United States General Accounting Office

GAO

Report to the Honorable John M. Spratt, Jr., House of Representatives

February 1996

COUNTERFEIT U.S. CURRENCY ABROAD

Issues and U.S. Deterrence Efforts

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GAO

United States
General Accounting Office
Washington, D.C. 20548

General Government Division

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February 26, 1996

The Honorable John M. Spratt, Jr.
House of Representatives

Dear Mr. Spratt:

The U.S. currency,[1] reportedly the most widely held in the world, is susceptible to counterfeiting. Of the $380 billion of U.S. currency in circulation, the Federal Reserve estimates that over 60 percent may be held outside the United States. The widespread use of U.S. currency abroad, together with the outdated security features of the currency, makes it a particularly vulnerable target for international counterfeiters.

Various congressional groups and the media have expressed concerns about counterfeiting of U.S. currency abroad. Widespread counterfeiting of U.S. currency could undermine confidence in the currency and, if done on a large enough scale, could have a negative effect on the U.S. economy. In light of these concerns, and in response to your request, we are providing information on (1) the nature of counterfeiting of U.S. currency abroad, (2) the extent of that counterfeiting and of concerns about this issue, and (3) the status of U.S. efforts to deter such counterfeiting of U.S. currency abroad. As discussed with your office, because of significant limitations in the data on the size and direction of the problem of counterfeiting abroad, we were unable to reach conclusions or comment on the adequacy or effectiveness of the various deterrent efforts described. Also, as discussed with your office, this report was prepared using unclassified sources of information. The draft report underwent a security classification review by the appropriate agencies, including Treasury and the Secret Service, and was released by the appropriate officials as an unclassified report.

Results in Brief

U.S. currency is counterfeited by a diverse group of perpetrators using a variety of methods. Although counterfeiters may engage in this activity for direct economic gain, counterfeiting is sometimes linked with other more nefarious criminal endeavors, such as drug trafficking, arms dealing, and alleged terrorist activities.

According to law enforcement officials, counterfeiters run the gamut from office workers to organized crime and terrorist groups, and the equipment

[1]In this report, "U.S. currency" refers to U.S. Federal Reserve notes and does not include coined money.

used for counterfeiting U.S. currency ranges from photocopiers to sophisticated offset presses. Moreover, the quality of counterfeit notes varies significantly, and even those made using the same method vary according to the sophistication of the perpetrator and the type of equipment used. Of increasing concern is the fact that certain foreign counterfeiters are becoming extremely sophisticated and are producing very high-quality counterfeit notes that are more difficult to detect than any previous counterfeits.

Due to the criminal nature of this activity, the true extent of counterfeiting of U.S. currency abroad cannot be determined. The total level of counterfeit-currency detections—$208.7 million in fiscal year 1994—represented less than one one-thousandth of U.S. currency in circulation.

Both Treasury and Secret Service officials agreed that counterfeiting of U.S. currency is a threat to be taken seriously, but that it is not now at a level that poses an economic threat to the U.S. monetary system. Treasury Department and Secret Service officials use counterfeit-detection data from the Secret Service to help assess the extent of counterfeiting. The Secret Service has also used these data to demonstrate significant increases in counterfeiting activity abroad, citing a 300-percent rise in detections in fiscal year 1993. According to the Secret Service, it supplemented these data with intelligence information and field experience in reaching its conclusions on the degree of and risk represented by counterfeiting abroad.

Our analysis of the counterfeit-detection data used by Treasury and Secret Service raised questions about their usefulness for illustrating either actual counterfeiting activity or recent growth in counterfeiting activity. As previously mentioned, because of the criminal nature of this activity, the actual extent of counterfeiting cannot be directly measured. Other limitations of the data are that they (1) included only those counterfeit detections that were reported to the Secret Service, and thus may in part have been a reflection of where Secret Service focuses its efforts; (2) may have underreported the occurrence of high-quality notes because those notes are difficult to detect; (3) may have reflected factors other than increased counterfeiting activity, such as improvements in the ability to detect counterfeits or to determine their source; and (4) may have shown fluctuations over time that were skewed because of the occurrence of unusually large seizures. Because of these limitations, use of the data

alone to estimate the extent of counterfeiting or counterfeiting trends, without appropriate qualifications, may be misleading.

Foreign law enforcement and financial organization officials we interviewed varied in their degree of concern over the counterfeiting of U.S. currency. Foreign law enforcement officials tended to be more concerned about the counterfeiting of U.S. currency than were foreign financial organization officials. Moreover, financial organization officials did not complain of increases in chargebacks,[2] and financial and foreign law enforcement officials we met with provided few examples of instances where U.S. currency was no longer accepted due to concerns about counterfeits.

The U.S. government, primarily through the Treasury and the Federal Reserve, has increased its efforts to deter counterfeiting activities. However, none of these efforts have been fully completed, and thus their success cannot be evaluated at this time. These anticounterfeiting efforts included (1) redesigning U.S. currency to incorporate additional security features, and then publicizing and distributing the new currency; (2) using joint federal agency team visits abroad to obtain more information on counterfeiting and provide counterfeit-detection training; (3) increasing Secret Service staffing abroad; and (4) using additional task forces and increasing diplomatic efforts to combat counterfeiting abroad, particularly efforts to eradicate the highest quality counterfeit note known to the Secret Service, commonly referred to as the "Superdollar."[3]

Background

The widespread use of U.S. currency abroad, together with the outdated security features of the currency, makes it a particularly vulnerable target for international counterfeiters. According to the Federal Reserve, the proportion of U.S. currency in circulation abroad has increased from 40 percent in 1970 to over 60 percent today.

High foreign inflation rates and the relative stability of the dollar have contributed to the increasing use of U.S. currency outside the United States. And, in fact, the United States benefits from this international use. When U.S. currency remains in circulation, it essentially represents an interest-free loan to the U.S. government. The Federal Reserve has

[2]A chargeback occurs when the Federal Reserve or a bank detects a counterfeit note in a deposit and charges the customer's account for the value of the counterfeit.

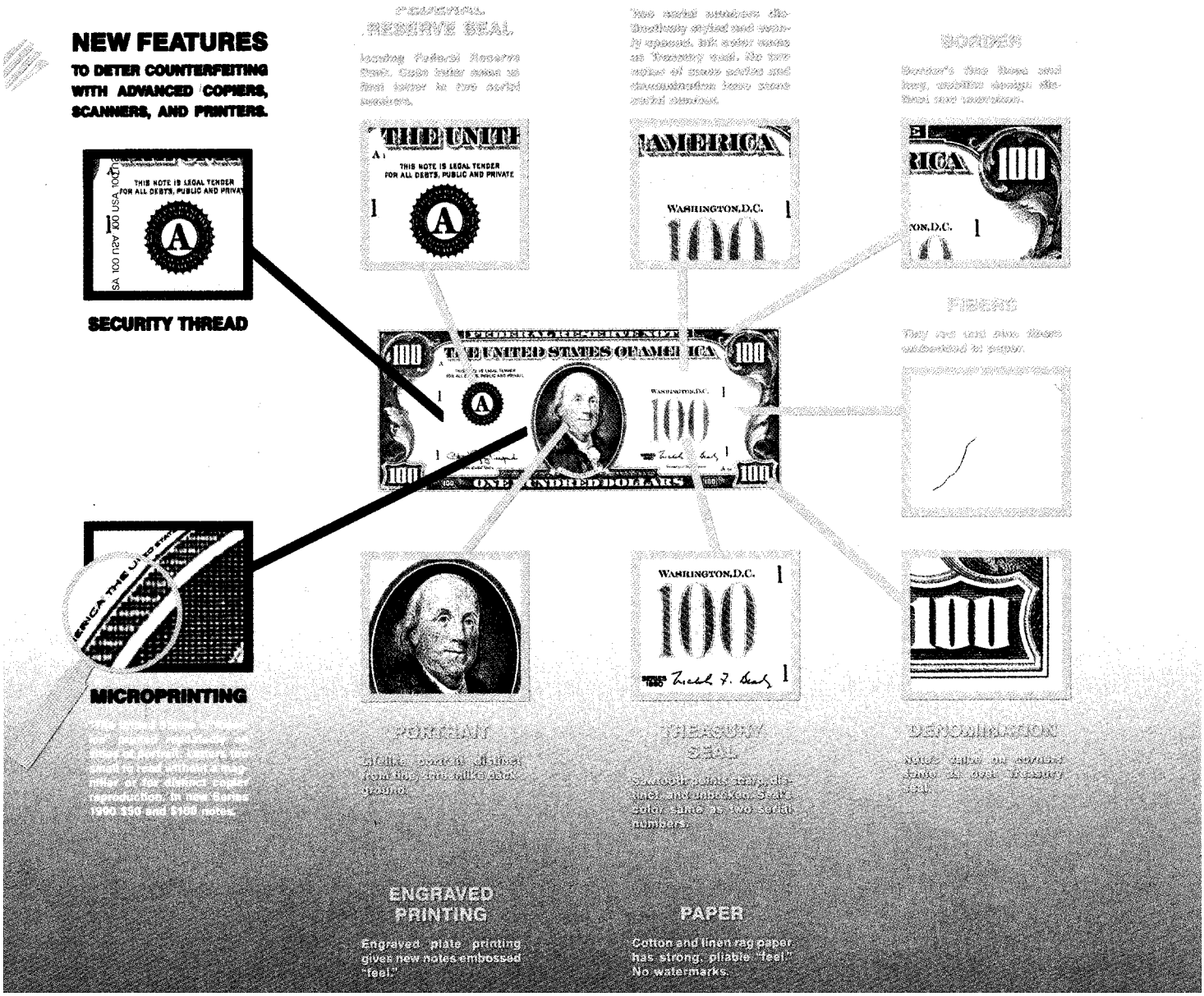
[3]The note is also known as the "Supernote" or the "Superbill" and is referred to as the "C-14342 Family" by the Secret Service.

estimated that the U.S. currency held abroad reduces the need for the government to borrow by approximately $10 billion a year.

Despite this benefit, its increasing international use has made U.S. currency a target for counterfeiting. Furthermore, with the exception of two changes introduced in 1990,[4] the security features of the currency have not substantially changed since 1929, which has resulted in the U.S. dollar's becoming increasingly vulnerable to counterfeiting. (See fig. 1 for the existing security features of the currency.)

[4]In 1990, Treasury added a security thread and microprinting to U.S. currency.

Figure 1: Overt Security Features of U.S. Currency



Source: U.S. Department of the Treasury.

Congressional groups and the media have continued to highlight their concerns that the counterfeiting of U.S. currency abroad is becoming an increasingly serious problem. Concerns about counterfeiting abroad were heightened in 1992 with the issuance of the first of two reports[5] by the House Republican Research Committee's Task Force on Terrorism and Unconventional Warfare. These reports charged that a foreign government was producing a very high-quality counterfeit note, commonly referred to as the Superdollar, to support terrorist activities. In 1993, the House Appropriation Committee's Surveys and Investigations staff completed a report on the Secret Service's counterfeiting deterrence efforts and briefed the House Appropriations Committee. In the same year, a bill—the International Counterfeiting Deterrence Act—was introduced to address international counterfeiting and economic terrorism; however, it was not passed.

The Secretary of the Treasury is responsible for issuing and protecting U.S. currency. Treasury, including the Secret Service and the Bureau of Engraving and Printing, and the Federal Reserve have primary responsibilities for combating the counterfeiting of U.S. currency. The Secret Service conducts investigations of counterfeiting activities and provides counterfeit-detection training. The Bureau of Engraving and Printing designs and prints U.S. currency, which includes the incorporation of security features into the currency. The Federal Reserve's role is to distribute and ensure the physical integrity of U.S. currency. It receives currency from financial institutions around the world and uses specialized counting and verification machines to substantiate the authenticity of all U.S. currency received. The various counterfeiting deterrence efforts are coordinated through the Advanced Counterfeit Deterrence Steering Committee, which was formed in 1982.

The Secret Service is the U.S. agency responsible for anticounterfeiting efforts abroad. At the time of our work, the Secret Service primarily used its six overseas offices, three task forces, two temporary operations, and resources from six domestic offices to conduct this task. (See app. I for a description of Secret Service offices responsible for locations abroad.) Secret Service offices outside the United States typically are staffed by one to six agents. Agents working abroad are involved in the same issues as their domestic counterparts, such as detecting counterfeits, investigating financial crimes, and protecting dignitaries. However, the majority of a typical agent's time abroad is spent on counterfeiting deterrence efforts. In

[5]The House Republican Research Committee, Iran, Syria and the Trail of Counterfeit Dollars (Washington, D.C.: July 1, 1992); and Update: Iran, Syria and the Trail of the Counterfeit Money (Washington, D.C.: July 13, 1994).

pursuing these efforts, agents must rely on the cooperation of foreign law enforcement agencies and sometimes are allowed to provide only investigative support. This situation is different from that in the United States, where agents have direct investigative authority. The Secret Service also provides other staff to support international counterfeiting deterrence activities. For example, the Secret Service has assigned two Counterfeit Division staff to work with the Four Nations Group[6] and three agents to work with Interpol—the International Criminal Police Organization.

Scope and Methodology

To obtain information on the nature and extent of counterfeiting of U.S. currency abroad, as well as U.S. efforts to combat this activity, we obtained views and material from (1) U.S. government agencies in the United States and abroad; (2) foreign law enforcement and financial organization officials in seven European countries, as referred to us by U.S. embassy officials; (3) Interpol officials in the United States and abroad; and (4) individuals researching the Superdollar case, including the author of the House Republican Task Force on Terrorism and Unconventional Warfare reports on the Superdollar. We performed our review in the United States, England, France, Italy, Germany, Hungary, Poland, and Switzerland. Interpol, State Department, and Secret Service officials recommended these countries for our review on the basis of their knowledge of counterfeiting abroad.

To obtain U.S. government perspectives on the nature and extent of counterfeiting as well as on efforts to deter this activity, we interviewed and obtained documentation from senior Treasury officials in Washington, D.C.; Secret Service officials in Washington, D.C.; New York, New York; San Francisco, California; England; France; Italy; and Germany; and Bureau of Engraving and Printing officials in Washington, D.C. We also interviewed Federal Reserve Board officials in Washington, D.C.; Federal Reserve Bank officials in San Francisco and New York; and State Department officials in Washington, D.C., and abroad.

To secure information on the extent of the problem of counterfeit U.S. currency abroad, we obtained Secret Service data on domestic and international counterfeit detections. We then reviewed the Secret Service's counterfeit-detection data for fiscal year 1987 through fiscal year 1994. We also reviewed Interpol's 1991 to 1993 annual reports on international

[6]The Four Nations Group, an international group with representatives from the United States, Great Britain, Australia, and Canada, meets every 18 months to share information on counterfeiting trends and investigations.

counterfeiting activity. We did not independently verify the accuracy of the data that the Secret Service and Interpol provided.

To gain perspective on both counterfeiting and deterrence efforts abroad, we obtained input from foreign law enforcement and financial organization officials in the countries we visited. (See app. II for a listing of foreign agencies and organizations we contacted while abroad.) In conducting our interviews, we did not pose the same questions to all officials. Thus, the responses we obtained cannot be generalized.

