

# FRAUD ALERT

Spring 1993

Volume 2, Number 4

## The U.S. Postal Service Pushes to Close Down Parchman Prison Scheme to Defraud Pen Pals

The Postal Service is making a concerted effort to thwart convicts at the Mississippi State Prison in Parchman, who prey on lonely pen pals for millions of dollars a year.

The inmates strike up relationships through ads in lonely hearts club, homosexual or religious publications. The convicts create a fictitious past, and paint themselves as innocent victims, who will soon win their freedom.

But they need the help of their pen pals, and that's where the fraud and the financial institutions come in. *Fraud Alert* spoke with Postal Inspector John C. Brugger, who as a public information officer, is publicizing the latest effort to close down the scam that has been running for years.

### **Fraud Alert: Can you describe how this scam works?**

Brugger: This is the classic confidence game. Prison inmates get in touch with outsiders and win their confidence. They often get romantically involved with their pen pals and soon ask for help in getting out of jail by paying a fine, an attorney's fee or restitution. But to do that they must cash some money orders sent from the prisoner. The money orders, which are purchased by confederates, however, have been altered in the prison and the dollar amount raised to the maximum \$700 amount allowed under Postal Service regulations. People don't think they are at risk, they believe they are depositing the money and turning it around for the prisoner. They do it, only to find out when the altered money orders are returned by the postal service that they are liable.

### **Fraud Alert: Why has it been so hard to shut down this operation?**

Brugger: Well, I think it's been difficult at Parchman because the penitentiary is not the classic walled institution. It's a sprawling complex with prisoners in minimum, medium, and maximum security facilities. This 30-square-mile penitentiary includes thousands of people working there, and many may be related to the prisoners. They are paid minimum wage and are very susceptible to smuggling in documents, drugs, weapons—you name it.

### **Fraud Alert: What have the law enforcement officials been doing to stop it?**

Brugger: We try to identify the financial institutions involved so we can get to the victims quickly to prevent further losses to them. We've tried to identify people in Mississippi who are working with prisoners to smuggle in the money orders to get prosecutions. We've had pretty good luck with that, including guards at Parchman. We've made arrangements with the superintendent at Parchman to take prisoners who take part in this scheme and put them in solitary confinement for 89 days. They are taken out of the bullpen of the maximum security arrangement and put in an individual cell with restrictions on conjugal visits and other privileges. That's the only thing that seems to work. Taking a guy who's serving 99 years and increasing that to 199 years just rolls off his back.

Remember this scheme is a cottage industry involving hundreds of prisoners. You've got guys who fabricate greeting cards, others who make phone calls and talk sweetly to these people. Also there are prisoners who alter the money orders, and those who supervise the trafficking in and out of Parchman. And of course, guys who write the letters.

### **Fraud Alert: What has the Postal Service done to make it more difficult to alter money orders?**

Brugger: The money order document is always evolving. Recently we've had dramatic changes, principally because of this problem. We use a different paper that is chemically treated to discolor when altered. When attempts are made to eradicate the numerals on the document, it will turn a dark mustard brown. The printer ribbons have been changed and strengthened so the ink resists bleaching and chemical eradication.

The watermark and security thread were added to defeat counterfeiting, which was another problem we had. The alteration problems, however, haven't been entirely solved. But we hope the latest generation money order will prove resistant to counterfeiting and alteration because of the paper we use. The background scheme and the highlighted dollar

*Continued on page 2*

# Postal Service Squeezes Parchman Prison Scam

*Continued from page 1*

amount area also will help people spot anything that might have been done.

## Fraud Alert: When was the latest revision made?

Brugger: The new money order was out in April 1991. The latest revision is out now. If we find something that works better than what we have, we'll incorporate it right away. The problem is that we're constantly trying to overcome what these prisoners are trying to do to defeat us. It's a little bit of a cat-and-mouse game.

## Fraud Alert: What should bankers do to protect themselves and their customers?

Brugger: Bank tellers should be trained to be on the lookout for unusual instances of customers attempting to deposit or cash many postal money orders, usually made out for the maximum of \$700. These are not the people who may be running a mail order business, and who may be routinely bringing in checks and money orders associated with their businesses. The victims we see most often are females, often elderly, who are attempting to deposit or cash eight to ten money orders at a time. Window clerks must not assume the money orders are good just because they know the customer.

