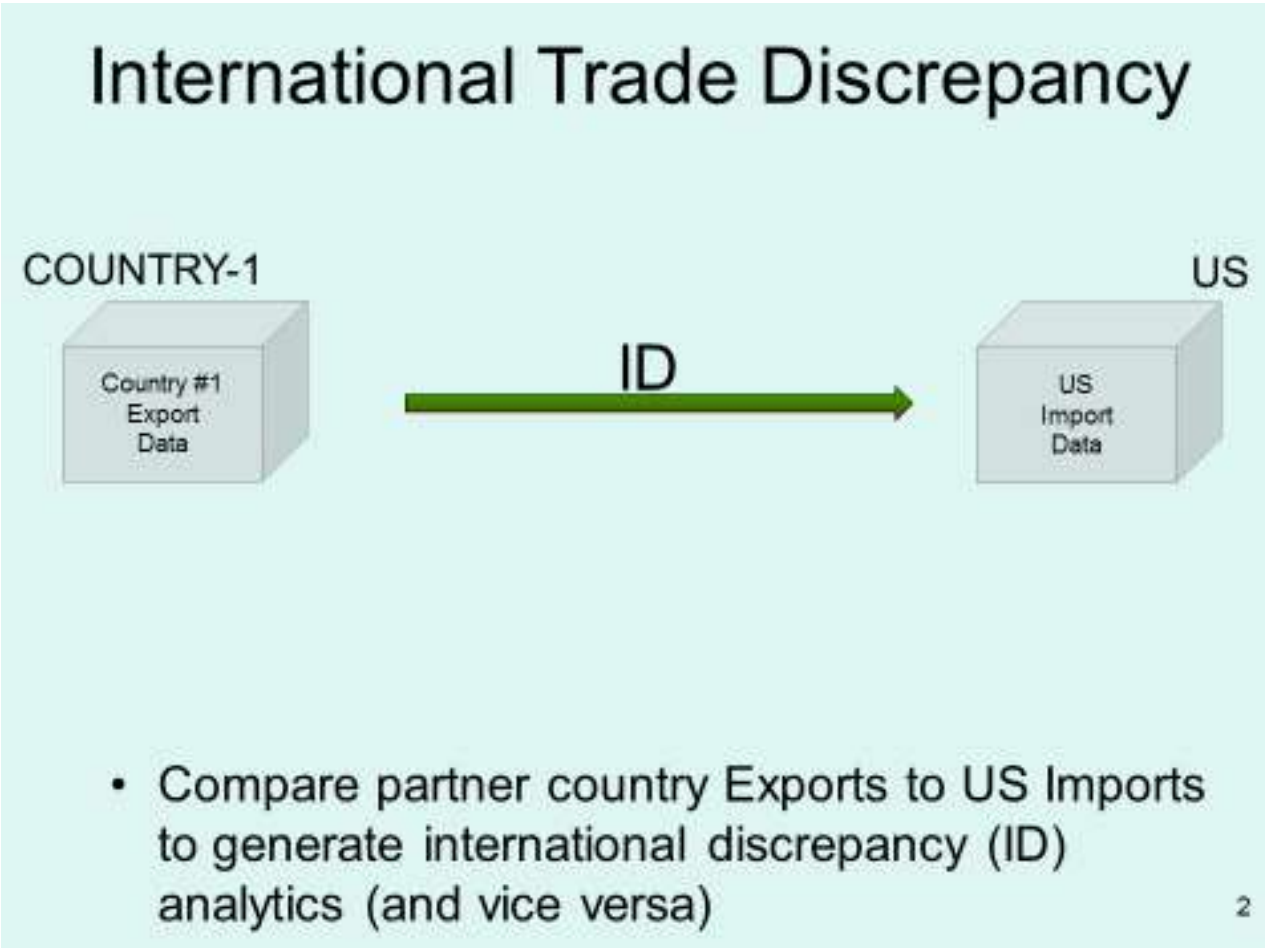
You could search by product, port, importer or document number. It worked fairly well if you knew exactly the items you were searching for; with the specific importer or document number, you could find out all the details of a given transaction. The system had little flexibility and there was no possibility of examining the bulk of the data as a way to identify trends.

It was decided that the best way forward was to leave this archaic system as it was, in order to prevent disruption of the entry process. We then proceeded to develop an approach with which we downloaded chunks of data from the mainframe and analyzed it separately.

The first document that we applied this treatment to was the Customs entry form known as the CF 7501. This document is used to describe the goods being brought into the United States and entered for consumption. You can think of it as is short form tax return. The importer usually through a Customs broker would file the CF 7501 when he or she was required to settle the account as to duty and taxes owed on the goods brought into United States from another country.