The scope of our work was limited by a number of factors related to national security and investigative concerns. First, due to the criminal nature of counterfeiting, the actual extent of counterfeiting abroad cannot be determined. Second, since current known counterfeiting activities involved ongoing investigations, we were not able to fully explore and discuss these investigations with law enforcement and intelligence officials. Third, due to the sensitive nature of the ongoing investigation of the so-called Superdollar, we were unable to fully explore this extremely high-quality, allegedly foreign government-sponsored, counterfeiting operation. As a result of these limitations, this report is not evaluative, and it thus contains no conclusions or recommendations.

This report was prepared using unclassified sources of information. The draft report underwent a security classification review by the appropriate agencies, including Treasury and the Secret Service, and was released as an unclassified report. Although they initially stated that some of the information was or should have been classified, Treasury and the Secret Service later rescinded this statement after they performed a full security classification review and we reached agreement with them on a minor revision to appendix VII. (See app. VIII, pages 66 and 67, for Treasury and Secret Service statements that the report is unclassified.)

We conducted our review from September 1994 to May 1995 in accordance with generally accepted government auditing standards. In June and then again in November 1995, we updated our work on Secret Service staffing abroad. We obtained written agency comments on a draft of this report from the Departments of the Treasury and State and from the Federal Reserve. These comments are discussed at the end of this report and presented in appendixes VIII through X.

The Nature of Counterfeiting of U.S. Currency Abroad Is Diverse

The nature of counterfeiting of U.S. currency abroad is diverse, including various types of perpetrators, uses, and methods. The relative sophistication of the counterfeiter and method used results in counterfeit notes of differing quality. According to a National Research Council report requested by Treasury,[7] the counterfeiting problem will increase as technologies improve and are made more accessible to the public. Already, the Secret Service has been troubled by some very high-quality counterfeits of U.S. currency identified as originating abroad.

Perpetrators include both the casual and the professional counterfeiter. The casual counterfeiter is a person who commits the crime because it is convenient or easy to do. For example, an office worker may use a copying machine to counterfeit U.S. currency. The number of casual counterfeiters is expected to increase with the greater accessibility of and improvements to modern photographic and printing devices, according to the National Research Council report. Conversely, the professional counterfeiter may be a member of a gang, criminal organization, or terrorist group. Foreign law enforcement and Secret Service officials that we interviewed told us of suspected links between counterfeiting and organized crime.

Counterfeit U.S. currency is used for economic gain and is sometimes linked to other crimes. According to foreign law enforcement and Secret Service officials, counterfeit U.S. currency is sometimes distributed in conjunction with drug trafficking, illicit arms deals, and other criminal and/or terrorist activities. Moreover, Secret Service and foreign law enforcement officials told us that counterfeit U.S. currency is now sometimes produced by counterfeiters in one country for export to another country. For example, in Milan, Italy, counterfeiting has become an industry in which counterfeit U.S. currency is produced for export, according to Italian law enforcement officials. They added that the counterfeits typically were exported to the former Soviet Union and Eastern Europe.

The methods used by counterfeiters of U.S. currency abroad are the same as those used within the United States, according to Secret Service officials. Common techniques include using black and white, monochromatic, or color photocopiers; cutting and taping or gluing numerals from high denomination notes to the corners of a note of lower denomination, also known as making “raised notes”; using sophisticated

[7]National Materials Advisory Board, Commission on Engineering and Technical Systems, National Research Council, Counterfeit Deterrent Features for the Next Generation Currency Design (December 1993).

computers, scanners, and laser or ink jet printers; bleaching good notes and reprinting higher denominations on the genuine paper; and using photomechanical or "offset" methods to make a printing plate from a photographic negative of a genuine note.

Depending upon the sophistication of the counterfeiter and the method used, the quality of counterfeit notes can vary a great deal. The Secret Service has found good, fair, and poor quality notes for each method used. For example, a good color copier-produced note could be better than a poor ink jet-produced note. However, the offset printing method generally results in the highest quality counterfeits, whether produced abroad or domestically. (See app. III for descriptions of common methods used and some examples of counterfeit notes.)

Recently, very sophisticated counterfeiters have been producing very high-quality notes using the offset process. High-quality counterfeit notes are difficult for the general public to discern, but according to Federal Reserve officials, the notes can be detected by experienced bank tellers. (See app. IV for case examples of high-quality counterfeit notes produced in Canada, Colombia, and the Middle East.)

The Extent of the Problem Could Not Be Determined, and Foreign Views Were Inconclusive

The criminal nature of the activity precludes determination of the actual extent to which U.S. currency is being counterfeited abroad. The best data available to reflect actual counterfeiting are Secret Service counterfeit-detection data.[8] However, these data have limitations and thus provide only a limited measure of the extent of counterfeiting activities. Use of these data should be qualified to reflect these limitations so that conclusions reached using the data do not mislead. Overall, detected counterfeits have represented a minuscule amount of the currency in circulation. According to Secret Service officials, the data that they gathered was supplemented by intelligence information and field experience to demonstrate an increase in counterfeiting activity abroad. However, our analysis of the same counterfeit-detection data proved inconclusive. Moreover, foreign officials' views about the seriousness of the problem of counterfeit U.S. currency were mixed. Foreign financial organization and law enforcement officials that we interviewed reported no significant numbers of chargebacks and few reported instances of U.S. currency not being accepted abroad.

[8]Interpol data, the only other international compilation of counterfeit-currency statistics, were less reliable due to the limited amount of reporting by foreign countries. According to Interpol officials, reporting to Interpol was inconsistent and mostly limited to European nations.

Treasury Believed the Level of Counterfeiting Was Economically Insignificant

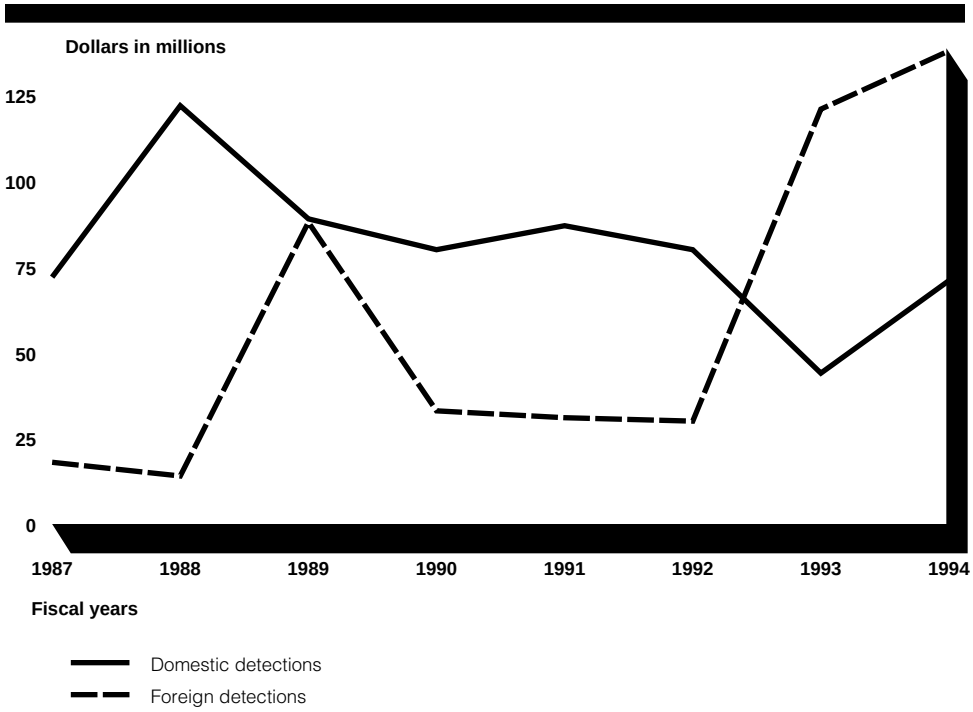
On the basis of the number of Secret Service counterfeit-detections, Treasury officials concluded that counterfeiting of U.S. currency was economically insignificant and thus did not pose a threat to the U.S. monetary system. According to Secret Service and Treasury officials, detected counterfeits represented a minuscule portion of U.S. currency in circulation. Secret Service and Federal Reserve data showed that, in fiscal year 1994, of the $380 billion in circulation, $208.7 million had been identified as counterfeit notes, a figure which represented less than one one-thousandth of the currency in circulation. However, while Treasury and Secret Service officials agreed that, overall, counterfeiting was not economically significant, they considered any counterfeiting to be a serious problem.

The Secret Service Believed Counterfeiting Abroad Was Increasing

The Secret Service reported that counterfeiting of U.S. currency abroad was increasing. It used counterfeit-detection data, supplemented with intelligence information and field experience, to support this claim. It also employed two counterfeit-detection data measures to illustrate the extent of counterfeiting abroad: (1) counterfeit-detections abroad and (2) domestic detections of counterfeits that were produced abroad. Counterfeits detected abroad are categorized as “appearing abroad,” while counterfeits detected domestically are divided into two separate categories. Domestic detections of counterfeits not yet in circulation are called “seizures,” and those counterfeits detected while in circulation are called “passes.”

The Secret Service has reported a significant recent increase in detections of counterfeit U.S. currency abroad. In one analysis, it reported that the amount of counterfeit currency detected abroad increased 300 percent, from $30 million in fiscal year 1992 to $121 million in fiscal year 1993, thereby surpassing domestic detections in the same period (see fig. 2).

Figure 2: Secret Service Counterfeit Detection Data, Fiscal Years 1987-94

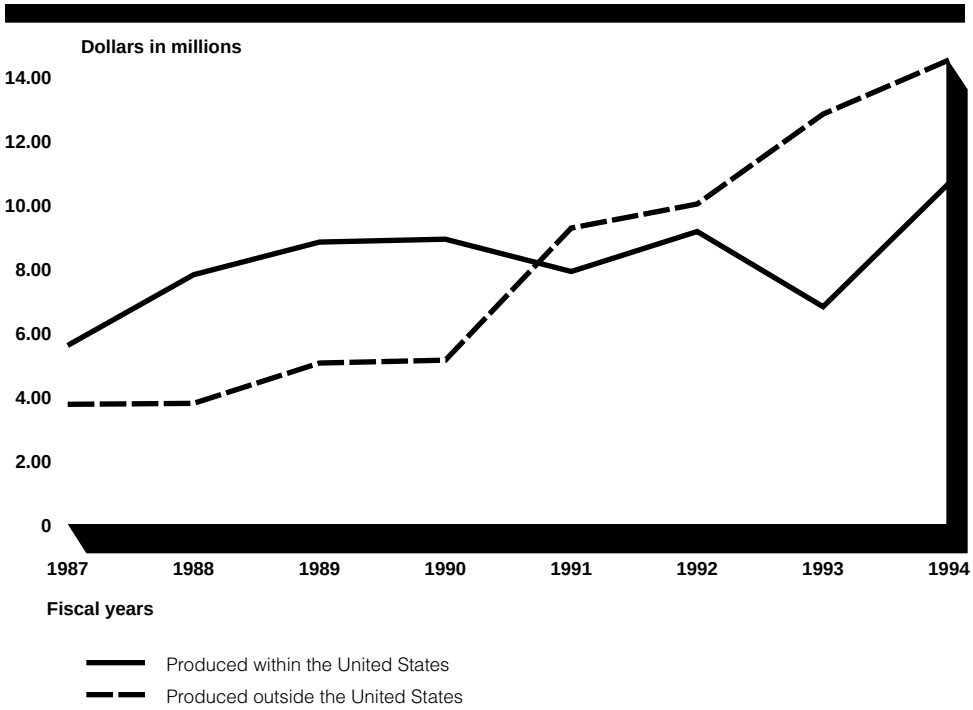


Note: See pages 13 to 15 for our views on the limitations of this data.

Source: U.S. Secret Service.

The Secret Service has also reported that, in recent years, a larger dollar amount of the notes detected as domestic passes has been produced outside the United States. Since 1991, the dollar amount of counterfeit U.S. notes detected while in circulation and produced abroad has exceeded the dollar amount of those produced domestically (see fig. 3). In fiscal year 1994, foreign-produced notes represented approximately 66 percent of total domestic passes detected.

Figure 3: Secret Service Domestic Pass Data, Fiscal Years 1987-94



Note: See pages 13 to 15 for our views on the limitations of this data.

Source: U.S. Secret Service.

The Actual Extent of Counterfeiting Abroad Could Not Be Determined

The true dimensions of the problem of counterfeiting of U.S. currency abroad could not be determined. Treasury and the Secret Service use Secret Service counterfeit-detection data to reflect the actual extent of counterfeiting. However, although these data are the best available, they have limitations. Specifically, they are incomplete and present only a partial picture of counterfeiting. If these limitations are not disclosed, the result may be misleading conclusions.

First of all, the actual extent of counterfeiting could not be measured, primarily because of the criminal nature of this activity. Secret Service data record only those detections that are reported to the Secret Service; they do not measure actual counterfeiting. As a result, the data provide no information about the number of counterfeiters operating in any given year or the size and scope of their operations. More importantly, these data could not be used to estimate the volume of counterfeit currency in circulation at any point in time. In the case of counterfeit currency

appearing abroad, reasons for this include the following: (1) the data do not distinguish between how much counterfeit currency was seized and how much was passed into circulation; (2) they could not provide information about how long passed counterfeits remained in circulation before detection; and (3), most critically, they provide no indication of how much counterfeit currency was passed into circulation and not detected.

Second, counterfeit detection data may in part be a reflection of where the Secret Service focuses its efforts. Use of these data thus may not identify all countries with major counterfeiting activity, but simply countries where agents focused their data collection efforts. For example, in fiscal year 1994, almost 50 percent of detections abroad occurred in the six countries where the Secret Service was permanently located. In other countries, counterfeit-detection statistics tend to be more inconsistent. For example, in fiscal year 1994, certain African and Middle Eastern countries reported no counterfeiting activity to the Secret Service. This lack of reported detections, however, does not necessarily indicate that counterfeiting activity did not occur in these countries.

Third, detection data for high-quality notes may be underreported. The Secret Service has said that, because so few Superdollars have been detected, this indicates that there are not many in circulation. However, according to the Task Force on Terrorism and Unconventional Warfare report, the majority of Superdollars are circulating outside the formal banking system and therefore would not be reported to the Treasury if detected. Also, as we discovered on our overseas visits, many foreign law enforcement and financial organization officials had inconsistent and incomplete information on how to detect the Superdollar. Thus, financial institutions abroad may be recirculating the Superdollars.

Fourth, reported increases in counterfeiting abroad, as supported by Secret Service detection data, may be due to a number of factors other than increased counterfeiting activity. For example, in 1993, the Secret Service changed its reporting practices abroad to be more proactive in collecting counterfeit-detection data. Instead of relying solely on reports from foreign officials, agents abroad began to follow up on Interpol reports and intelligence information in order to collect additional data. Also, according to Treasury officials, foreign law enforcement officials have improved their ability to detect counterfeit U.S. currency and report it to the Secret Service. Furthermore, although domestic reporting and detection practices have been more consistent, the increase in domestic

detections of counterfeits produced abroad is also subject to interpretation. For example, rather than foreign-produced notes increasing, it is possible that the Secret Service's ability to determine the source of counterfeit currency has simply improved over time.

Fifth and finally, counterfeit-detection data fluctuate over time, and one large seizure can skew the data, particularly for detections abroad. For detections outside the United States, the Secret Service has relied heavily on information provided by foreign law enforcement organizations, and has obtained little information from financial organizations. Thus, counterfeit detections "appearing abroad" have primarily been seizures reported by foreign law enforcement organizations, and the size of these seizures can have a significant impact on detection data. For example, according to the Secret Service, several large seizures accounted for the jump from $14 million in counterfeit detections abroad in fiscal year 1988 to $88 million in fiscal year 1989. The following year, the data indicated a significant drop in detections (see fig. 2).