## Fraud Alert: What should bankers tell their clerks to look for?

Brugger: They should be trained to hold the money orders up to the light and to examine both sides of the money orders very carefully. Concentrate on the dollar values, where the alteration would have to take place. Look for evidence of erasure, dramatic discoloration, bleaching or other chemical alteration. Look for cut marks, which would indicate that the dollar amounts have been cut out and replaced. Locate the watermark image of Ben Franklin and the security thread. These are the basic tests.

Clerks should tactfully ask if the money orders were furnished by a prison pen pal, and explain that many such money orders have proven to be altered. When the customer finds out that they may be liable, they generally will be very cooperative. Where there is romantic involvement, though, it can be a little delicate.

Incidentally, we have produced a training video for window tellers, which tells how to spot altered money orders. It runs about nine minutes and is available at \$5 per copy from the Chief Postal Inspector, 475 L'Enfant Plaza, Washington, D. C. 20260-2175.

## Fraud Alert: With all of the steps that have been taken at the prison and by the Postal Service, is the end in sight for this scam?

Brugger: We hope so. We've seen the scheme explained on numerous news programs, with the victims interviewed. We're educating postal window clerks to be suspicious of someone buying many low-value money orders. We've taken steps at the penitentiary with a warning that if the envelope contains U. S. Postal Service money orders the prison superintendent should be contacted. Prisoners' phone calls are monitored and they are limited to 10 people whose names and phone numbers they must give the warden in advance. Phone calls are interrupted with a recording that warns about altered money orders. All of this will have a cumulative effect over time to reduce the opportunity of these guys to reach people.

But it's a confidence game and the prisoners are extremely clever at turning our prevention

efforts into persecution, to make themselves appear more sympathetic. We hope to suppress this activity so we can move on to something else. ■

## Bankers Can Avoid the Parchman Scam

*The U.S. Postal Service offers these tips to bankers on avoiding getting caught in the money order scheme:*

*—Be alert for customers trying to cash or deposit several Postal Service money orders each of the maximum \$700 amount.*

*—Check the dollar amounts imprinted on the money order for signs of alteration, erasure, cutting and pasting, or other tampering.*

*—Hold the money order to the light and find the watermark image of Benjamin Franklin's face on the left side of the money order and the security thread running vertically across the face of the document to the right of the watermark.*

*—Ask the customer if the money orders came from a prison pen pal. Explain that money orders from prison pen pals in many cases have been altered and raised, resulting in chargebacks to the customers' accounts of thousands of dollars.*

*—If the money order was sent from Parchman Prison, or appears to have been altered or counterfeited, keep the documents and call the nearest Postal Inspector. Your local postmaster can give you the telephone number of the nearest Postal Inspection Service office.*

The *FDIC Fraud Alert* is published quarterly by the Federal Deposit Insurance Corporation, 550 17th Street, N. W., Washington, D.C. 20429

This newsletter is produced by the Office of Corporate Communications.

Andrew C. Hove, Jr., Chairman  
Alan J. Whitney, Director, Office of Corporate Communications  
Frank Gresock, Editor

## Federal Agencies Join Forces to Collect Court-Ordered Restitution Payments

Income tax season may produce a surprise for some people under court order to pay criminal restitution to the FDIC or RTC.

The two agencies have been working with the Department of Justice to use the Tax Refund Program of the Internal Revenue Service to reroute tax refunds to the FDIC and the RTC.

The 1992 Tax Refund Project was begun in August by the Criminal Restitution Unit of the FDIC working with the agency's legal and investigations criminal coordinators in the Dallas, Chicago, San Francisco and New York Regions. The FDIC coordinated its efforts with the Department of Justice's financial litigation staff in Washington.

Justice initially accepted 97 orders, payable to the FDIC, totaling over \$140 million. An important condition for acceptance was that payment was overdue. The IRS provided Justice with the mailing addresses for the 97 defendants. These defendants were notified of the default and given 60 days to respond or correct the default.