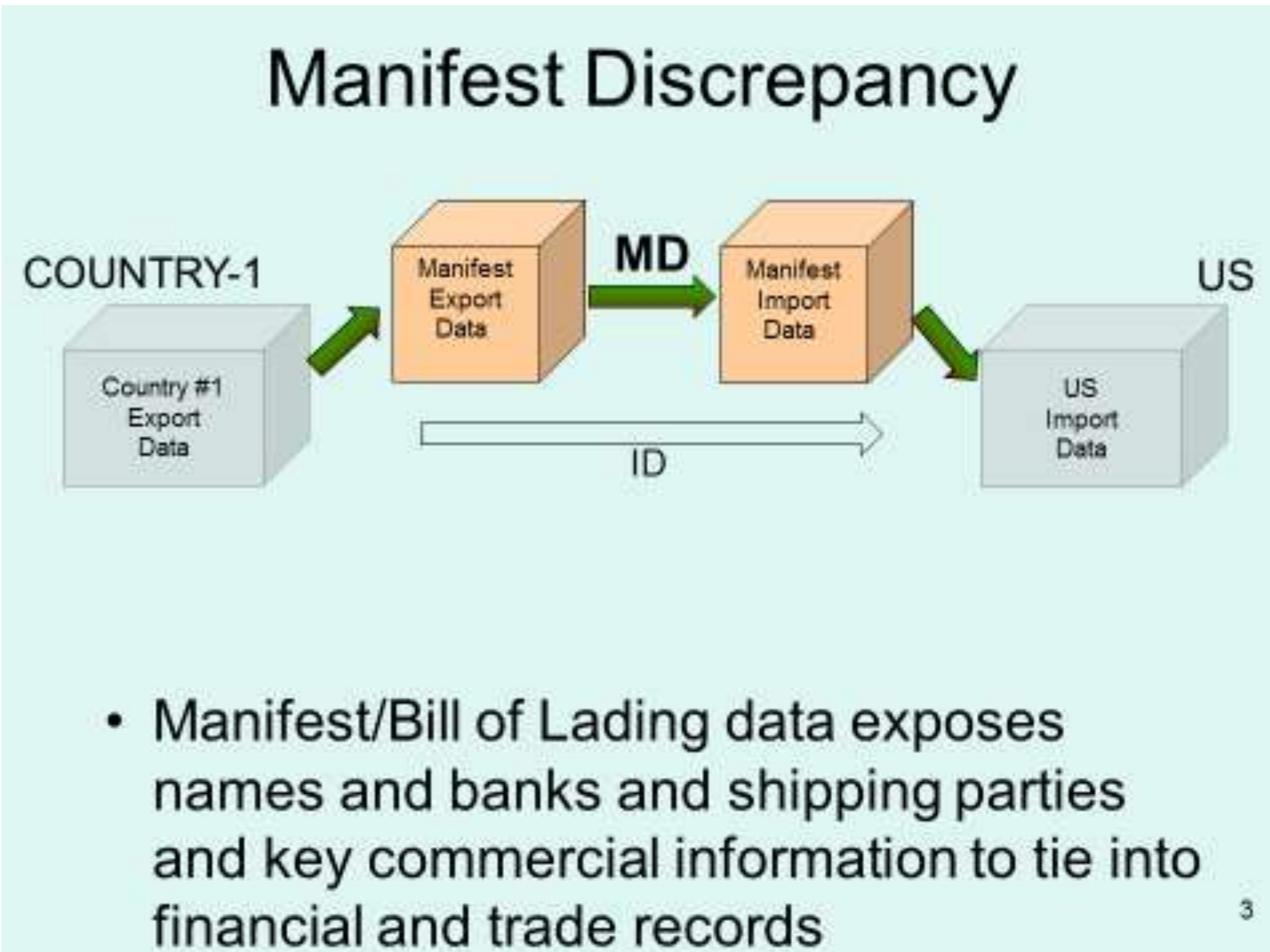
The system we started to develop simply took a copy of some of the data fields from the CF 7501 that would be relevant to the detection of fraud. The first attempt at this was named the Numerically Integrated Profiling System (NIPS). Our method of distributing NIPS to the field was to send the NIPS program and required 7501 data to the field.

The success of this initiative led to many different types of data being added into the analytical process over time. One type of data which proved enormously useful, particularly to identify trade discrepancies with other countries, was the addition of other countries' trade data. One outgrowth of this way of looking at trade data was the definition of an analytical methodology now known as the International Discrepancy Analysis. This is the core analytical approach invented, implemented, and successfully deployed by me and my team to understand trade fraud.



The dramatic success of this endeavor led to requests for more types of data from the field. These included data showing the movement of goods from the foreign country known as the manifest or the bills of lading. These transportation documents included such information as who shipped the goods to the United States, who was to receive them in the United States, what ship they arrived on, when they arrived, what ports were involved, as well as commercial description of the goods.