Foreign Views on the Extent of Counterfeiting Abroad Were Mixed

Overseas law enforcement and financial organization officials' views on the extent of the problem of counterfeit U.S. currency varied. Foreign law enforcement officials tended to be more concerned about counterfeit U.S. currency than foreign financial organization officials. Financial organization officials we met with said that they had experienced minimal chargebacks, and most expressed confidence in the ability of their tellers to detect counterfeits. Furthermore, we heard few reports from foreign financial organization and foreign law enforcement officials about U.S. currency not being accepted overseas because of concerns about counterfeiting.

Most foreign law enforcement officials we spoke with believed that the counterfeiting of U.S. currency was a problem, but their opinions on the severity of the problem differed. While the Swiss, Italian, and Hungarian law enforcement officials said that it was a very serious problem, French and English law enforcement officials said that the problem fluctuated in seriousness over time; German, French, and Polish officials said that the counterfeiting of U.S. currency was not as serious a problem as the counterfeiting of their own currencies. Some of these law enforcement officials expressed concern over increases in counterfeiting in Eastern Europe and the former Soviet Union. Some also expressed particular worry about their ability, and the ability of financial organizations in their countries, to detect the Superdollar.

Conversely, most foreign financial organization officials we spoke with were not concerned about the counterfeiting of U.S. currency. Of the 34 organizations we visited in 7 countries, officials from 1 Swiss and 1 French banking association and 2 Hungarian banks viewed the counterfeiting of U.S. currency as a current or increasing problem. According to other foreign financial organization officials, they were not concerned about U.S. counterfeiting activity because it did not have a negative impact on their business. For example, none of the 16 financial organization officials with whom we discussed chargebacks told us that they had received substantial chargebacks due to counterfeit notes that they had failed to detect. In addition, some of these officials cited other types of financial fraud and the counterfeiting of their own currency as more significant concerns. For example, officials from one French banking association were more concerned with credit card fraud, and officials from two financial organizations in Germany and one financial organization in France said counterfeiting of their country's currency was a greater problem.

Furthermore, foreign financial organization officials we spoke with were confident about their tellers' ability to detect counterfeits and, in some countries, tellers were held personally accountable for not detecting counterfeits.[9] In most of the countries we visited, detection of counterfeit U.S. currency relied on the touch and sight of tellers, some of whom were aided by magnifying glasses or other simple detection devices, such as counterfeit detection pens.[10] Other counterfeit-detection devices used abroad, like ultraviolet lights, did not work effectively on U.S. currency. While foreign financial organizations appeared confident of their tellers' ability to detect counterfeits, some of these organizations had incomplete information on how to detect counterfeit U.S. currency, particularly the Superdollar.

Finally, foreign financial organization and law enforcement officials provided a few isolated cases in which U.S. currency was not accepted abroad. For example, when it first learned about the Superdollar, one U.S. financial organization in Switzerland initially stopped accepting U.S. $100 notes, although it later resumed accepting the U.S. notes from its regular customers. Also, Swiss police, Hungarian central bank, and French

[9]For example, in Hungary tellers were charged for every counterfeit note they accepted that the bank later detected.

[10]Counterfeit detection pens are filled with a chemical that, when applied to currency, turns gold if the currency's paper contains certain characteristics of genuine paper and black if those characteristics are not present.

clearing house officials reported that some exchange houses and other banks were not accepting $100 notes. We were unable to confirm these reports. However, a State Department official commented that, because drug transactions tended to involve $100 notes, some foreigners were reluctant to accept this denomination, not because of counterfeiting concerns, but rather because of the notes' potential link to money laundering.

Additional U.S. Counterfeit Currency Deterrence Efforts

The U.S. government, primarily through the Treasury Department and its Secret Service and the Federal Reserve, has been increasing its counterfeiting deterrence efforts. These recent efforts include redesigning U.S. currency; increasing exchanges of information abroad; augmenting the Secret Service presence abroad; and undertaking efforts to stop production and distribution of counterfeit currency, including the Superdollar.

In an effort to combat counterfeiting both domestically and abroad, Treasury is redesigning U.S. currency to incorporate more security features intended to combat rapid advances in reprographic technology. This change, the most significant to the U.S. currency in over 50 years, is, according to some U.S. and foreign officials, a long overdue one. The redesigned currency is planned for introduction in 1996 starting with changes to the $100 note, with lower denominations to follow at 9- to 12-month intervals. According to Treasury officials, the currency redesign will continue, becoming an ongoing process, because no security features are counterfeit-proof over time. These officials also said that the old currency would not be recalled and would retain its full value. Moreover, Treasury is leading a worldwide publicity campaign to facilitate introduction of the redesigned currency, ensure awareness and use of the overt security features, and assure the public that the old currency will retain its full value. Through this campaign, the Federal Reserve hopes to encourage the public to turn in old currency for the redesigned notes. (See app. V for further information on the currency redesign.)

In addition, the Secret Service, through its team visits abroad in company with Treasury Department and Federal Reserve officials, has both gathered further information on counterfeiting and provided counterfeit-detection training. As of May 1995, the team had met with law enforcement and financial organization officials in Buenos Aires, Argentina; Minsk, Belarus; London, England; Zurich, Switzerland; Hong Kong; and Singapore. According to Secret Service officials, their visits

were successful because they were able to develop better contacts, obtain further information about foreign financial institutions' practices, learn more about tellers' ability to detect counterfeits, and provide counterfeit detection training seminars for both law enforcement and financial organization officials. Future trips were planned to Russia and possibly the Middle East.

Further, the Secret Service has been attempting to increase its presence abroad, although it has encountered difficulties in obtaining approval. The Secret Service has over 2,000 agents stationed in the United States, but it has fewer than 20 permanent positions abroad. The Secret Service first requested additional staff in February 1994 for permanent posting abroad beginning in fiscal year 1996. However, due to uncertainties over the funding of the positions as well as to other priorities within the Treasury Department, as of June 21, 1995, the Secret Service had secured approval for only 6 of 28 requested positions abroad. Subsequent to our discussions with the Secret Service, Treasury, and State, on July 21, 1995, Treasury approved the remainder of the positions and passed them on for State's approval. As of November 30, 1995, the respective chiefs of mission had approved only 13 of the 28 positions, and only 1 agent had reported to his post abroad. (See app. VI for further information on increasing the Secret Service presence abroad.)

Additionally, the U.S. government has undertaken special efforts to eradicate the highest quality counterfeit note—the Superdollar. These efforts include the use of task forces and diplomatic efforts among senior policy-level officials of the U.S. and certain foreign governments. Due to the sensitivity and ongoing nature of this investigation, we were made generally aware of these efforts but not provided with specific information. (See app. VII for further information on U.S. efforts to eradicate the Superdollar.)

Agency Comments and Our Evaluation

The Department of the Treasury, including the Secret Service, the Department of State, and the Federal Reserve provided written comments on a draft of this report. (See apps. VIII, IX, and X.) These comments included technical changes and/or factual updates that have been incorporated where appropriate. However, Treasury, including the Secret Service, also raised and later rescinded issues of security classification and sensitivity and did not fully agree with our characterization of the limitations of the Secret Service counterfeit currency detection data and other supporting methods for estimating trends in counterfeiting. In their

comments, Treasury and the Secret Service made frequent reference to activities that they believed provided additional support for the conclusions they drew from the detection data. These activities included contacts with foreign law enforcement and financial organization officials, vault inspections of banks abroad, and analysis of Federal Reserve data.

Although the Secret Service recognized the limitations of its counterfeit currency detection data, Treasury and Secret Service conclusions provided in hearings and reports have not always reflected these limitations. Thus, in this report, we discuss the data limitations and conclude that any use of the data should be qualified to recognize these limitations. Although the Secret Service has the best counterfeit-detection data available, this does not negate the potential for the limitations of this data to foster misleading conclusions. First, the actual extent of counterfeiting cannot be determined because of the criminal nature of this activity. Second, counterfeit-detection data may be a reflection of where the Secret Service focuses its efforts. Third, detection data for high-quality notes, which may more easily circumvent detection and reporting abroad, may be even less representative of the actual extent of the problem. Fourth, increases in counterfeiting detections abroad may be due to a number of factors other than increased counterfeiting, such as improved information gathering and reporting. Also, counterfeit-detection data fluctuate over time, and one large seizure abroad can skew the data.

We acknowledge in this report that the Secret Service supplements its detection data with intelligence information and field experience. Even though we did not evaluate these specific methods, our work did yield some information on these activities.

With regard to Treasury and Secret Service contacts with foreign law enforcement and financial organization officials, in our discussion of additional U.S. counterfeit currency deterrence efforts, we acknowledge that Treasury and Secret Service officials have recently increased their contacts with foreign financial organizations in preparation for the U.S. currency redesign effort. However, almost all of the foreign financial organization officials we met with in September 1994 had had little or no contact with Treasury and/or Secret Service officials before that time.

Regarding vault inspections of banks abroad, Secret Service officials initially told us that they were conducting vault inspections during their joint team visits with Treasury and Federal Reserve officials. However, according to Federal Reserve officials, and as subsequently confirmed by

Secret Service officials, vault inspections had been conducted in only one of the six locations visited during our review. Secret Service officials told us that the inspections had been conducted in Argentina but were then discontinued because of the limited results obtained there. The officials told us that the inspections might be reinstituted in other countries if it was subsequently decided that the effort was warranted.

Finally, regarding the use of Federal Reserve data, the Secret Service and the Federal Reserve confirmed that the Federal Reserve data were actually a component of the Secret Service data, and thus were effectively addressed in our evaluation of the Secret Service data.

As agreed with your office, unless you publicly announce the contents earlier, we plan no further distribution until 30 days from the date of this report. At that time, we will provide copies of the report to interested congressional committees, to the Departments of the Treasury and State, and to the Federal Reserve. We will also make copies available to others on request.

Please contact me at (202) 512-8984 if you have any questions concerning this report. Other major contributors to this report are listed in appendix XI.

Sincerely yours,

JayEtta Z. Hecker, Associate Director
International Relations and Trade

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Secret Service Geographic Coverage Abroad, as of May 1995

	Number of agents	Geographic coverage abroad
Overseas office		
Bangkok	2	Asia (Indonesia, Malaysia, Singapore, and Thailand)
Bonn	1	Europe (Austria and Germany)
London	1	United Kingdom (England, Scotland, Wales, Northern Ireland, Channel Islands, Isle of Man, Shetland Islands, Gibraltar), Iceland, and Ireland
Manila	1	Philippine Islands
Paris	6	Africa (Algeria, Angola, Benin, Burundi, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Djibouti, Equatorial Guinea, Gabon, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Madagascar, Mali, Mauritania, Mauritius, Morocco, Niger, Rwanda, Sâo Tomé & Principe, Senegal, Togo, Tunisia, and Zaire), Europe (Belgium, Czech Republic, Slovakia, Denmark, Finland, France, Liechtenstein, Luxembourg, Monaco, Netherlands, Norway, Poland, Portugal/Azores, Spain, and Switzerland), Former Soviet Republics (Belarus, Estonia, Georgia, Latvia, Lithuania, Moldova, Russia, Tajikistan, and Ukraine), and Greenland
Rome	5	Africa (Botswana, Egypt, Ethiopia, Gambia, Kenya, Lesotho, Liberia, Libya, Malawi, Mozambique, Nigeria, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe), Europe (Albania, Bulgaria, Cyprus, Greece, Hungary, Italy, Malta, Romania, San Marino, Vatican City, and former Yugoslavia), Middle East (Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, Turkey, United Arab Emirates, Yemen Arab Republic, and Yemen Peoples Democratic Republic)
Domestic office		
Buffalo	[a]	Canada
Honolulu	[a]	Far East, Australia, and all U.S. Pacific possessions
Miami	[a]	Bahama Islands, Canal Zone, Cayman Islands, Central America (except Mexico), Cuba, Jamaica, and South America
New York	[a]	Bermuda
San Antonio	[a]	Mexico
San Juan	[a]	Puerto Rico, Virgin Islands, and West Indies (except Bahama Islands, Cayman Islands, Cuba, and Jamaica)
Temporary assignment or task force[b]		
Hong Kong; temporary assignment	1	Hong Kong
New Delhi, India; temporary assignment	1	New Delhi, India

(continued)

	Number of agents	Geographic coverage abroad
Latin America; task force	1	Central and South America
Milan, Italy; task force	2	Italy
Nicosia, Cyprus; task force	2	Cyprus

[a]Domestic agents cover U.S. territories as well as geographic regions abroad. Therefore, no specific number of agents are assigned to cover regions abroad.

[b]Both task-force and temporary-assignment agents are located in these countries on a temporary duty basis. Agents on temporary assignments rotate more frequently than do those assigned to the task forces.

Source: U.S. Secret Service.

Foreign Law Enforcement and Financial Organization Officials Interviewed

Country	Law enforcement agency	Financial organization
England	National Criminal Intelligence Service	Bank of England National Westminster Bank Citibank Republic National Bank of New York Hong Kong and Shanghai Bank Holdings, plc
France	Office Central Pour la Répression du Faux Monnayage	Association Française des Banques Banque de France Caisse Parisienne de Réescompte American Express
Germany	Bundeskriminalamt	Deutsche Bundesbank Deutsche Bank Dresdner Bank
Hungary	Landes Polizei Hauptkommissariat Ungarn	Magyar Nemzeti Bank Budapest Bank Ibusz Bank Magyar Hitel Bank American Express Citibank
Italy	Polizia di Stato Guardia di Finanza Carabinieri Presso la Banca d'Italia	Banca D'Italia Associazione Bancaria Italiana Banca Nazionale del Lavoro Credito Italiano American Express Thomas Cook
Poland	Komenda Glowna Policji	Bank Polska Kasa Opieki, S.A. Bank Handlowy W Warszawie, S.A. American Express Citibank
Switzerland	Bundesamt für Polizeiwesen	Swiss Bankers Association Credit Suisse Bank Swiss National Bank Union Bank of Switzerland Citibank JP Morgan

Methods of Counterfeiting U.S. Currency

Figure III.1: Offset Printed Notes

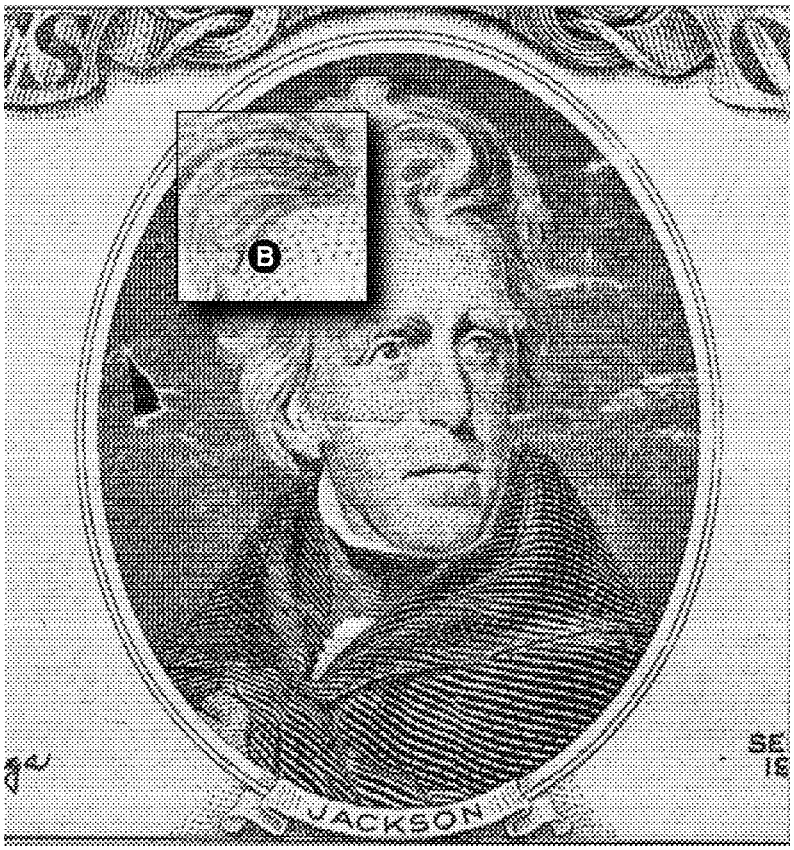
One defect in this good-quality offset counterfeit is the presence of diagonal black lines in the hair (A).

