

REDUCE: The Six Aims of Financial Investigations for Probation Officers

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TRADITIONALLY, THE core curriculum for corrections professionals has not included financial investigative techniques. Many probation officers pick up their financial expertise on their own without any base or frame of reference to build upon. Others muddle through by taking financial information at face value. Increasingly, courts are requiring more than just numbers. Probation officers must realize that merely gathering and regurgitating figures is not conducting a financial investigation. They entail much more than that. Financial investigations are one tool used in making appropriate sentencing recommendations and supervising offenders.

Defining Financial Investigation

According to a 1993 Internal Revenue Service (IRS) publication, financial investigations entail identifying and documenting “specific events involving the movement of money during the course of a crime” (p. 4). Financial investigations for probation officers entail *looking at the movement of money in an offender’s life* (see figure 1). Probation officers must look at how offenders obtain money and how they spend it. Do they earn a leg-

itimate income? Do they spend funds on illegal items, i.e., drugs? Did they obtain their assets (bank accounts, cars, homes, etc.) by legitimate means? What impact will financial conditions have on their lives?

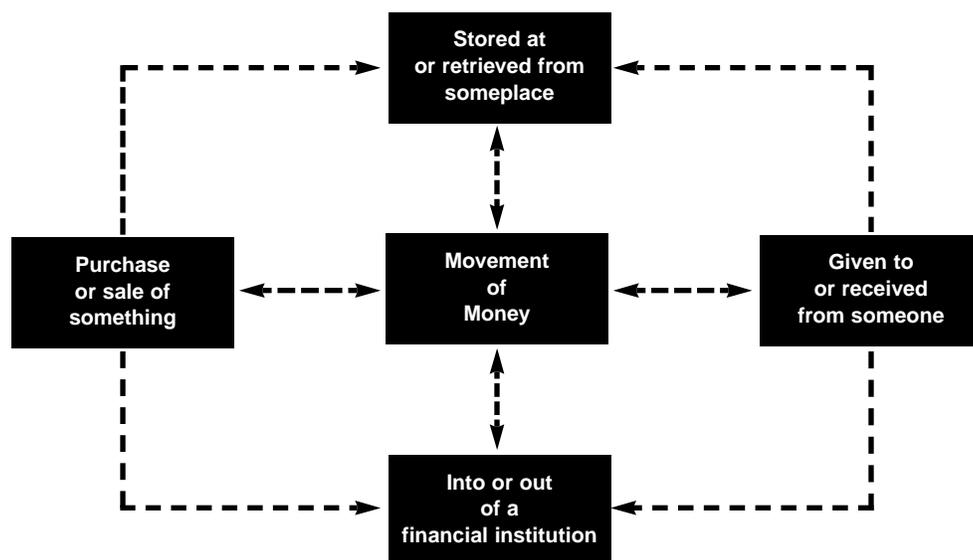
These issues and more can be addressed through financial investigation. Consistent with the federal probation system’s Enhanced Supervision Model (enforce conditions, control risk, and provide correctional treatment), financial investigation has six aims. These aims—*Reveal, Establish, Define, Uncover, Compliance and Enforcement*—**REDUCE** for short, can be grouped by the two major duties of probation officers, presentence investigations and supervision.

Presentence Investigations

The presentence aims of financial investigation are *Reveal, Establish, and Define*. The first aim requires the probation officer to *Reveal* the full extent of the offender’s benefit from the conviction offense, as well as detect collateral issues of concern such as substance abuse, gambling problems, or mental health disorders.¹ Financial investigation can help probation officers and courts understand how much benefit the offender gained from the offense or if the conviction offense is “just the tip of the iceberg.” Financial investigation also can reveal problems that offenders are not willing to acknowledge, but which courts need to be aware of, such as substance abuse or a mental health disorder.