When you combine manifest with CF 7501 data you can find discrepancies. Some of these discrepancies may show that the route or the port of lading does not agree with the country of origin supplied on the Customs form 7501. This is useful to determine if the government has been furnished with a false country of origin. Violations of sanctions and of various treaties, as well as quota regimens, were detected in this manner. This led to the creation of the analytical approach known as Manifest Discrepancy.

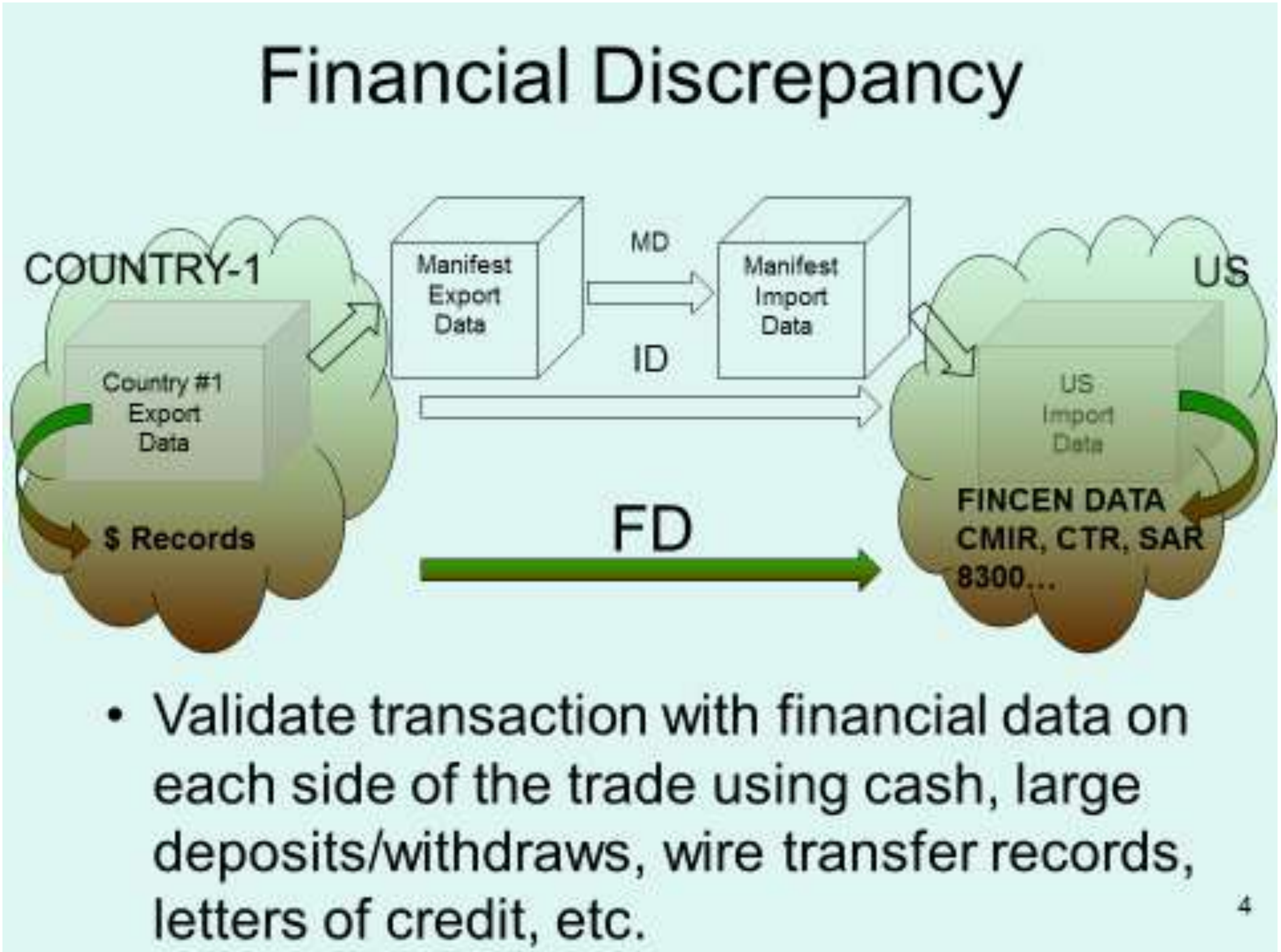


Once we had taken steps to address trade data discrepancies, the next data element that we sought to include in our analysis were the financial data sets, primarily drawn from the Bank Secrecy Act (BSA) data. Financial documents include:

 13

- Currency Monetary Instrument Report (CMIR)--this document details the importation and exportation of money and financial instruments equal to or greater than $10,000. CMIR data fields include: owner of the money, the transporter of the money, parties to the transactions (complete with names and addresses), the from and to countries, and the dollar value of the instrument. Includes passport numbers.
- Currency Transaction Report (CTR). Reports banks and financial institution transactions equal to or greater than $10,000. Includes bank info, account number, owner of the money, party making the transaction, dollar value. Also includes names and social security numbers.
- 8300. Cash transactions to purchase items equal to or greater than $10,000. Includes name of seller and buyer parties, addresses, social security numbers and other identifying data, and dollar value.
- Wire transfer data
- Suspicious Activity Reports (SAR). Derived from banks, casinos, and money service bureaus. Contains written reports identifying transactions that the banks feel are suspicious.
- Many additional financial data sources