Source: U.S. Secret Service.

According to Secret Service officials, the methods of counterfeiting U.S. currency abroad are the same as those used domestically and range from offset printing to raised notes. While offset printing tends to produce the higher quality counterfeit notes, quality can vary within each method used. In some cases, a good color copier note can be better than a poor quality offset counterfeit. Although some of the overt defects used to distinguish counterfeits from genuine notes appear minor, often a combination of defects makes it easier to distinguish between the two. It is also important to remember that covert security features[11] are incorporated in U.S. currency, and the makeup of the genuine paper is a highly guarded secret.

[11]Covert features are undetectable by the naked eye and allow sophisticated machines, such as those maintained by the Federal Reserve, to identify counterfeit notes when those notes are of such high quality that they escape detection by the average citizen during a transaction.

One defect in this fair-quality offset counterfeit is the presence of a diagonal black line in the hair (B).

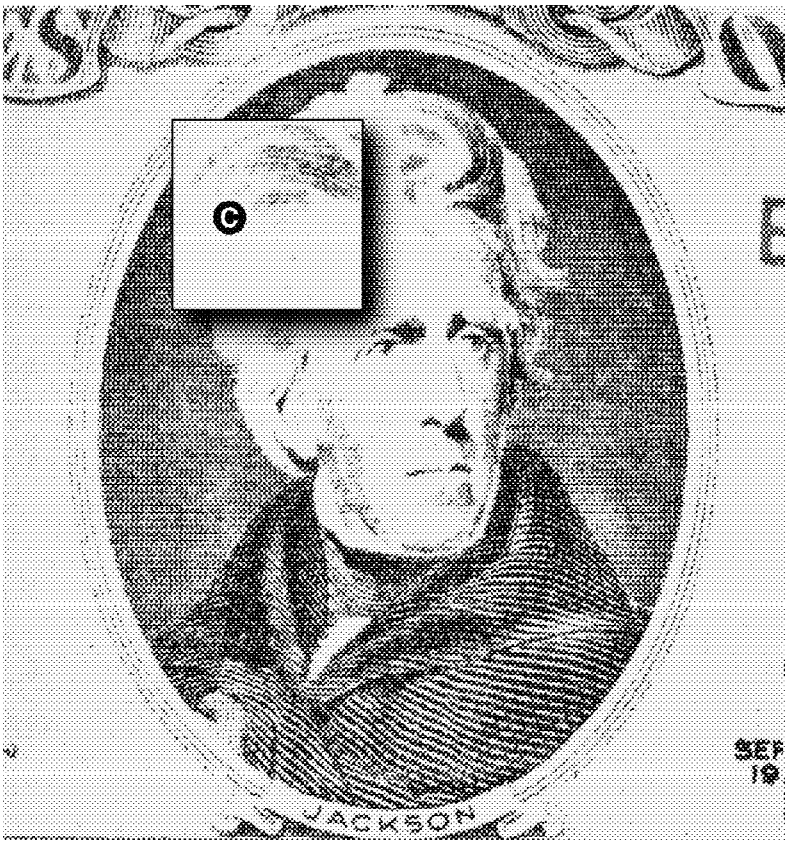


Source: U.S. Secret Service.

Offset Printed Notes

Offset printing is the most common process used by counterfeiters, according to the Secret Service. From a photographic negative of a genuine note, a printing plate that includes the image and nonimage area is produced. This plate is placed on a plate cylinder, which transfers ink onto the blanket cylinder. Then paper is rolled between this blanket cylinder and an impression cylinder, resulting in a printed image that appears to be flush with the surface of the paper. A review of the range of counterfeits produced through offset printing reveals various defects that distinguish counterfeit from genuine notes. Examples are provided in figure III.1. The good-quality offset sample has diagonal black lines in the hair on the right side (see fig. III.1, A). The fair-quality offset sample has a diagonal black line near the hair (see left side of fig. III.1, B).

One defect in this poor-quality offset counterfeit is the lack of shading lines in the face and hair (C).



Source: U.S. Secret Service.

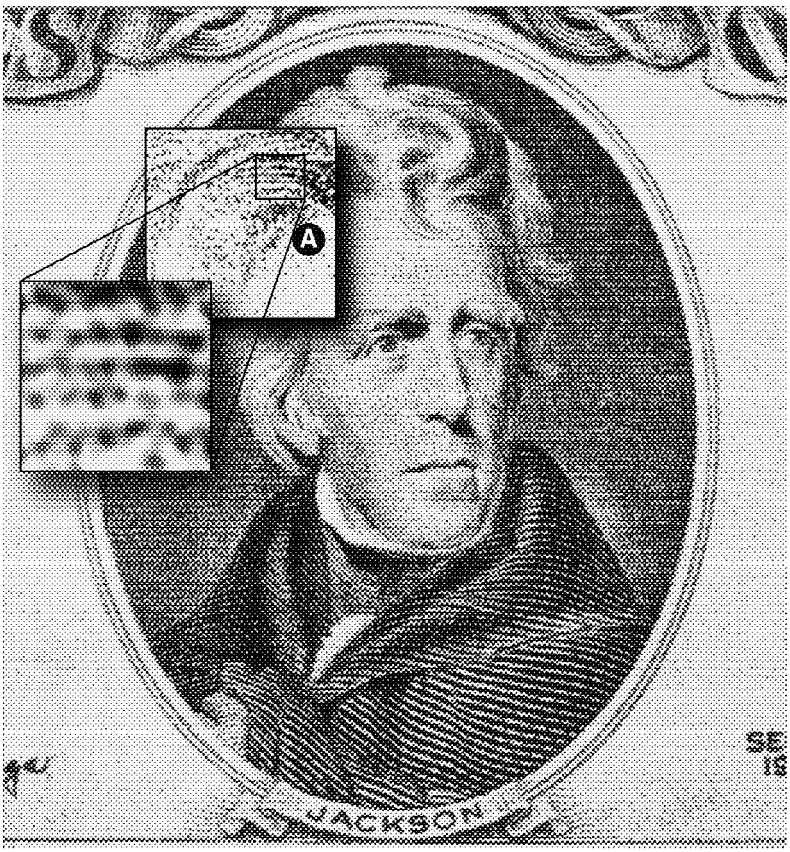
Finally, in the poor-quality offset sample, the portrait is missing a majority of shading lines in the face and hair (see fig. III.1, C).

Ink Jet Printed Notes

Ink jet printing is a counterfeiting method whose use is largely due to improvements in technology—scanners, computers, and printers. Unlike the offset method that uses plates to compress images onto paper, ink jet printing is a pressureless and plateless printing process that employs computers, electronics, electrostatics, and inks to compose and produce images. Ink jet technology requires the image to be scanned and converted to information that is transmitted to the computer. This image must be created each time it is reproduced, providing counterfeiters an

Figure. III.2: Ink Jet Printed Note

The ink jet counterfeit is detectable by the small colored dots used to make up the image (A).

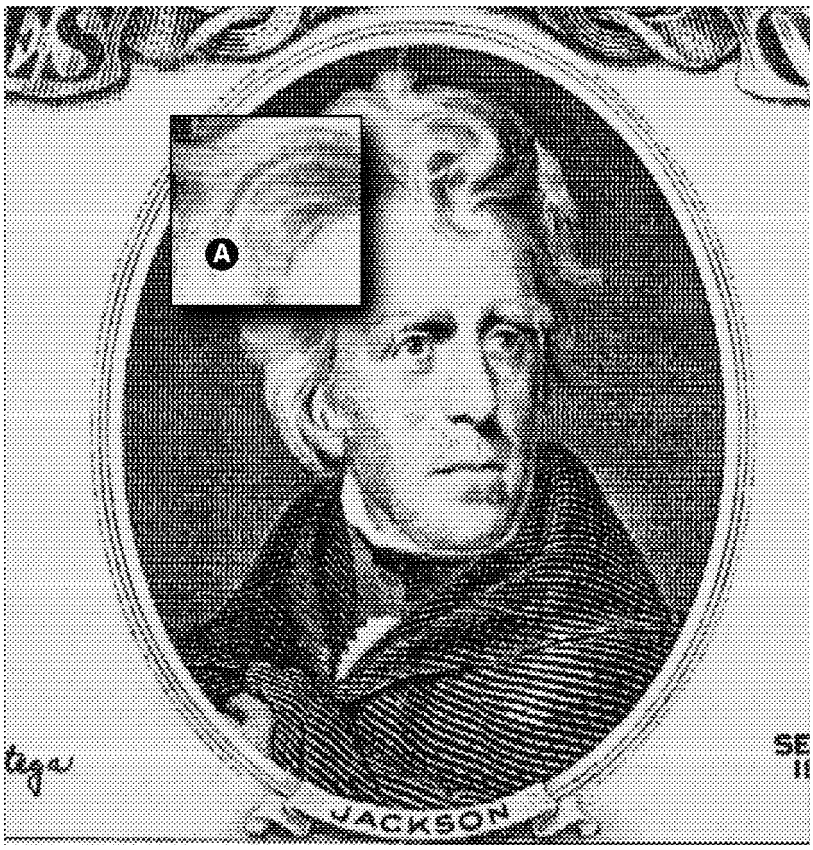


Source: U.S. Secret Service.

opportunity to change the serial numbers on the notes. To create the image, ink jet printers spray tiny droplets of ink from the printer head through a small gap of air onto the paper (see fig. III.2, A). The ink jet counterfeit has small red, blue, yellow, and black dots that make up the image; the genuine note does not have these colored dots.

Figure III.3: Office Machine-Copied Notes

One identifiable defect in color machine-copied counterfeit notes is the loss of some of the shading lines in the face and hair (A).

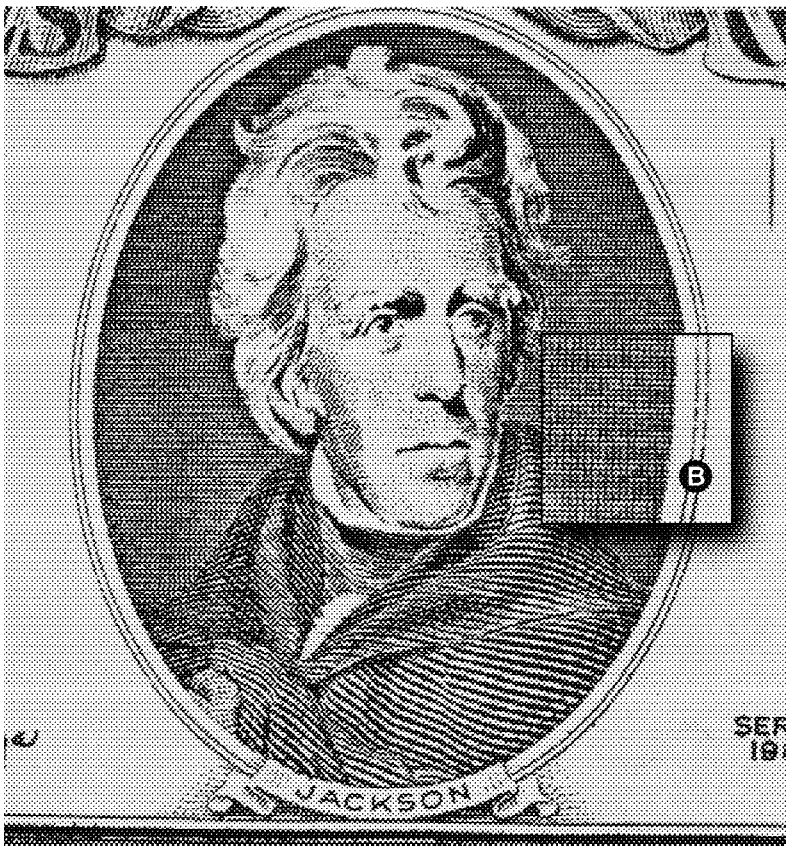


Source: U.S. Secret Service.

Office Machine-Copied Notes

Copying genuine notes on office copier machines is one of the simplest methods employed to produce counterfeits. Office machine copiers, which include black and white, monochromatic, and color copiers, use an electronic transfer of toner to paper. Black and white copiers apply black toner only; monochromatic copiers apply one color of toner at a time; and color copiers use a simultaneous combination of yellow, light blue, bright pink, and sometimes black toners to produce all colors.

One defect in this monochromatic counterfeit note is the break in the borderline of the portrait oval (B).



Source: U.S. Secret Service.

The result is an image resting on the surface of the paper. Under magnification, these counterfeits sometimes reveal small, individual particles of toner outside the image area. Also, the portrait image tends to be less distinct in these notes. For example, in the sample color machine-copied note in figure III.3, A, shading lines are missing in the face and hair. In the sample monochromatic note, there is a small break in the lower borderline of the oval (shown on the lower right of fig. III.3, B).

Figure III.4: Raised Note

In this raised note, corners have been cut off a $10 note and pasted on a $1 note (A).

Source: U.S. Secret Service.