The second aim calls for the officer to *Establish* the offender’s financial status and the offender’s ability to meet court-imposed financial conditions (fines, restitution, and supervision and treatment costs). Establishing an offender’s income, expenses, liabilities, and assets provides information the court needs to consider before imposing financial conditions. Financial investigations also establish a reference point for offenders’ supervision later. For instance, if the presentence report reflects

FIGURE 1. MOVEMENT OF MONEY



Source: *Financial Investigations: A Financial Approach to Detecting and Resolving Crimes* (IRS, 1993)

that an offender has a negative cash flow and no assets, how can he or she afford to buy an expensive new car? Or, if offenders have been shown to have a positive cash flow and numerous liquid assets, why aren't they meeting their financial conditions? A presentence investigation that initially establishes an offender's financial picture alerts supervision officers to changes in the offender's lifestyle that may be inconsistent with the offender's finances or the conditions of supervision.

Finally, presentence investigators must use financial investigation to *Define* appropriate financial conditions, i.e., how much the offender should pay monthly toward an outstanding restitution balance or how soon after sentencing the offender should pay a fine in full. Should the offender pay the supervision or drug treatment costs? Other conditions that may be considered based upon financial investigation are requiring that offenders obtain financial or debt counseling or requiring that offenders not have credit cards or incur new debt unless granted permission by the court or probation officer. Financial investigation enables probation officers to make informed recommendations that do not set offenders up for failure or require that fellow officers go back to court for modifications.

Supervision

The aims of financial investigation for supervision of officers are threefold: *Uncover*, *Compliance*, and *Enforcement*. *Uncover* entails not only detecting new illegal activity but also supervision issues. It mirrors the *Reveal* aim previously discussed but takes on new meaning in the supervision context. Specifically, financial investigation can result in revocation because the officer is looking for new criminal activity. Issues of what can be proven and how evidence is gathered now become very important. Collateral issues of concern that require action also may develop during the course of supervision. For instance, a substance abuse or gambling problem may be the reason why an offender now is falling more and more behind in paying bills.

Traditionally, *Compliance* has meant using financial investigation to determine whether offenders are paying their financial conditions as required, i.e., fines and restitution. Financial investigation, however, is more than just checking to see if the offender is making proper payments. Financial investigation can be used to determine compliance with other conditions as well. For instance, obtaining access to an offender's gas credit card statements may reveal out-of-jurisdiction charges, which may indicate that the offender has left the court's jurisdiction without permission. In another case, examining an alcoholic offender's canceled checks or credit card statements may indicate that the offender is frequenting a bar in violation of a treatment or abstinence condition.

Enforcement is the last aim. Financial investigation provides an "enforcement presence" to supervision. An

officer asking to see pay stubs, canceled checks, and credit card statements reinforces that an offender is being supervised and that engaging in criminal behavior or deviating from supervision conditions is a bad idea. This concept is very similar to that of companies who conduct routine audits to deter possible wrongdoing. Obviously, the approach will not work with all offenders, but some will modify their actions to conform to their conditions of supervision.

Factors to Consider

Probation officers must consider six factors before initiating a financial investigation. Probably foremost is what the focus of the investigation is. Is there a specific allegation or is the investigation a general inquiry? Focus also entails identifying what financial records are required and who needs to be interviewed regarding the records or transactions to resolve the allegation or inquiry.

Second, how much time does one have to devote to a financial inquiry? Some financial investigations can be quite time consuming. In addition, financial records are not always available on a moment's notice. For instance, bank copies of canceled checks or credit card statements/invoices may take weeks or months to retrieve. Copies of tax returns take even longer.

Third, what period is the investigation going to deal with? Should the investigation look at the offender's finances for the last month, 6 months, or year, or just one particular transaction?

Fourth, what type of offender is the probation officer dealing with? Is the offender a sophisticated stock manipulator or a young, street-level drug dealer with no financial acumen? Does the offender have the expertise to hide assets or income beyond burying it in the backyard or lying on a Monthly Supervision Report?

Fifth, what offense has the offender been convicted of? Is a financial investigation beyond the basics warranted for a minor offense that had little to do with finances? Few, if any, offenses warrant a complete audit of every aspect of the offender's finances.

Sixth, what type of expertise does the officer possess to complete a financial investigation? Most officers are capable of general financial inquiries. Other investigations, particularly those involving allegations of money laundering or major tax violations, are beyond the expertise of most officers and warrant contact with law enforcement agencies that can help resolve these issues.