The addition of these financial data sources opens up an entire new world of analytic possibilities as we begin the search for Financial Discrepancies:



The documents listed above are often located on mainframe computers found at various USG agencies. Each document's data required normalization, which we learned how to do, before effective targeting could be accomplished. The methodology requires that each document's fields to be used by the advanced TBML targeting system is formatted in specific ways. We integrated these various types of documents in order to supply the user/analyst with answers to their law enforcement-related questions: *who, what, when, and where*.

Using this overall analytic idea, we approached the Treasury Department of the country Colombia (DIAN), under Plan Colombia, and set up a joint effort using both countries' imports and exports to one another. Money was allocated to allow our team to normalize the Colombian detailed import and export data. At this point, we were looking at all detailed U.S. import and export transactions, and Colombian data to match, for several years. The project immediately led to the discovery of major discrepancies between each country's imports and exports. Some discrepancies were in the dollar value, and in other situations it was the quantities that were seriously misaligned. Examination of the data showed that in many cases, the imports and exports between the two countries matched nearly perfectly, which indicated to our team that the significant problems we were uncovering were not data quality issues.

In the case of Colombia, the differences in value were mainly higher when the goods arrived in the United States. This is commonly called over-invoicing or overvaluing goods. This would usually have the effect of raising the amount of duty and taxes paid on imports. It is fairly common to see undervaluation because that would reduce the money owed in taxes. The overvaluation was, therefore, perplexing. The explanation supplied by financial investigators was that overvaluation was an illegal means of moving money out of the United States. Simply put, if you pay more for an item, money leaves the higher priced country to the lower priced country.

One might say this is counter intuitive. Why pay more US taxes and duties by overstating the amount of a given transaction? The answer is the overvaluation had involved items where there was no taxes or duties.

More was learned from that early experiment. We discovered that in the case of missing goods--where more left the United States than arrived in Colombia--it was simply smuggling that was occurring. We identified ways in which Colombia was losing significant revenue sources, which without our analysis would have been very difficult to detect. More importantly, the analysis identifies goods financed by the Black Market Peso Exchange (BMPE).

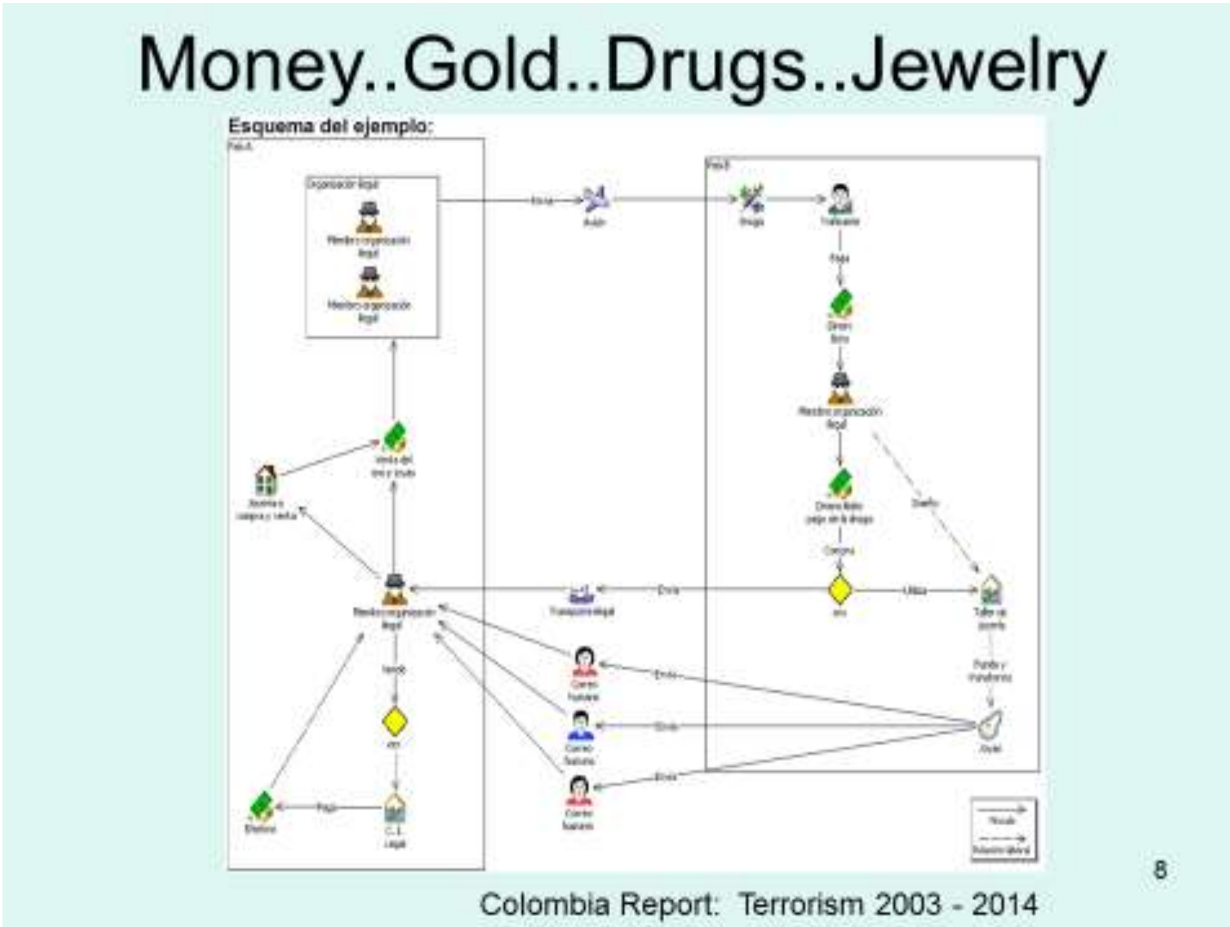
Because of oddities in the Colombian system of checks and balances, which is different than the system in the U.S., Colombia required that all dollar transactions have to originate through a Colombian bank. These banks were required to notify DIAN of goods they finance before the goods actually arrive in-country. By being financed outside the bank (by way of the illegal BMPE), DIAN was unable to watch for or otherwise control these importations. Based on our pioneering efforts, many criminals and schemes in both Colombia and in the U.S. were identified and stopped.