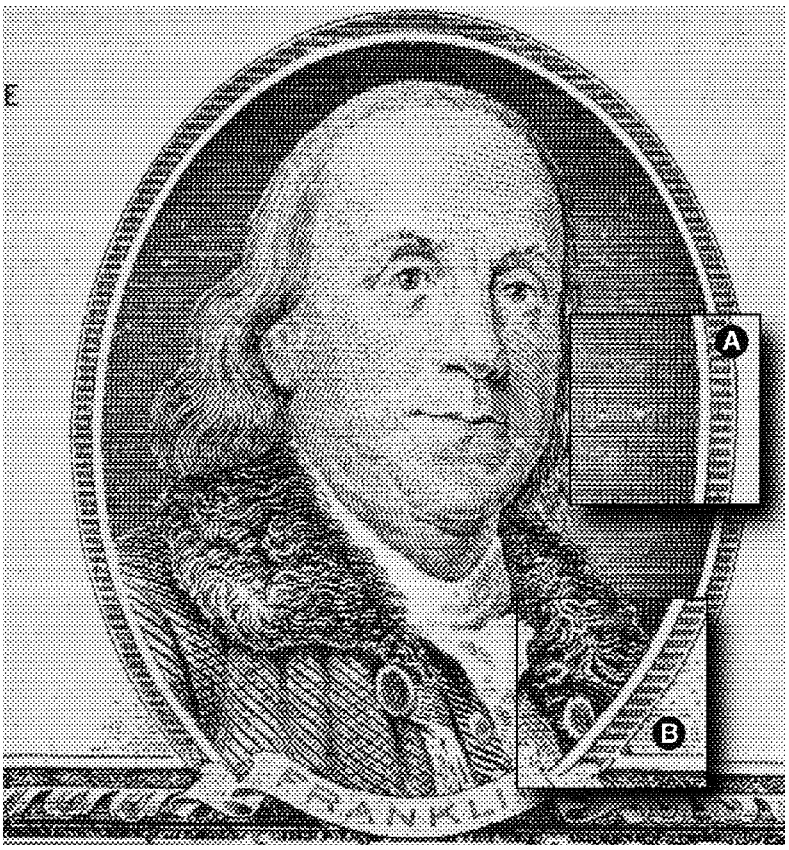
Raised Notes

Raised notes involve one of the most simplistic counterfeiting methods. Using this method, a counterfeiter cuts numerals from higher denomination notes and glues them to the corners of lower denomination notes (see fig. III.4, A). To detect these counterfeit notes, a comparison of the arabic numbers in the corners with the text number at the bottom of the note or under the appropriate portrait can be made.

Three Case Examples of High-Quality Counterfeits

Figure IV.1: the Canadian Note

Two defects in this counterfeit note are the lack of microprinting around the portrait (A) and the break in the borderline of the portrait oval (B).



Source: U.S. Secret Service.

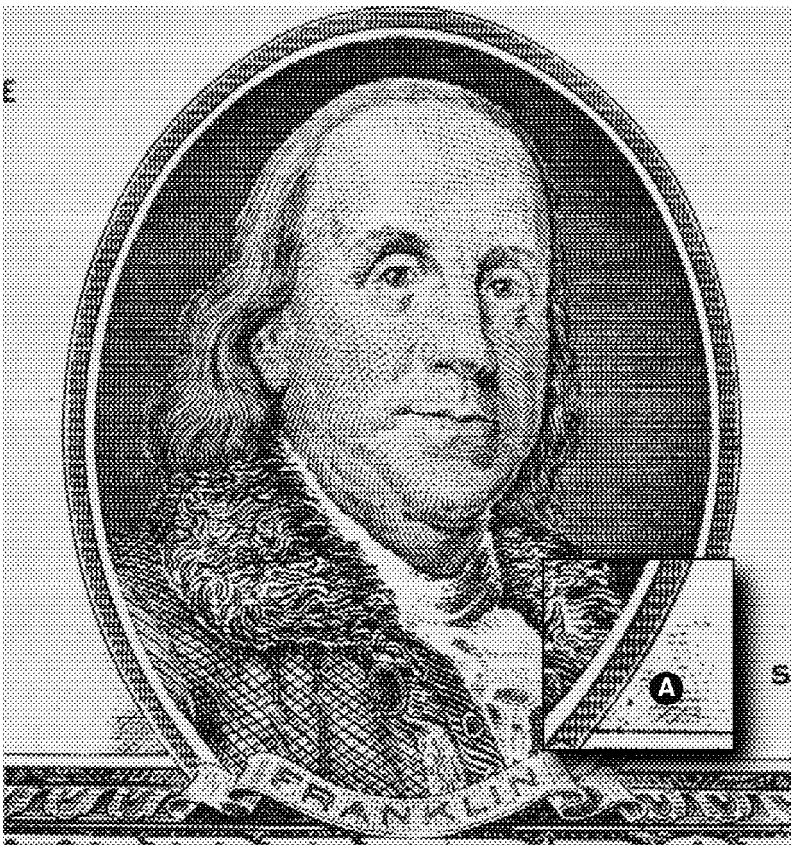
Three cases, the first two provided by the Secret Service and the third primarily by the House Republican Research Committee's Task Force on Terrorism and Unconventional Warfare, illustrate recent troublesome cases concerning the counterfeiting of U.S. currency abroad; all involve high-quality counterfeit notes produced by using the offset printing method.

- In Canada, an individual linked to organized crime produced counterfeit U.S. $100 notes using offset plates and a printing press. The "Canadian Note" case took almost 2-1/2 years to solve, despite the good relations that exist between the United States and Canada and their respective law enforcement agencies, according to Secret Service officials. During that period, the Secret Service detected over $10 million worth of these

counterfeit notes. The Canadian Note, as opposed to a genuine note, had the red and blue fibers printed on, rather than embedded within, the paper. When these fibers on the counterfeit were scratched, they would not pull from within the paper as those in a genuine note would do. Also, for 1990 series and subsequent notes, another security feature, the microprinting around the portrait that reads "The United States of America," was added. This feature is missing from the Canadian Note shown in figure IV.1, A. Finally, one overt defect in the Canadian Note is the break in the right-hand lower border of the oval (see fig. IV.1, B).

Figure IV.2: the Colombian Note

One defect in this counterfeit note is a black dot near the outer border of the portrait (A).



Source: U.S. Secret Service.

- In Colombia, organized criminals bleach low denomination U.S. notes and then use the bleached paper to print higher denomination bills. According to Secret Service officials, these criminals use the same distribution points as those for drugs to circulate the "Colombian" or "South American Note." In addition, according to Secret Service officials, this note is especially disconcerting because the paper is often genuine, a large number of variations exist in this counterfeit family,[12] and the number of counterfeits detected for this note is large. From the time that the note was first detected in 1981, through fiscal year 1994, over 100 varieties of these counterfeits, amounting to almost $36 million, have been detected. One overt defect in the Colombian Note is a black dot near the outer border of the oval on the right-hand side, as shown in figure IV.2, A.

[12]According to Secret Service officials, a "family" is a grouping of variations of counterfeit notes made by the same counterfeiters using the same process. A family can include any number of variations.

- In the Middle East, a group, allegedly a foreign government, is sponsoring production of the Superdollar. While many allegations have been made about the Superdollar, little evidence in support of these allegations has been made public. According to the report by the House Republican Task Force on Terrorism and Unconventional Warfare, the Superdollar is printed in the Middle East on "high-tech state-owned presses with paper only acquired by governments." Also according to the task force, the Superdollar is "designed for direct infiltration into the U.S. banking system and has become a major instrument in facilitating the flow of militarily useful nuclear materials and equipment and various weapons systems." A few of the foreign law enforcement and financial institution officials we spoke with believed the Superdollar was being circulated through various terrorist organizations around the world, on the basis of reports of detections involving individuals with links to terrorist organizations. According to the Treasury Department, no evidence exists to show that the note is printed with paper acquired only by governments or that the note is designed for direct infiltration into the U.S. banking system. Treasury also maintained that support for the remaining allegations concerning the Superdollar is inconclusive. Furthermore, although the Task Force reported that between $100 million and billions in Superdollars is in circulation, no evidence has been provided to support these allegations. Since the Superdollar was first detected in fiscal year 1990, Superdollar detections have represented a small portion of total counterfeit currency detections, according to Treasury and the Secret Service. (Due to the sensitivity and ongoing nature of this case, defects in and pictures of the Superdollar were not included in this report.)

Treasury Department to Introduce Currency Redesign

To deter counterfeiters both domestically and abroad, the Treasury Department plans to issue newly designed U.S. currency with more internal security features. According to Treasury officials, the redesign is a preemptive step to protect U.S. currency from high-tech counterfeiting. Some U.S. and foreign officials agreed that the change is overdue because the current U.S. currency design is outdated and easy to counterfeit. The new design incorporates a number of new security features and will be periodically reexamined and updated because no one security feature alone is sufficient and no single currency design can deter counterfeiting indefinitely. The U.S. strategy for introducing the new currency includes the replacement of old currency as it goes through the Federal Reserve system and the encouragement of exchanges of old currency for the newly redesigned currency. The U.S. strategy does not include a recall of old U.S. currency. Finally, to facilitate introduction and maximize the effectiveness of the redesigned currency, Treasury has initiated a worldwide public information campaign. Through this campaign, Treasury and Federal Reserve officials plan to emphasize and thus increase the effectiveness of the new security features, make the public aware that the old currency will retain its value, and encourage individuals to exchange their old currency for the redesigned notes.

The Current U.S. Currency Design Is Outdated and Easy to Duplicate

Some officials in the United States and abroad agree that the current design of U.S. currency is outdated, making it particularly vulnerable to counterfeiting. The U.S. currency has had only two changes in over 50 years, both in 1990. According to a June 1, 1995, Treasury Inspector General's report,[13] despite the 1990 addition of a security thread and microprinting, the lack of more major changes to the U.S. currency has apparently left the United States with a less technologically advanced currency than those of other industrialized nations. For example, the report pointed out that Japan has already incorporated special ink to deter counterfeiters, and Finland and Australia have added features similar to holograms (three-dimensional pictures) to their currency. The Treasury Inspector General concluded that, because of the advances made by other nations and the lack of similar changes by the United States, the U.S. currency has become one of the easiest to duplicate. This conclusion was

[13]Treasury Inspector General, Treasury's Overt Changes to Currency Enhance Counterfeit Deterrence (June 1, 1995).

further supported by reports contracted by the Bureau of Engraving and Printing[14] and the Committee on Next-Generation Currency Design.[15]

During our overseas visits, officials from the Swiss, German, and Hungarian central banks told us that the United States should consider improving the security features within its currency. The Hungarian central bank and the Swiss bankers association commented that the counterfeiting of U.S. currency was particularly egregious because the design of the dollar is technologically out of date. German and English law enforcement officials noted that U.S. currency could be widely counterfeited because it is so easy to copy. Additionally, officials of a currency exchange business in Italy stated that, if the United States did not protect its currency by adding deterrence features, then increases in counterfeiting could lead to the devaluation of the dollar.

Currency Redesign Incorporates New Security Features, With More to Be Added Over Time

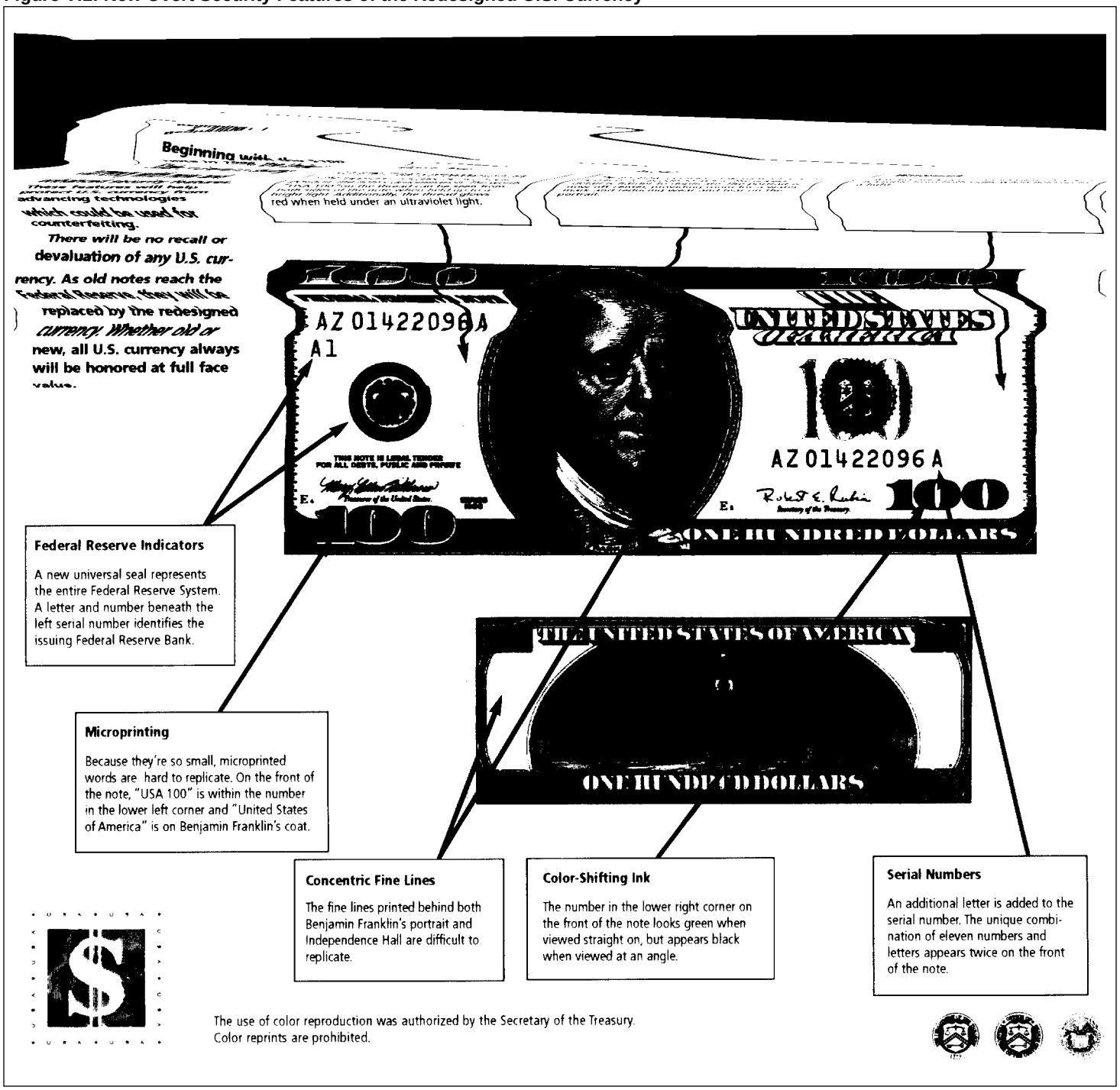
After the 1990 security features were added to the U.S. currency design, the Advanced Counterfeit Deterrence Steering Committee formed the New Currency Design Task Force to analyze and recommend new security features. On the basis of the task force findings, the steering committee presented its recommendations to the Secretary of the Treasury on changing U.S. currency. In 1992, the task force contracted with the National Research Council to recommend overt counterfeit-deterrence features. The study was completed in 1993 and was used by the task force to recommend the new security features.

The new U.S. currency maintains its traditional appearance while incorporating new security features. The redesigned notes retain their familiar size and colors, with portraits of the same historical figures on the front and the same buildings or monuments on the back. The greatest number of new security features are incorporated in the highest denomination bills, with fewer features built into the lower denomination bills that are less likely to be counterfeited. The new security features include overt features easily recognized by the public and covert features for use by the banking system. The most obvious changes are a 50-percent larger portrait that is off-center and the inclusion of a watermark that is visible when the note is held against a light source (see fig. V.1).

[14]Price Waterhouse and The Institute for the Future, Implications of Increased Counterfeiting (September 30, 1986).

[15]National Materials Advisory Board, Commission on Engineering and Technical Systems, National Research Council, Counterfeit Deterrent Features for the Next Generation Currency Design (December 1993).

Figure V.1: New Overt Security Features of the Redesigned U.S. Currency



Source: U.S. Department of the Treasury.

Production and distribution of the newly redesigned currency will take several years to complete. The new $100 note will be introduced in 1996, with lower denomination notes following at 9-to 12-month intervals,[16] according to Federal Reserve officials. The $100 note will be produced first because it is the note most widely counterfeited abroad. The Bureau of Engraving and Printing has estimated that the first-year production costs for the $100 note will represent an increase of between $7.5 million and $10 million from current levels because of the addition of the new security features.