The FDIC worked with attorneys at Justice and probation officers nationwide to make sure that only orders

were included where payments had not been made. Most of the orders that were deleted were those where a payment schedule had already been worked out with the probation officers but was not contained in the original court order.

The final group of 63 orders totaling about \$127 million were included in the refund project. Under the program, if the defendant was due a tax refund, the IRS sent the money to the FDIC rather than the taxpayer.

The program will be expanded for the 1993 tax season, through the local U.S. Attorneys' offices, to include additional orders not identified this year, 1992 orders that remain eligible and those orders where the payments have fallen behind schedule.

In a related effort, the FDIC is working with Justice to identify, reconcile, prioritize and collect on restitution orders in the Southwest, where there has been a plethora of criminal convictions growing out of bank and thrift failures.

The joint effort has produced an inventory of more than 200 restitution orders totaling over \$180 million. There are plans to expand this joint effort to other regions of the the country later this year. ■

## Comptroller Warns Bankers of Bogus Correspondent Accounts

*The Office of the Comptroller of the Currency has warned bankers not to enter into a correspondent relationship with an ex-convict who is trying to establish an account using electronic funds transfers.*

*Banks have been receiving unsolicited facsimiles claiming that the OCC has endorsed "direct interbank corresponding relationships" and EFTs involving the Central Dominion Trust, Snyder, Tex. The faxes are being sent by Johonnas J. Eicke. In the past he sometimes used the alias David ben Israel.*

*The OCC has not endorsed any activities involving Eicke or Central Dominion Trust. The Comptroller's office also noted that contrary to Eicke's representations, Central Dominion Trust is not a registered bank or trust company in Texas.*

*Eicke is being sought by North Carolina authorities on an outstanding warrant, and by the U.S. Marshals Service on charges of parole violation.*

*Bankers should report any contact with Eicke to the Federal Bureau of Investigation or to the Marshals Service.*

*Federal officials think that he may want to establish the EFT accounts to launder the money of tax evaders who want to move it out of the country.*

*They also think he may want to use these accounts to hide the income of people who believe the federal income tax system is unconstitutional.*

*Under the latter use, Eicke could employ the accounts to pay the bills and hold the savings of disgruntled taxpayers, who would pay him fees for these services.*

## Phony Japanese Certificates Being Offered to Banks

The Ministry of Finance of the Japanese Government and the Office of the Comptroller of the Currency have warned financial institutions to be aware of scams involving bogus certificates made to appear as if they were issued by the Government of Japan.

The fictitious certificates were denounced by the Ministry of Finance, which said the fraudulent use of the certificates was drawing inquiries from within Japan, but the number from abroad has been increasing.

The "Kanpukin Zandaka Kakuninsho" certificates have never been issued by the Ministry of Finance and "such a certificate could never exist legally," the ministry noted in a statement. The bogus certificates allegedly certify the existence of a remaining balance on a Japanese government bond refund.

The certificates claim to confirm that the Japanese Minister of Finance will exchange the amount specified for an equivalent amount of Japanese government bonds. In a statement the ministry said, "we have already found several kinds of such fictitious certificates whose face values varied from 10 billion

yen to 500 billion yen." For comparison, 50 billion yen is roughly equivalent to \$400 million.

The Comptroller's office said it has received numerous inquiries about phony transactions originated by persons who claim they either have access to or own the certificates.

People involved in the scheme approach potential investors and offer to sell to them, at a deep discount, the Japanese bonds represented by the certificate. The would-be investor then goes to the bank seeking a loan to purchase the non-existent bonds, which promise a handsome profit. The bond certificates have also been offered to banks as collateral for loans.

These certificates have surfaced in Florida, California, Chicago and Las Vegas, said federal investigators.

There is more than one group in the country using the phony certificates to defraud financial institutions and brokerage firms.

Any information or questions bankers may have should be directed to the Office of the Comptroller of the Currency. ■

**FDIC**

Federal Deposit Insurance Corporation  
Washington, DC 20429-9990

OFFICIAL BUSINESS  
Penalty for Private Use, \$300

**BULK RATE  
MAIL**  
Postage &  
Fees Paid  
FDIC  
Permit No. G36

**ATTN: Chief Executive Officer**