Based on our string of successes working with Colombia, John Cassara and I proposed that the State Department fund the creation of Trade Transparency Units (TTUs). Once the funding was obtained, we set out and added six additional countries to the TTU project. This took place while I was still managing the TTU's at U.S. Customs.

I'm here today because I greatly believe in the mission of trade transparency and financial controls but I'm also frustrated that we have not made enough progress, or given enough focus, to the critical importance of the financial side of the trade transparency issue. Even our partners, including Colombia, are moving beyond us and are taking the idea of our initiative further and more effectively than we have. Colombia has effectively unified the financial and trade analytic components and leveraged into their equivalent of FinCEN an analytical unit looking at financial and trade data.

As an example, here is a chart from a Colombia report on the fraudulent movement of money, gold, drugs, and jewelry. I would love to explain to this committee how the chart below depicts the illicit movement of money and the role the U.S. should be playing to address these issues.

 17



We need a new initiative, a new focus, which leverages the learnings from our previous efforts, learns from partner countries, but focuses on the critical financial and trade fraud issues facing the United States.

Within the United States and around the world, I have worked on a great variety of different cases involving trade fraud and money laundering. Below are a few examples.

Historical geographic focus:

- Colombia
- Panama
- Guyana

- Peru
- Argentina
- Brazil
- Canada
- Mexico / NAFTA
- China
- US/Laredo
- Many more...

Additional commodities and areas of fraud:

- Gold
- Chicken
- Licorice
- Tobacco
- Freon
- Coins
- Watermelons
- Garlic
- Tax credits
- Jewelry
- In-Bond
- T Shirts
- Many more...

For example, perhaps you wouldn't think licorice (listed above) would hold a great deal of interest but the following graph shows how we were able to identify over $100 million in fraud:

As I look at the current situation in the U.S., I see the data necessary to do the correct investigations is scattered, partially gathered in a few place, but nobody is looking at it with the right perspective. There is not, to my knowledge, a financial focused initiative within a financially knowledgeable entity such as FinCEN, nor is there any significantly funded effort to apply the things we already know to the current problems of trade based money laundering.

In conclusion, I hope this committee understands the following:

- Trade based money laundering (TBML) has been around for a very long time but it is of exponentially growing importance to the U.S.
- The financial nexus of trade is key
- Addressed appropriately we can help the U.S. and partner governments increase revenue collection dramatically while cutting down on illicit financing of many activities including terrorist financing

20

- There is significant synergy between TBML and the existing FinCEN mission

 21

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Additional Background:

Tracing Colombia's Gold (*Colombia Reports* article)

COLOMBIA REPORTS INTELLIGENCE
On the ground intelligence and weekly reports for investors, risk analysts and policy makers

Economy

Posted by Grace Brown on Sep 1, 2015 | 4 Comments

Tracing Colombia's gold from savage jungles to Swiss watches

Colombia's gold is almost exclusively exported to the United States and Switzerland. This gold is mined both legally and illegally, then sold to exporters in Medellin before being sent to North America and Europe.

Colombia exported 310 metric tons of gold between 2010 and 2014. Curiously, this is more than the government's production figure of 287 metric tons.