Although these new deterrent features represent a significant change to the currency, these changes will not be the last. According to Treasury Department officials, the combination of rapidly advancing technology, the continued worldwide demand for U.S. currency, and the ability of counterfeiters to compromise deterrents over time will necessitate future currency redesigns. Therefore, the Advanced Counterfeit Deterrence Steering Committee will continue to review, on an ongoing basis, the need for future deterrents. Treasury has also established the Securities Technology Institute at The Johns Hopkins University's Applied Physics Laboratory to develop new materials to be used in U.S. currency to further deter counterfeiting.

Additionally, the Secret Service has begun to develop more comprehensive evaluation methods for the currency's counterfeit-deterrence features. The Treasury Inspector General's office, which evaluated the security features added in 1990, has recommended that the Treasury Department develop a comprehensive system of performance measures for past and future deterrents.[17] The Secret Service plans to develop a performance measurement method that will include a more detailed computer classification system. The system would allow for categorization of different counterfeit notes according to the features and series that they attempt to simulate. Moreover, the Bureau of Engraving and Printing may pursue the development of a classification system through its contract with the Securities Technology Institute.

[16]According to the Federal Reserve, it takes almost a year to make a production plate.

[17]Treasury's Overt Changes to Currency Enhance Counterfeit Deterrence (Washington, D.C.: June 1, 1995).

Treasury's Introduction of the Redesigned Currency Will Not Include a Recall

Although officials in some countries believe a recall should be issued in conjunction with the introduction of newly redesigned currency, Treasury and Federal Reserve officials believe they have developed a more appropriate strategy for the United States. The strategy calls for the withdrawal from circulation of old or worn notes as they go through the Federal Reserve system and their replacement by the redesigned currency, as well as the publicizing of the new notes to encourage the public to exchange old currency for new. In this way, Treasury and Federal Reserve officials expect the number of old notes in circulation to diminish over time, eliminating the need for a recall. Treasury officials have concluded that this strategy will be more cost-effective and less risky to the stability of the U.S. dollar.

Some foreign law enforcement and a few foreign financial organization officials suggested that the United States might wish to consider recalling all old currency after distributing the new currency. Foreign officials said that changes to and recalls of other countries' currencies are common methods of combating counterfeiting abroad and that, without a recall, there is nothing to stop perpetrators from counterfeiting the old currency. For example, foreign law enforcement officials told us that, although the United States incorporated two new security features into its currency issued in 1990, counterfeiters in Paris circumvented this effort by counterfeiting 1988 notes that did not have the new features. In addition, a U.S. terrorism expert expressed the opinion that, in order to eradicate the Superdollar, a recall would be necessary.

Conversely, a few other foreign financial organization officials acknowledged the cost and other concerns cited by Treasury in choosing not to recall the old currency. Some of these officials suggested that the amount of U.S. currency in circulation would make a recall extremely difficult and costly. Other foreign law enforcement and financial organizations did not comment on recalls.

The strategy as developed calls for the Federal Reserve to remove old $100 and $50 notes from circulation as they go through the Federal Reserve banks and to reissue only the newly redesigned currency. Federal Reserve officials told us that it is possible that they will not remove the lower denomination notes until they have completed their normal lifespan, because their lifespan is usually shorter than that of the higher denomination notes. For example, a $20 note is generally faded and torn after 2.5 years in circulation and is thus removed from circulation, whereas the lifespan of a $100 note is 6 or more years.

Federal Reserve officials also told us that they expected a large demand for the new currency and that, although the U.S. government will not issue a recall, it will develop a publicity campaign to encourage people to exchange older currency for new currency. Treasury and Federal Reserve officials expected people to gravitate to the new currency, particularly in overseas areas where older notes are already subject to greater scrutiny. They said that, at some point, the new currency will greatly exceed the old currency in circulation and that by then merchants will universally prefer the new currency and subject the old currency to even greater scrutiny. Thus, they concluded, counterfeiting of the old notes would diminish over time. They added that they were more worried that the demand for the new currency would exceed the supply than that the old currency might be counterfeited.

Treasury officials said that they have no plans for a recall of the old currency because the costs are not justifiable and a recall could negatively affect the stability of the U.S. dollar.

- According to Treasury officials, the potential costs associated with a recall are not warranted given the current level of counterfeiting. The cost of a recall of all old U.S. currency would be tremendous because U.S. currency is an international currency that is widely held abroad. Treasury believed that, since the legitimate use of U.S. currency significantly outweighs the illegitimate use, imposing the enormous cost of a recall on legitimate users would not be justified.
- Treasury officials also told us that the stability of the U.S. dollar is primarily due to the stability of the U.S. economy and the stature of the United States around the world. They added that a recall of U.S. currency could negatively affect this stability. The United States has made only two overt changes to its currency since 1929 and has never recalled its currency. People have faith in a currency because they believe it will retain its value. Moreover, the U.S. Treasury earns revenues from the use of U.S. currency abroad, and a decrease in the use of U.S. currency abroad thus would have a negative impact on these revenues. For example, according to a Treasury official, a 1-percent decrease in U.S. currency holdings overseas would cost the Treasury $75 million in annual revenues.

Worldwide Effort to Facilitate the Introduction of the Redesigned Currency

Treasury is developing and implementing a comprehensive, worldwide public education campaign to facilitate the introduction of the new currency. Through this public education effort, Treasury officials hope to (1) increase the effectiveness of the new security features by publicizing the overt ones, and (2) ensure that individuals around the world realize that the old notes will retain their value and that the U.S. government has no plans to recall U.S. currency. Also, Federal Reserve officials said that they hope to encourage individuals to exchange old notes for newly redesigned ones.

A Treasury Inspector General's report has noted that the 1990 overt security features were not as effective as hoped, partially because of the lack of an adequate long-term public education program. And, with the introduction of the redesigned currency in 1996, the need to educate the public will be even greater because three different Federal Reserve Note designs will then be in circulation: (1) pre-1990 notes without the security thread and microprinting, (2) 1990 and later notes with the security thread and microprinting, and (3) the newly redesigned notes.

Treasury's publicity campaign is expected to include the use of (1) a high-profile campaign spokesperson, the Treasurer of the United States, to inform the public about the newly redesigned currency; (2) staff dedicated solely to public education who will work with the U.S. Information Agency to encourage the establishment of foreign focus groups, as well as an outside firm to help craft and disseminate the message to the general public and selected target audiences abroad; (3) U.S. embassies overseas and foreign-desk officers at Treasury as points of contact for information regarding the redesign effort; and (4) the Federal Reserve, which has already begun to send information about the redesign effort to central banks around the world. Additionally, according to the Secret Service, it intends to conduct an extensive training program for law enforcement and financial organization officials.

The Secret Service Is Attempting to Increase Its Permanent Presence Abroad

To better combat the counterfeiting of U.S. currency, the Secret Service has requested an increase in its permanent presence abroad. As of May 1995, the Secret Service had the following overseas strength: 6 permanent offices with 16 agents assigned to them, with this permanent presence supplemented by 3 task forces, 2 temporary assignments, and 6 domestic offices covering additional geographic locations abroad. In February 1994, the Secret Service requested additional positions abroad, and over a period of 5 months, the total positions requested grew to 28. The Secret Service had hoped that these positions would be staffed by the beginning of fiscal year 1996. However, due to uncertainties over funding and to other Treasury priorities, as well as to the normal approval and staff selection timeframes at Treasury and State, as of November 30, 1995, only 13 of the 28 positions had been approved (see table VI.1.), and only 1 agent had moved to his new post abroad.

Table VI.1: Status of Secret Service Request for Increased Staffing Levels Abroad, as of November 30, 1995

Locations	Secret Service staff increase requested	Under discussion between Treasury and U.S. chief of mission	Disapproved	Approved
New offices				
Canada	2 agents 1 support	[a]	1 agent 1 support	1 agent[b]
Colombia	2 agents 1 support	1 agent 1 support	[c]	1 agent[b]
Cyprus	2 agents 1 support	[a]	[c]	2 agents 1 support
Hong Kong	2 agents 1 support	1 agent 1 support	[c]	1 agent[b]
Mexico	2 agents 1 support	[a]	2 agents 1 support	[c]
Russia	2 agents 1 support	2 agents 1 support	[c]	[c]
Existing offices				
England	1 agent 1 support	[a]	[c]	1 agent[b] 1 support
France	2 agents	[a]	[c]	2 agents[b]
Germany	1 agent 1 support	[a]	1 support	1 agent[b]
Italy	2 agents	[a]	[c]	2 agents[b]
The Philippines	1 agent	1 agent	[c]	[c]
Thailand	1 agent	1 agent	[c]	[c]
Total	**20 agents 8 support**	**6 agents 3 support**	**3 agents 3 support**	**11 agents 2 support**

[a]Discussion completed.

[b]Conditional approval based on agreement with U.S. ambassador regarding administrative support costs.

[c]Not applicable.

Sources: U.S. Departments of the Treasury and State.

On February 2, 1994, the Secret Service submitted a request to the Treasury Department for funding under the Crime bill (Violent Crime Control and Law Enforcement Act of 1994, Public Law 103-322, Sept. 13, 1994). The Secret Service requested staffing for new offices in Bogota, Colombia; Mexico City, Mexico; Ottawa, Canada; Nicosia, Cyprus; and

Hong Kong. It requested additional staffing for existing offices in Rome, Italy; Paris, France; Bonn, Germany; London, England; Manila, the Philippines; and Bangkok, Thailand. The Secret Service provided justification for its request, stating that counterfeit U.S. currency being produced and circulated overseas had dramatically increased and that high-quality counterfeiting had also escalated overseas. The Secret Service added that, because of its extremely limited resources abroad, it was not always able to take timely action to suppress counterfeiting abroad. The Secret Service provided the examples of the Rome and Paris offices, which cover districts consisting of over 40 countries with respective complements of 5 and 6 special agents. Additionally, on June 6, 1994, the Secret Service requested approval to open and staff a new office in Moscow, Russia, stating that the office was needed due to the burgeoning economic crimes in Russia and Eastern Europe.

As the Secret Service continued to maintain its need for 28 additional staff abroad, because of concerns over funding constraints, Treasury was considering a plan to consolidate Treasury Bureau staff overseas in a cost-saving effort. Subsequently, on August 15, 1994, Treasury sent a request to State to approve 22 Treasury agents and 4 support staff to be taken from the Secret Service and other enforcement bureaus' staffs, depending on the greatest need at each location. The Treasury request stated that the positions would be funded with existing resources should Congress not approve additional funding. State responded with the request that Treasury specify the bureau to which each position was to be assigned.

On September 30, 1994, the Treasury, Postal Service, and General Government Appropriations Act for fiscal year 1995 made $5 million available to the Secret Service to combat the counterfeiting of U.S. currency. However, according to the Treasury Department Budget Adviser for Enforcement, Secret Service base funding was still uncertain at that date. Thus, on November 18, 1994, Treasury sent a letter to State requesting that 11 of the positions it had requested on August 15 be Secret Service agents for the new offices, as requested by the Secret Service. However, Treasury did not forward a request for additional staffing of the existing offices at that time.

On March 29, 1995, State sent a letter to Treasury providing an update on Treasury staffing requests, including the Secret Service positions, asking

Treasury to respond to the cables from the chiefs of mission,[18] which had already been forwarded to Treasury. Five of the requested agent positions had been approved, contingent on various clarifications. Approvals consisted of two positions in Cyprus, one in Hong Kong, one in Colombia, and one in Canada. The majority of the concerns and questions dealt with the funding of administrative support costs. Furthermore, State noted that it had not yet received proposals for the additional Secret Service positions and that the proposals were needed so that State could forward them to the chiefs of mission concerned.

As of our exit briefings with the Secret Service, Treasury, and State in May 1995, Treasury had not yet responded to the cables from the chiefs of mission, with the exception of that from Nicosia, and had not requested any additional Secret Service positions for offices abroad. According to a Treasury budget official, funding had remained uncertain until recently, and then other priorities took precedence. However, the budget official also told us that a request for the remaining positions would be forwarded to State and that the cables would be answered shortly.

Subsequently, on June 5, 1995, the Secret Service provided Treasury with a letter stating that it had not yet received a formal response regarding the remaining positions and that it was willing to fund administrative support costs. The Secret Service also asked that the process be expedited. In a June 13, 1995, letter from the Secret Service to Treasury, the Secret Service stated that it was moving ahead with candidate selection for the approved Cyprus, Hong Kong, Bogota, and Ottawa positions and expected to have those positions staffed in early fiscal year 1996.

On July 21, 1995, Treasury approved the remainder of the Secret Service's 28 requested positions and forwarded the request to State. Cables were sent to the respective chiefs of mission for approval.

Finally, as of November 30, 1995, the Secret Service had received approval from the chiefs of mission for 13 of the 28 new positions originally requested. Approvals had been granted for staff in Canada, Colombia, Cyprus, Hong Kong, England, France, Germany, and Italy. Requests for staff in Mexico and additional staff in Canada and Germany had been denied. Requests for staff in Colombia, Hong Kong, Russia, the Philippines, and Thailand were still under discussion between Treasury and the chiefs of mission.

[18]The authority to determine the size, composition, and mandate of mission staffing elements rests with the chief of mission and the Secretary of State. Other U.S. government agencies do not have decision-making authority with respect to the size, composition, or mandate of missions abroad.

However, although gains appear to have been made in the approval process, staff selection and movement of staff to their new posts abroad still remained to be completed. According to the Secret Service, as of November 30, 1995, only one agent had moved into his new position abroad (in Canada); two other staff had been selected for other positions and were preparing to move; and the selection process was just beginning for the remaining approved positions.

U.S. Efforts to Eradicate the Superdollar

U.S. efforts to eradicate the Superdollar include an interagency task force led by the Secret Service, an overseas Secret Service task force, and diplomatic efforts between senior policy-level officials of the involved countries. Due to the sensitivity and ongoing nature of this investigation, we were made generally aware of these efforts but were not given specific information. However, the Secret Service has provided classified briefings to Members of Congress on efforts to eradicate the Superdollar.

In a February 1994 Secret Service request to Treasury for funding under the 1994 Crime bill, the Secret Service stated that, for the past 4 years, it had spearheaded a multiagency effort to suppress the most technically sophisticated note detected in the history of that agency. This initiative has prompted an unprecedented forensic effort, utilizing the resources of the Secret Service, other government offices, and several national laboratories.

According to a State Department official, senior policy level officials in the U.S. government are conducting ongoing diplomatic efforts concerning the Superdollar with Middle Eastern government officials. This official said that, in May 1995, our government asked these foreign governments to provide a show of good faith in improving relations by locating the printing plants and perpetrators involved in producing the Superdollar. He added that these efforts did not specifically implicate these governments in the production of the Superdollar, but that, at a minimum, they were believed to be tolerating this illegal activity within their borders.

U.S. and Interpol officials we interviewed stated that final resolution of cases similar to that of the Superdollar, should such cases occur, were beyond the purview of law enforcement agencies and would require diplomatic solutions. According to U.S. and Interpol officials, jurisdictional constraints may prevent law enforcement agencies from dealing effectively with cases of foreign-condoned or foreign-sponsored counterfeiting of U.S. currency. In such cases, the Secret Service would be able only to identify and assist in suppressing the distribution of the counterfeit notes. In countries where the United States has no diplomatic relations, U.S. law enforcement has no leverage to aid in the deterrence of counterfeiting. U.S. and Interpol officials agreed that the decision on how to suppress a foreign government-condoned or foreign-sponsored counterfeiting plant would need to be made at a senior U.S. government level.