Initiating FI

There are numerous techniques for completing a financial investigation. A good idea is to start with a written plan that clearly defines the investigation's focus, the issue(s) that need to be resolved, and the investigative steps or techniques to resolve those issues. General inquiries into an offender's finances may war-

rant only certain routine investigative procedures (see figure 2). More indepth investigations require more thought and planning. The key to understanding financial investigation is to know that they are "paper-intensive" and to plan accordingly.

FIGURE 2. INVESTIGATIVE PROCEDURES

Basic Investigative Steps	Presentence Investigation	Supervision
Obtain signed financial statement and affidavit.	X	
Obtain signed Monthly Supervision Report.		X
Obtain credit check.	X	X
Registration checks (autos, boats, etc.)	X	X
Real estate title searches	X	X
Review original supporting documentation (pay stubs, bills/receipts, income tax returns, etc.) provided by offender and/or third party.	X	X
Examine records for inconsistencies and investigative leads.	X	X
Resolve inconsistencies and/or pursue leads.	X	X

The IRS publication previously cited notes:

Financial investigations by their very nature are record intensive; specifically, records pointing to the movement of money. Bank account information (checking and savings account records), motor vehicle registration (title, place of purchase, and lien-holder records), and real estate files (records showing mortgages and deeds records) are documents or records commonly found in this type of investigations. However, records such as computer disks, utility bills, divorce decrees, and credit card carbons can play important roles in financial investigations. Any record that pertains to or shows the *paper trail of events* (emphasis added) is important to a financial investigation. (pp. 4-5)

Conducting financial investigations requires the ability to overcome obstacles, something probation officers as a whole are quite good at. Many times offenders will state that they don't have requested documentation. Most, if not all, financial records can be retrieved from other sources besides the offender. For instance, tax returns and W-2 Forms are maintained by not only the IRS, but frequently by financial institutions at the time a mortgage application is accepted. (Copies can usually be obtained quicker from banks than from the IRS, and loan applications are particularly good for uncovering

additional assets or income sources.) All financial institutions maintain copies of statements, canceled checks, deposit slips, and deposit detail (checks deposited).

Often offenders report that they have no bank accounts. If offenders are receiving any income by check (employment or public assistance), find out where they cash their checks. Check-cashing businesses frequently keep track of all checks cashed by a customer for a given period of time. Contacting these businesses not only will establish the amount of the offender's income but may disclose additional income sources not reported by the offender. If offenders maintain that they have no income, consider periodically conducting surprise "cash counts." (Cash counts routinely are used by auditors to detect embezzlement of unrecorded receipts.) Count all cash on the offender's person and control and document the date and amount. The results of cash counts over time can be used to determine if offenders have more income than they are reporting.

Probation officers also should be aware that any financial record can be falsified. In this age of computers and laser printers, this is particularly true. Offenders have been known to manufacture false tax forms, pay stubs, even canceled checks and bank statements to accomplish their objectives. Probation officers should view all documents that offenders supply as open to alteration and should be willing to contact third parties to verify the accuracy of records supplied.

There are numerous good financial investigation publications that probation officers should read and study for information on specific techniques and financial terms. The Federal Judicial Center has published two excellent resources, *Financial Investigation: New Officer Orientation Workshop Participant Guide* and *Financial Investigation Desk Reference for U.S. Probation and U.S. Pretrial Services Officers*. In addition, numerous fraud organizations provide low-cost fraud training to members that can be useful to probation officers as well.

Conclusion

Financial investigation can play an integral role in sentencing and supervising offenders. By utilizing financial investigation, presentence writers can *Reveal* and *Establish* an offender's financial condition and *Define* appropriate financial conditions to recommend. Supervision officers can use financial investigation to *Uncover* criminal activity, ensure *Compliance* with conditions, and provide an *Enforcement* presence. The manner in which probation officers use financial investigation depends on six factors: focus, time, period, offender, offense, and officer expertise. By understanding these factors and that financial investigations are paper-intensive, probation officers can plan and use investigative techniques effectively to REDUCE inappropriate recommendations and ineffective correctional supervision.

NOTE

¹Certain mental health conditions, such as mood disorders, include activities involving finances as one criterion for making a diagnosis. For instance, “engaging in unrestrained buying sprees or foolish business investments” are considered criteria for a manic episode. (See the *Diagnostic and Statistical Manual of Mental Disorders*, 4th edition, American Psychiatric Association, Washington, DC.)

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