Investigative journalism website Ojo Publico traced the precious metal's route from Canadian-run mines and jungle regions under the control of illegal armed groups, to companies including Republic Metals Corporation from the United States and Swiss group Metalor.

The miners

The majority of gold mined in Colombia comes from the western provinces of Antioquia, Choco, Cauca and Nariño, according to government statistics.

Only 17% of the total amount of gold mined in the country is formally recognized to come from authorized mining zones, directed by companies such as Gran Colombia Gold from Canada or the Colombian Mines Corporation, also from Canada.

In a number of cases, locals and multinational mining companies have clashed because of opposing interests.

On top of financial criminality and social tension, the illicit trade is also linked to environmental devastation. Data from the Ministry of Environment and Sustainable Development show that in 2014, there were 17,000 hectares of deforestation and at least 19 rivers were contaminated.

Colombia’s gold rush

24 24

The other 83% of Colombian gold is mined under informal conditions without license, often by artisan miners, and reportedly constitutes more than 50 metric tons mined per year.

Profiles

FARC

Urabeños

The miners are frequently victim to extortion by the FARC guerrilla group, or Los Urabeños, a neo-paramilitary group that has become the country's most powerful drug trafficking organization.

These illegal groups in some cases forcefully appropriate entire mining operations or provide the machinery necessary to extract the gold from the ground.

In 2014, the police force seized 739 kilos of gold with a value of more than $26 million that would have financed organized crime, according to Colprensa, Colombia's news agency.

Some of the main non-authorized areas of production controlled by armed groups are in the provinces of Antioquia, Choco, the Amazon and Caqueta.

Following its extraction, 93% of the gold is then transported from these areas and other parts of the country, to Medellin, Colombia's second largest city, where a number of traders buy the gold and export the precious metal to customers abroad.

Where Colombia's gold is extracted

26

The traders

Medellin, Anti...

Out of the ten principle Colombian exporters of gold, nine are based in Medellin, which is geographically very close to the centres of Colombian gold production. The remaining Giraldo & Duque is based in the southern city of Cali. In the past five years, these groups exported 92% of the gold that left Colombia.

Among the top three of these exporters, Goldex SA is the most significant to have been investigated by Colombian authorities for being involved in one of the largest money-laundering networks in the country.

The president of Goldex is currently in jail awaiting trial for money laundering and terrorism charges after authorities found out that the company was allegedly laundering money for paramilitary groups including the Urabeños.

> **Leading Colombia gold trader arrested for money laundering**

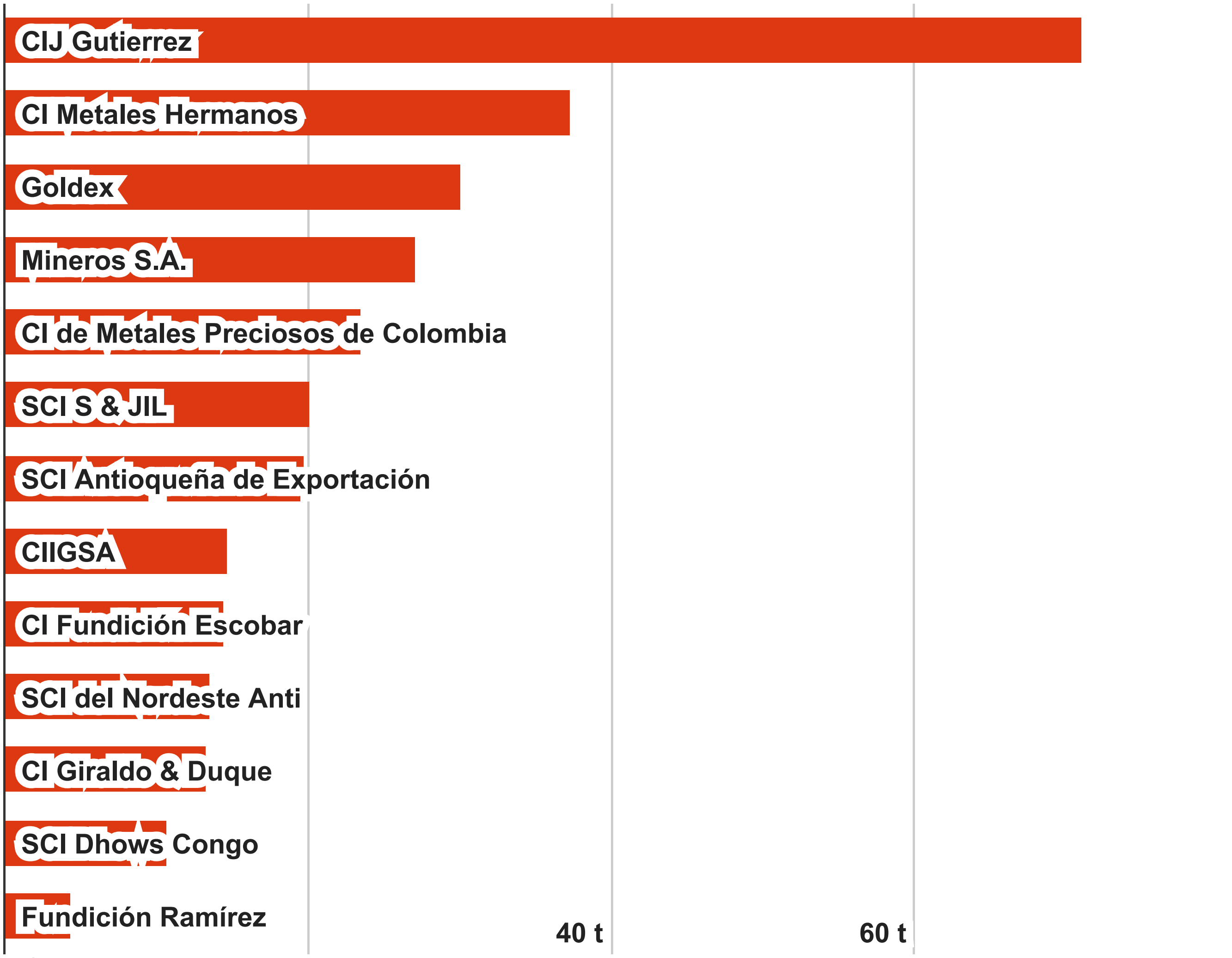
One of Goldex's foreign clients Metalor, claimed to have stopped doing business with the company upon hearing the money laundering allegations in September 2013, but records show that they continued to receive deliveries until June 2014.