Comments From the Department of the Treasury

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

DEPARTMENT OF THE TREASURY
WASHINGTON

UNDER SECRETARY

October 19, 1995

Ms. JayEtta Z. Hecker
United States General Accounting Office
441 G. Street, N.W.
Washington, D.C. 20548

Dear Ms. Hecker:

I have received a copy of your draft report entitled "Counterfeit U.S. Currency Abroad: Issues and U.S. Deterrence Efforts." There are several clarifications that the Treasury believes should be incorporated into your report. There are also several sections which should be classified or eliminated. In addition, the Secret Service has forwarded its comments through Treasury. The attached documents detail the clarifications for each organization.

Thank you for your attention to these considerations and for your diligent efforts in this matter of extreme importance to the Treasury Department.

Sincerely,

John D. Hawke, Jr.
Under Secretary for Domestic Finance

Enclosure

Clarifications to the draft report "Counterfeit U.S. Currency Abroad: Issues and Deterrence Efforts"

In the first paragraph of your letter to Congressman Spratt, you state that "The U.S. dollar is reportedly the most widely held currency in the world and is highly susceptible to international counterfeiting." The dollar *is* the most widely held currency, and, consequently, it is an attractive counterfeiting target. We do not agree that it is "highly susceptible to counterfeiting"; counterfeiting statistics and supporting evidence support this viewpoint.

See comment 1.

On page 3, the report states that "Treasury and Secret Service officials agree that ...counterfeiting of U.S. currency is a serious problem." The statement should read that both of these agencies view counterfeiting as a "threat to be taken seriously," not as a serious problem.

Now on p. 2.

Later in the same paragraph, the report states that counterfeit detection data is used to assess the extent of counterfeiting. The report should mention that Treasury and the Secret Service also use interviews and contacts with foreign central banks, financial institutions, and law enforcement officials, as well as vault inspections of banks overseas, and Federal Reserve data to assess the extent of counterfeiting.

On page 5, the report lists some of our recent deterrence efforts. It should be noted that our efforts also include a comprehensive, worldwide public education campaign to coincide with the introduction of the newly designed currency.

Now on p. 3.

On page 6, the report states that "seignorage" is earned when currency is held and "not used." The Federal Reserve earns interest on securities collateralizing currency in circulation as long as the currency remains in circulation; it does not matter whether or not it is being used. The term seignorage really only applies for coins, not paper currency.

Now on pp. 3-4.

On page 8, the report states that "Recent concerns about counterfeiting abroad began in 1992..." This statement is misleading. The Research Committee's report was not the catalyst for our efforts. The Treasury has been concerned with all forms of counterfeiting since it first began printing currency, and our current redesign effort is the culmination of ten years of work in this area.

Now on p. 6.

At the top of page 14, the report states that, according to foreign law enforcement officials and the Secret Service, "counterfeit U.S. currency is distributed in conjunction with drug trafficking, illicit arms deals, and other criminal and /or terrorist activities." Based upon conversations with the Secret

Now on p. 9.

2

Service, it is our understanding that, in most cases, counterfeit activity is not generally related to other criminal activities.

Now on pp. 10-11.

On page 16, the report states that counterfeit data "have severe limitations and provide only a very limited measure of counterfeiting." The word severe is an overstatement. Secret Service's statistics on detections provide the best available data and are constantly being improved through enhanced working relationships with overseas law enforcement organizations. Moreover, as mentioned previously, these data are augmented via interviews and contacts with foreign central banks, financial institutions, and law enforcement officials, as well as vault inspections of banks overseas, and Federal Reserve data. This comment also applies to the last paragraph on page 16. The statement, "Treasury officials have concluded that, based on ... detections," should be expanded to include the ways in which the level of counterfeiting activity is assessed in addition to detections (e.g., vault inspections overseas, contacts with foreign bank and law enforcement personnel, etc.).

Now on p. 11.

On page 17, it would be more relevant to indicate that the amount of counterfeit currency *passed* in fiscal year 1994 was less than *one one-hundredth of one percent*. The amount of counterfeit currency passed represents the portion of notes that resulted in losses to the general public, whereas the vast majority of total counterfeit detections represents seized notes that never entered into circulation and thus, did not generate losses for the general public.

Now on p. 14.

On page 20, the report states that "detection may only be a reflection of where Secret Service focuses its efforts." This may be a contributing factor, but it is certainly not the only factor that affects detection rates. Moreover, contrary to the statement at the end of the same paragraph, Secret Service is able to detect trends in counterfeit activity based on counterfeiting statistics and supporting evidence.

Now on p. 14.

On page 21, the second point that describes the difficulties involved in estimating counterfeits in circulation implies that the data is flawed because it provides no evidence as to how long counterfeits remain in circulation. The statement should more accurately read: "it is not possible to know how long counterfeits passed remained in circulation before detection."

On page 22, the first full paragraph refers to an ongoing counterfeiting investigation. The sentence that reports the amount of notes involving that investigation should be removed or classified because it may hinder the investigation. Moreover, the same paragraph references a report that makes an unsubstantiated claim that these counterfeit notes are "circulating outside the formal banking system." There is no evidence to support this claim. In fact, the same report asserts

Now on p. 14.

3

See comment 2.

that these notes are designed for direct infiltration *into* the banking system. Finally, there is a statement that banks may be recirculating the notes. Based upon our vault inspections, Federal Reserve data, detection data, and contact with overseas banking and law enforcement officials, there is not evidence that we are aware of to support that statement.

Now on p. 16.

On page 26, the report states that overseas "detection methods for counterfeit U.S. currency were limited to the touch and sight of their tellers." There is no single commercially available machine that is adept at detecting all counterfeit notes for any type of currency. In fact, sight and touch are the best and most reliable methods for accurately authenticating any type of currency. In fact, the Federal Reserve's authentication machines cull out suspected counterfeits, but its employees use "touch and sight" to make the final judgement. Thus, the use of sight and touch authentication methods should not be viewed as a limitation for U.S. currency.

Now on p. 17.

On page 27, the report mentions "redesigning U.S. currency" as a recent deterrent effort. It would be useful to say that the redesign was undertaken to incorporate an array of security features intended to combat rapid advances in reprographic technology. Also, the last sentence in the same paragraph should read that the Secret Service is "undertaking efforts to stop production and distribution of *all* counterfeits," not just some particular cases.

Now on p. 17.
See comment 3.

On page 28, the report lists the countries that were visited by the joint Treasury/Federal Reserve teams. As of October 1995, the list also includes Moscow, Novgorod, and St. Petersburg, Russia; Ankara and Istanbul, Turkey; Cairo, Egypt; Manama, Bahrain; Riyadh, Saudi Arabia; and Dubai and Abu Dhabi, United Arab Emirates.

Now on p. 18.

On page 29, the report once again makes reference to Secret Service manpower levels overseas. This reference should be classified or removed. Moreover, the report states that "other priorities within the Treasury Department" have affected the establishment of permanent postings overseas. However, the final authority for those posts rests outside of the Treasury as the report more accurately states in the footnote on page 74. This should be noted on page 29 as well.

It is our view that Appendix I should be classified or removed. Disclosure of Secret Service manpower statistics overseas to a potentially broad audience is a threat to counterfeit deterrence and national security. This also applies to the staffing reference on page 9, which states the number of agents in each Secret Service field office.

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Some sections of Appendix III regarding methods of counterfeiting may be misleading. In your discussion of defects on certain types of counterfeit notes, the reader could get the impression that all offset notes, for instance, have the same defects. This is not the case. Counterfeits exist with varying levels of quality and defects. Consequently, it would be more accurate to state that "some examples" of defects on particular types of notes "may include the following..."

Now on p. 38.

In Appendix IV on page 53, the report states that counterfeit notes are produced in Colombia to support narcotics transactions. To our knowledge this statement is speculative and should be removed. Furthermore, the last sentence in the same paragraph on the following page should be classified or removed because in contains information regarding an ongoing investigation and information on the defects of particular notes.

Now on p. 40.
See comment 4.

In Appendix V on page 58, the report states that "Treasury officials agree that ... U.S. currency is one of the easiest to duplicate." The Treasury does not agree that U.S. currency is one of the easiest to duplicate. Rather, due to the worldwide acceptance of and demand for U.S. dollars, our currency is an obvious target for counterfeiters. Moreover, the extremely small percentage of counterfeits detected as a percentage of dollars in circulation, in addition to other evidence that indicates low levels of counterfeiting activity, support the view that U.S. currency is not particularly "easy" to duplicate.

Lastly, Appendix VI also contains statistics regarding Secret Service manpower levels overseas. Once again this data should be classified or removed because it contains information that could hinder Secret Service's investigative efforts and harm national security.

DEPARTMENT OF THE TREASURY
UNITED STATES SECRET SERVICE

October 6, 1995

MEMORANDUM FOR JOHN D. HAWKE, JR.
UNDER SECRETARY
(DOMESTIC FINANCE)

FROM: PAUL A. HACKENBERRY
ASSISTANT DIRECTOR
(INVESTIGATIONS)

SUBJECT: DRAFT GAO REPORT ON COUNTERFEIT U.S. CURRENCY ABROAD: ISSUES AND U.S. DETERRENCE EFFORTS

Reference is made to your request for comments concerning the "Draft GAO Report on Counterfeit U.S. Currency Abroad: Issues and U.S. Deterrence Efforts"

General Comments concerning classification of sensitive information:

Throughout the report, there are repeated references to the "Superdollar", "Supernote", and "Superbill". As you are aware, this Service does not condone the use of these terms. The media, banking community, other law enforcement organizations, and the public have associated this term with a wide variety of counterfeit notes. These terms have been applied to several offset printed notes, such as the C-17014, C-15083, and C-8094 Family, and even to various full color OMC counterfeit notes. Any reference to the C-14342 Family should be specific, and should refer to those "highly deceptive counterfeits" as the C-14342 Family.

Although the existence of these highly deceptive counterfeits, and the investigation of their origin and distribution, has been widely reported in the media, this remains a classified investigation. Any information or inference relating to the C-14342 investigation should be treated accordingly.

The State Department initiative, discussed on Page 76, is classified information.

Overseas staffing of Secret Service personnel is discussed in several locations in the report, primarily Page 9, Appendix I, and Appendix VI. The publication of our current staffing levels in a document that may see wide distribution raises a serious concern. The size and extent of our overseas staff is so limited that publication of the actual numbers in each location could present a personnel security concern.

If GAO finds that it is essential to include the information relating to the C-14342, and current and projected overseas staffing, the relevant portions should be classified.

Now on p. 2.

See comment 5.

Results In Brief

Page 3 - An error exists concerning the total counterfeit currency detected in fiscal year 1994. The report states $207 million. The total was actually $208.7 million. The statistical breakdown should be reflected as follows: $25.3 million Passed on the Public, $45.7 million Seized Before Circulation, and $137.7 million Appearing Abroad. Further, it should be noted that well over 90 percent of all counterfeit U.S. currency is seized before it enters circulation.

Concerning the last sentence on Page 3 - The meaning of this sentence is vague and thus could be interpreted in different ways. This sentence could mean that the Service uses the total counterfeit detected, plus intelligence information and field experience to assess the extent of counterfeiting. However, it could also be interpreted to mean that the Service uses intelligence information and field experience to increase the statistical amount of reported counterfeit and thus increase the assessment of the extent of counterfeiting. The latter interpretation is incorrect and would be strongly opposed by the Service.

Concerning the reference to U.S. Government efforts to deter counterfeiting on Page 5 - "(4) using task forces and diplomatic efforts to eradicate the highest quality counterfeit note known to the Secret Service, commonly referred to as the "Superdollar." The Service uses task forces and diplomatic efforts to combat other sources of counterfeit. Task forces are being used in Italy and South America to address counterfeits originating in those areas.

Now on p. 6.

Now on p. 6.

Background

Page 8 implies that concerns about counterfeiting abroad did not begin until 1992 when the House Task Force report was issued. This is incorrect. The Service opened its first foreign office in 1948 to address foreign counterfeiting. Each of the existing foreign Secret Service offices, with the exception of Manila, was opened prior to 1992. The phrase "Recent concerns about counterfeiting abroad began..", should be deleted.

Page 9 refers to the Secret Service as "the principal U.S. agency responsible for counterfeit currency deterrence efforts abroad." The word "principal" should be deleted as the Service does not share this jurisdiction. This paragraph continues to page 10 and discusses foreign staffing levels.

If GAO finds that it is essential to include the information relating to current and projected overseas staffing, the relevant portions should be classified due to personnel security concerns as stated above.

Now on p. 7.

Page 10 mentions Service personnel assigned to the Four nations Group. The Service does not have personnel assigned to the Four Nations Group. The Service has two senior staff persons who participate in policy making decisions with the Four Nations Group.

Scope and Methodology

The Secret Service is concerned that one of four listed primary sources of information for the GAO review of Service efforts to combat counterfeiting abroad is unnamed individuals researching the "Superdollar case," including the author of the House Republican Task Force on Terrorism and Unconventional Warfare reports. No information has ever been presented to substantiate many of the allegations and conclusions of those reports. The Service would like to know who the other unnamed sources are, and their expertise relative to the subject.

Again, if GAO finds that it is essential to include the information relating to the C-14342 investigation, the relevant portions should be classified.

Nature of Counterfeiting of U.S. Currency Is Diverse

The paragraph at the top of Page 14 should indicate that in most cases, counterfeit is primarily distributed by itself, and to a much lesser extent in conjunction with drug trafficking, and the other listed activities. As currently written, this paragraph implies that counterfeit is only distributed in conjunction with the listed activities.

The Secret Service has not categorized counterfeiting in the Milan, Italy area as a "cottage industry". Secret Service attribution concerning this remark should be removed.

Now on p. 11.

Treasury Believes Level of counterfeiting Is Economically Insignificant

Page 17 states that the total amount of counterfeit detected in fiscal year 1994, was $207 million. The total was actually $208.7 million. The statistical breakdown should be reflected as follows: $25.3 million Passed on the Public, $45.7 million Seized Before Circulation, and $137.7 million Appearing Abroad. Further, it should be noted that well over 90 percent of all counterfeit U.S. currency is seized before it enters circulation.

Secret Service Believes Counterfeiting Abroad Is Increasing

Now on p. 12.
See comment 6.

Page 19, states that foreign produced notes passed in U.S. during fiscal year 1994, comprised almost 60 percent. The correct amount was approximately 64 percent.

Actual Extent of Counterfeiting Abroad Cannot Be Determined

The Service disagrees with GAO's conclusion that Service data cannot be used to illustrate any trends in counterfeiting abroad. Certainly the data can be skewed due to recent improvements in detection and reporting practices, and because the data is subject to fluctuation due to large seizures of counterfeits.

However, when viewed over the long term, in light of experience in the field of counterfeiting, these factors can be taken into consideration.

Now on pp. 13-15.

Page 21 discusses the limitations of statistical data, i.e. Appearing Abroad, in estimating the volume of counterfeit in circulation. While the Service recognizes the limitations as discussed, it should be noted that due to the very nature of counterfeit it is not possible to accurately determine the amount of counterfeit that remains undetected.

Now on p. 14.