At the time of the investigation, Colombian police said that six other suspicious companies were being investigated for money laundering.

This year, the disgraced company resumed business with Metalor, sending it almost a ton of gold.

In July, Colombia's president Juan Manuel Santos declared a war on the illicit trade that is reportedly worth $2.5 billion a year.

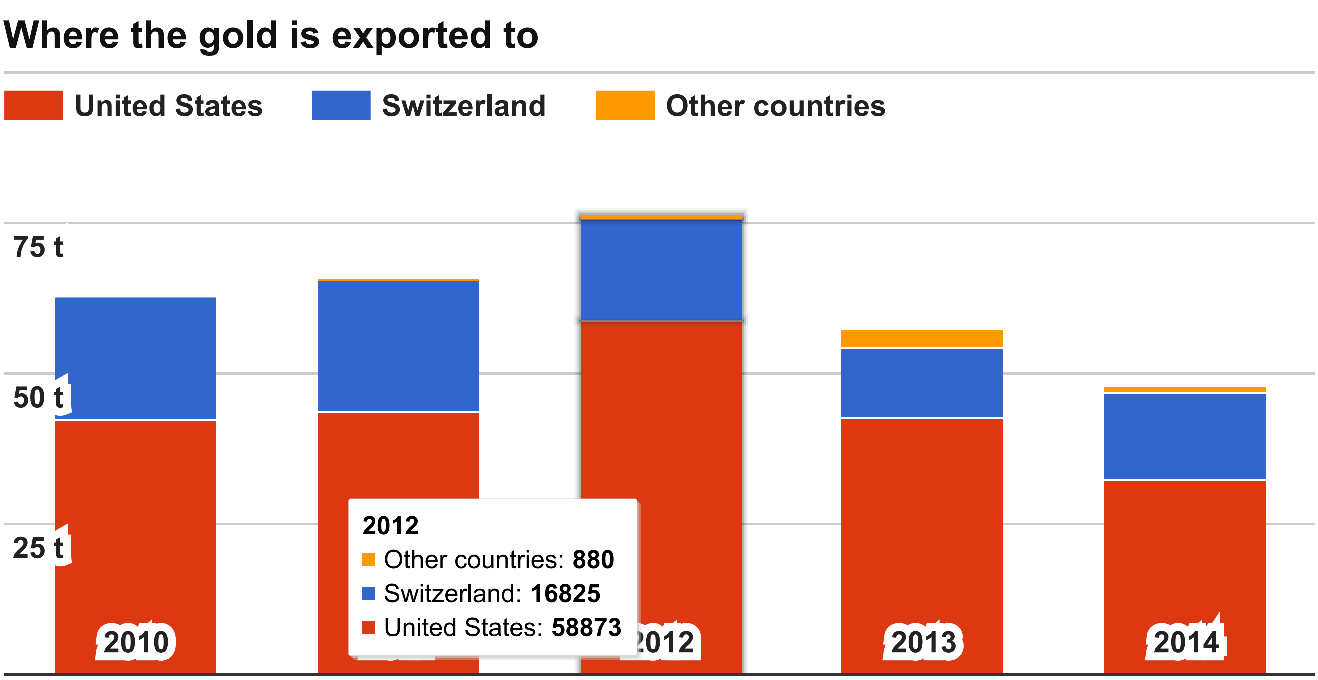
Who is trading the gold



Ojo Publico

The buyers

Republic Metals Corporation from the United States and Swiss group Metalor are two of the main buyers of Colombian gold, receiving 40% and 23% respectively of the total amount exported. Both groups belong to the London Bullion Market Association (LBMA), the established wholesale market that sets the international price of gold.

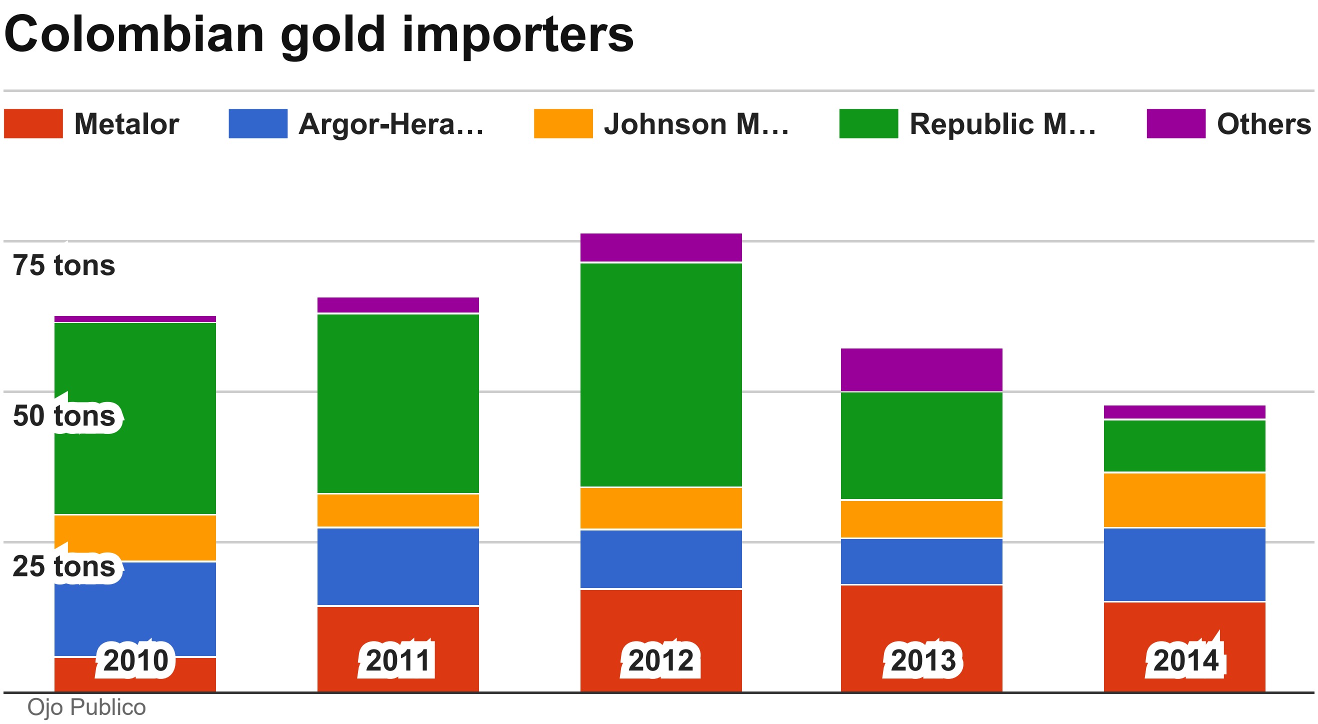


Ojo Publico

Metalor, also a certified member of the Responsible Jewellery Council, is suspected to have been involved in a variety of illegal gold dealing across South America. Records show that Metalor bought US$521 million between 2009 and 2013 from gold trading company ASPeru who have been linked to illegal mining in Peru.

OjoPublico reported that Metalor has imported hundreds of metric tonnes of illegal gold from exporting firms linked to money laundering.

Republic Metals Corporation, one of Metalor's competitors, has also been tied to allegations of purchasing contraband gold. As a former client of Goldex, reports say that RMC closed all accounts with Goldex in 2013 after suspicions were raised.



Julia Principe, top Peruvian money laundering prosecutor, and Gustavo Romero, the head of Peru's tax authority, confirmed that RMC and Metalor are under investigation by prosecutors and police for money laundering cases linked to illegal mining in Peru.

Between them, both Metalor and Republic Metals Corporation to date have financed the gold rush by purchasing 196.5 metric tonnes of gold from Colombia

On July 31, the government said that they will take action to fight the criminal groups that hide behind mining who commit all sorts of "destruction to the environment, to public order, and finance groups outside of the law."

Among a variety of measures to stop the illegal trade, the government said that police will be allowed to destroy illicit machinery, higher penalties will be incurred and traffic control

COLOMBIA REPORTS

exports gold mining

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