Page 22 discusses the C-14342 investigation and the amount of C-14342 notes found in circulation in fiscal year 1994. The House Task Force Report is cited as a source for several conclusions concerning the circulation and detection, or lack thereof, of the C-14342. No information is provided to validate these conclusions which remain unsubstantiated. Even currency used in illegal activities must move into the formal banking system to be laundered. Further, it is known that the C-14342 does not circumvent detection. Foreign banking institutions and currency exchange houses have consistently demonstrated their ability to detect these notes and there has not been any indications of wide spread recirculation of the C-14342 family by financial institutions.

See comment 2.

Again, if GAO finds that it is essential to include information relating to the C-14342 investigation, the information should be substantiated, and the relevant portions should be classified.

Now on pp. 14-15.

Page 23 addresses the issue of foreign origin notes passed in the U.S. Although the GAO may be correct in asserting the Service's ability to determine the source of counterfeit currency has improved over time, there is no disputing the fact that we have been able to determine the source of C-8094 in the past. That note and notes coming from Canada constitute a portion of the increase of foreign origin notes.

Page 24 mentions increases and subsequent drops in counterfeit appearing abroad in FY 87/88/89 to emphasize the skewing of data due to several large seizures. It should be emphasized that appearing abroad has not dropped since it started it's upward climb in FY 93. (FY 93 - $120.7 million, FY 94 - $137.7 million).

Now fn. 10 on p. 16.

Foreign Views on Extent of Counterfeiting Abroad Are Mixed

Footnote 9, on Page 26 is factually incorrect. These devices do not detect genuine paper. They detect paper that has some of the characteristics of genuine paper. The color may change if the counterfeit currency's paper has certain characteristics consistent with genuine, or if the paper is genuine. The statement as written could be used as an endorsement of the reliability of these devices which are consistently unreliable for the detection of counterfeit.

Additional U.S. Counterfeit Currency Deterrence Efforts

In the first paragraph, the reference to the "Superdollar" should be deleted. It is more accurate to state that efforts are being taken to stop the production and distribution of "all counterfeit U.S. currency".

Now on p. 17.
See comment 3.

In the second paragraph, it should be stated that Treasury is redesigning U.S. currency to incorporate more security features "to combat advances in reprographic and printing technology."

The date of May 1995, on Page 28, should be changed to October 1995, and the following locations should be added after Singapore; Moscow, Novgorod, and St. Petersburg, Russia; Ankara and Istanbul, Turkey; Cairo, Egypt; Riyadh, Saudi Arabia; Manama, Bahrain; and Dubai, United Arab Emirates.

Now on p. 18.

Page 29 has a reference to the "Superdollar" investigation and diplomatic efforts among senior policy level officials of the countries involved. The words "of the countries involved" should be deleted. As written, this creates the impression that there are certain foreign governments known to be officially involved in the production and distribution of the C-14342. That impression is incorrect.

Again, if GAO finds that it is essential to include information relating to the C-14342 investigation, the relevant portions should be classified.

Appendix I

The publication of our current staffing levels in a document that may see wide distribution raises a serious concern. The size and extent of our overseas staff is so limited that publication of the actual numbers in each location could present a personnel security concern.

If GAO finds that it is essential to include the information relating to the current and projected overseas staffing, the relevant portions should be classified.

Appendix III

Now on p. 30.

The technical discussion of the offset printing process on Page 44 is incorrect. It should say, "With a photographic negative of a genuine note,".

Now on p. 31.

The technical discussion of Ink Jet Printing technology on Page 47 is incorrect. Ink jet printers do not use special toners; they use ink. Therefore, "special toners" should be deleted. Furthermore, ink jet technology does not require that the image be stored in a digital form in a computer. It only requires that the image be scanned and converted to digital information that is transmitted to the printer.

Now on p. 33.

The technical discussion of Office Machine Copied Notes on Page 48 should be modified by deleting the word "dry", as in dry toners. Liquid toner machines do exist.

Appendix IV

The Secret Service is concerned that one of the primary sources of information for the discussion of high quality counterfeit is the House Republican Task Force on Terrorism and Unconventional Warfare reports. No information has ever been presented to substantiate many of the allegations and conclusions of those reports.

The discussion of the Canadian case on Page 52 contains a factual error. The "Canadian Note" was printed with offset plates, not engraved plates.

The words.."in this case"... should be added to "To distinguish genuine and counterfeit notes, in this case, the red and blue fibers of the counterfeit are printed....

The discussion of the Colombia case on Page 53 states that the notes are being printed to support narcotics transactions. This is purely speculation, and should so state or be deleted.

Now on p. 37.

Concerning the reference to genuine paper on page 54, although the note is often printed on genuine paper, that is not always the case.

Concerning the discussion of the C-14342 (Middle East) case, the Service objects to the disclosure of defect information regarding this family of counterfeit notes. The alleged involvement of a foreign government is unsubstantiated. In this context it appears that the Service supports this allegation, which it does not.

See comment 7.

This entire section is cause for concern. The GAO, a highly regarded government organization which is often quoted as a definitive source of information, is giving stature to a report (written by an unofficial body), which is based upon rumor and innuendo. Much, if not most, of this information has never been substantiated.

If GAO finds that it is essential to include information relating to the C-14342, the relevant portions should be classified.

Now on p. 40.

Appendix V

The first paragraph on page 58 ends with a statement attributed to Treasury officials. This statement should be amended to read as follows: Treasury officials agree that because of advances made by other nations, the lack of similar changes by the United States, and because of the unique stature of U.S. currency in the world economy, U.S. currency is most attractive to counterfeiters.

Regarding the new note education campaign as outlined on Page 62. The Service role in this campaign is not included. This section should include a fifth section stating.. " 5) the Secret Service, which for the past two years has been providing information about the redesign effort to law enforcement agencies and banking institutions around the world, and which will be conducting an extensive training program for law enforcement organizations and the banking/currency handling industry."

Appendix VI

Appendix VI contains a detailed listing and discussion of all existing and proposed foreign staffing.

The publication of our current staffing levels in a document that may see wide distribution raises a serious concern. The size and extent of our overseas staff is so limited that publication of the actual numbers in each location could present a personnel security concern.

If GAO finds that it is essential to include the information

relating to the C-14342, and current and projected overseas staffing, the relevant portions should be classified.

Appendix VII

Although the existence of these highly deceptive counterfeits, and the investigation of their origin and distribution, has been widely reported in the media, this remains a classified investigation. Any information or inference relating to the C-14342 investigation should be treated accordingly.

The State Department initiative, discussed on Page 76, is classified information.

Please let me know whenever we may be of service.

Sincerely,

Paul A. Hackenberry
Assistant Director
Office of Investigations

DEPARTMENT OF THE TREASURY
WASHINGTON

UNDER SECRETARY

November 30, 1995

Ms. JayEtta Z. Hecker
United States General Accounting Office
441 G. Street, N.W.
Washington, D.C. 20548

Dear Ms. Hecker:

Upon further review of your draft audit report entitled "Counterfeit U.S. Currency Abroad: Issues and Deterrence Efforts," it has been determined that no sections of the report are classified. This letter rescinds the classification requests from my letter of October 19, contingent upon a minor revision to Appendix VII, which was agreed upon by the agencies involved. I am also enclosing Secret Service's request that the classification be rescinded.

Sincerely,

John D. Hawke, Jr.
Under Secretary for Domestic Finance

Enclosure

DEPARTMENT OF THE TREASURY
UNITED STATES SECRET SERVICE

November 28, 1995

MEMORANDUM FOR JOHN D. HAWKE, JR.
UNDER SECRETARY
(DOMESTIC FINANCE)

FROM: PAUL A. HACKENBERRY
ASSISTANT DIRECTOR
(INVESTIGATIONS)

SUBJECT: DRAFT GAO REPORT ON COUNTERFEIT U.S. CURRENCY ABROAD: ISSUES AND U.S. DETERRENCE EFFORTS

Reference is made to my previous memorandums on this subject, the latest one dated November 6, 1995.

I have been informed that the Government Accounting Office (GAO) has recently reached an understanding with the concerned agencies regarding the classification of the above mentioned report. In view of this fact, I no longer have the concerns outlined in my previous memorandums. Although I have not had the opportunity to review the revised draft copy, it is my understanding that this document will not be classified after some specific changes have been made by GAO.

If you have any further questions on this matter, feel free to contact me at (202) 435-5716.

Sincerely,

Paul A. Hackenberry
Assistant Director
Office of Investigations

The following are GAO's comments on the Department of the Treasury's October 19 and November 30, 1995, letters, including the enclosures from the Secret Service.

GAO Comments

1. Treasury states that U.S. currency is not highly susceptible to counterfeiting and that counterfeiting statistics and supporting evidence support its viewpoint. We modified the text to delete the word "highly" but continue to believe that the evidence supports a conclusion that U.S. currency is susceptible to counterfeiting. For example, the susceptibility of U.S. currency to counterfeiting is established in a number of reports, including: (1) Treasury's Overt Changes to Currency Enhance Counterfeit Deterrence (June 1, 1995), prepared by the Treasury Inspector General's Office; (2) Implications of Increased Counterfeiting (September 30, 1986), prepared by Price Waterhouse and the Institute for the Future for the Bureau of Engraving and Printing; and (3) Counterfeit Deterrent Features for the Next Generation Currency Design (December 1993), prepared by the National Research Council for the Committee on Next-Generation Currency Design. Additionally, the State Department's Bureau of International Narcotics and Law Enforcement Office of International Criminal Justice concurred with this position, as did Interpol officials we contacted. Furthermore, counterfeiting statistics provided by the Secret Service only give reported detections and cannot be used to reflect the actual extent of counterfeiting.

2. Treasury states that, based on its vault inspections, Federal Reserve data, detection data, and contact with overseas banking and law enforcement officials, there is no evidence of which it is aware to support the statement that banks may be recirculating the Superdollar. The Secret Service states that it is known that the C-14342 does not circumvent detection and further states that foreign banking institutions and currency exchange houses have consistently demonstrated their ability to detect these notes and that there has not been any indication of widespread recirculation of the C-14342 family by financial institutions. However, based on our interviews with financial organization and law enforcement officials abroad, financial organizations in some countries may be recirculating the Superdollar. Many of the foreign law enforcement and financial organization officials we interviewed had inconsistent and incomplete information on how to detect the Superdollar, and some acknowledged that in some cases it may escape detection and be recirculated.

3. Treasury confirms that the report lists countries that were visited by the joint Treasury/Federal Reserve teams during our review and adds locations visited as of October 1995. The Secret Service suggests that we should increase our scope to include additional locations visited after we completed our work in May 1995. The report includes only visits that were completed during our review and for which the joint teams had reached preliminary conclusions and briefed us on their results. Since we did not review information and conclusions from the additional visits, we did not include them in the report.

4. Treasury states that it does not agree that U.S. currency is one of the easiest to duplicate. We have revised the text to provide the specific Treasury Inspector General report reference, which states that U.S. currency is easy to duplicate, and we have added other specific Treasury-contracted sources to the text.

5. The Secret Service states that it should be noted that well over 90 percent of all counterfeit U.S. currency is seized before it enters circulation. This statement cannot be verified for two reasons. First, since the total amount of counterfeit currency cannot be determined, one cannot determine what percentage is seized before it enters circulation. Second, for detections abroad, the Secret Service detection data do not distinguish between detections occurring before and those occurring after entering circulation. Thus, it is not possible to determine what percentage of counterfeit U.S. currency detected abroad is seized before it enters circulation.

6. The Secret Service states that foreign-produced counterfeit U.S. notes passed in the United States during fiscal year 1994 made up 64 percent of total domestic passes, not almost 60 percent as stated in the draft report. However, the Secret Service was unable to provide supporting data for the figure of 64 percent. Our analysis of updated fiscal year 1994 statistics provided by the Secret Service resulted in a figure of 65.5 percent, and we changed the text accordingly.

7. The Secret Service expressed its concern over our references to material found in the House Republican Research Committee's Task Force on Terrorism and Unconventional Warfare reports. These reports are the only unclassified government reports on the Superdollar. They are frequently quoted by the media and "terrorism experts" and thus cannot be ignored. We have not verified the information in these reports. We have attributed all comments made by the task force to the task force.

Comments From the Department of State

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

United States Department of State

Washington, D.C. 20520

JUL 30 1996

Dear Mr. Finch:

We appreciate the opportunity to provide Department of State comments on your draft report, "COUNTERFEIT U.S. CURRENCY ABROAD: Issues and U.S. Deterrence Efforts," GAO/GGD-96-11, GAO Job Code 280132.

The Bureau of International Narcotics and Law Enforcement Office of International Criminal Justice has reviewed the subject report and observed that your principal finding is consistent with the limited information that we have from foreign and domestic sources. While the true volume of counterfeit U.S. currency cannot be accurately estimated, either from domestic or foreign production, and, while counterfeiting of our currency is a continuing concern, such counterfeiting is not now at a level that poses an economic threat to the U.S. monetary system.

Similarly, the limited information we have on the Superbill is consistent with your finding, i.e., the threat potential of these high quality reproductions has not materialized in foreign currency markets.

The report does capture the concern of certain foreign governments about the counterfeiting of their own national currencies, and their redesign efforts to prevent these reproductions. The report could be stated somewhat more positively in terms of U.S. officials' awareness of the extremely sophisticated measures being used today to produce high quality counterfeit notes that are more difficult to detect. The essence of the situation is that high technology has begun to overcome the security features in U.S. currency and that the U.S. Treasury has taken appropriate measures to counter this technology -- and committed to a continuing series of redesign initiatives to ensure that our currency is as invulnerable to reproduction as our own technology permits.

A substantial portion of INL/ICJ's discussions with GAO evaluators was devoted to informing the GAO team about modern money laundering practices. INL/ICJ was also able to guide the evaluators to persons and institutions in Europe who could offer additional information and insights into both money laundering and counterfeiting. GAO concurs with our finding that counterfeit U.S. currency is not a factor in international money laundering and, we understand, will address money laundering in depth in a separate report.

See comment 1.

Mr. Johnny C. Finch,
Assistant Comptroller General,
General Government Division,
U.S. General Accounting Office.

- 2 -

If you have any questions concerning this response, please contact Mr. Rayburn Hesse at (202) 647-8692.

Sincerely,

Richard L. Greene

Enclosure:
As stated.

cc:
GAO - Ms. Hecker
State/INL/ICJ - Mr. Hesse

The following is GAO's comment on the Department of State's October 30, 1995, letter.

GAO Comment

1. State concludes that we concur with its finding that counterfeit U.S. currency is not a factor in international money laundering. We did not address this issue in the scope of this report and have not reached this conclusion.

Comments From the Federal Reserve

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

THEODORE E. ALLISON
ASSISTANT TO THE BOARD
FOR FEDERAL RESERVE
SYSTEM AFFAIRS

October 20, 1995

Ms. JayEtta Z. Hecker
Director, International Trade, Finance,
and Competitiveness Issues
United States General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Ms. Hecker:

Thank you for the opportunity to comment on the draft report entitled "Counterfeit U.S. Currency Abroad: Issues and U.S. Deterrence Efforts." We appreciate the careful and professional way in which the subject was researched and the report prepared.

We are aware of the suggested clarifications enclosed with Under Secretary Hawke's letter of October 19. We agree with those and urge you to give them careful consideration. We have no other comments or observations.

Sincerely,

Theodore E. Allison

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