

Office of Inspector General

Inquiry into Allegations of Undue Political Interference with Federal Reserve Officials Related to the 1972 Watergate Burglary and Iraq Weapons Purchases during the 1980s



Board of Governors of the Federal Reserve System

March 2012



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

OFFICE OF INSPECTOR GENERAL

March 30, 2012

The Honorable Ben S. Bernanke
Chairman
Board of Governors of the Federal Reserve System
Washington, D.C. 20551

Dear Chairman Bernanke:

The Office of Inspector General (OIG) of the Board of Governors of the Federal Reserve System (Board) is pleased to present its report on the *Inquiry into Allegations of Undue Political Interference with Federal Reserve Officials Related to the 1972 Watergate Burglary and Iraq Weapons Purchases during the 1980s*. During your February 2010 “Humphrey-Hawkins” testimony before the House Committee on Financial Services (Committee), Representative Ron Paul alleged that “the cash used in the Watergate scandal came through the Federal Reserve,” and that “investigators . . . were always stonewalled” by the Federal Reserve. In addition, Representative Paul alleged that the Federal Reserve “facilitated a \$5.5 billion loan to Saddam Hussein, who then bought weapons from our military industrial complex. . . .” Following the hearing, the Chairman of the Committee, Representative Barney Frank, sent a letter to you that referred to Representative Paul’s statements. In his letter, Representative Frank requested a full investigation into allegations that inappropriate political interference with the Federal Reserve System “result[ed] in hidden transfers of resources to [1] facilitate crimes during the Watergate scandal in the 1970s, and [2] Iraq for weapons purchases during the 1980s.” You referred the matter to the OIG, and our office initiated this inquiry in response to your request.

We performed this inquiry to identify and assess any available evidence of undue political interference with Federal Reserve officials related to the 1972 Watergate burglary and Iraq weapons purchases during the 1980s. In assessing undue political interference, our review sought to identify any available evidence of the improper use of the political process or political authority that could have affected the conduct or decision-making of Federal Reserve officials. Specifically, we focused our analysis on allegations that (1) the cash found on the Watergate burglars came through the Federal Reserve, (2) the Federal Reserve “stonewalled” congressional members and staff investigating the source of the cash found on the burglars, and (3) the Federal Reserve facilitated a \$5.5 billion loan to Iraq for weapons purchases during the 1980s.

We did not find any evidence of undue political interference with Federal Reserve officials related to the 1972 Watergate burglary or Iraq weapons purchases during the 1980s. Specifically, regarding the first Watergate allegation, we did not find any evidence of undue political interference with or improper actions by Federal Reserve officials related to the cash

found on the Watergate burglars. Our office also did not find any evidence of undue political interference with Federal Reserve officials or inaccurate responses by Board officials regarding the second Watergate allegation (i.e., that the Federal Reserve “stonewalled” congressional members and staff about the source of the cash found on the burglars). The documentation we reviewed indicated that the Board’s decision not to provide information requested by congressional members and staff was consistent with the U.S. Attorney’s Office for the District of Columbia advising the Board to not disclose the information because such disclosure may impede the investigation and jeopardize the subsequent prosecution. With regard to the Iraq allegation, we did not find any evidence of undue political interference with Federal Reserve officials or any indications that the Federal Reserve facilitated a \$5.5 billion loan to Saddam Hussein or Iraq for weapons purchases during the 1980s.

We provided a draft of our report to the Board’s General Counsel for review and comment. In his response, included as appendix 1, the General Counsel stated that our report confirmed past statements by Federal Reserve officials in relation to these incidents and indicated his appreciation for the thoroughness of our review.

We appreciate the cooperation that we received from the Board; the Federal Reserve Banks of Atlanta, Philadelphia, and New York; as well as the Federal Bureau of Investigation (FBI), the Georgia Department of Banking and Finance, and the U.S. Department of Agriculture (USDA) during our review. We are providing copies of this report to Board management; officials at the Federal Reserve Banks of Atlanta, Philadelphia, and New York; the FBI; and the USDA. The report will be added to our public website and will be summarized in our next semiannual report to Congress. Please contact me if you would like to discuss this report or any related issues.

Sincerely,



Mark Bialek
Inspector General

Enclosure

cc: Mr. Scott Alvarez

Office of Inspector General

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Board of Governors of the Federal Reserve System

March 2012

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Background

The Chairman of the Board of Governors of the Federal Reserve System (Board) testifies semiannually before the House Committee on Financial Services (Committee) on monetary policy and the state of the economy. This is commonly referred to as the “Humphrey-Hawkins” testimony. During Chairman Ben Bernanke’s semi-annual testimony before the Committee on February 24, 2010, Representative Ron Paul alleged that “the cash used in the Watergate scandal came through the Federal Reserve,” and that “investigators . . . were always stonewalled” by the Federal Reserve. In addition, Representative Paul alleged that the Federal Reserve “facilitated a \$5.5 billion loan to Saddam Hussein, who then bought weapons from our military industrial complex. . . .”

Following the hearing, the Chairman of the Committee, Representative Barney Frank, sent a letter to Chairman Bernanke that referred to Representative Paul’s statements. In his letter, Representative Frank requested a full investigation into allegations that inappropriate political interference with the Federal Reserve System “result[ed] in hidden transfers of resources to [1] facilitate crimes during the Watergate scandal in the 1970s, and [2] Iraq for weapons purchases during the 1980s.”

By letter dated April 16, 2010, Chairman Bernanke responded that he had “no knowledge that the Federal Reserve on its own or as a result of political or other interference facilitated any crimes or transfers in either of these matters.” Chairman Bernanke referred the allegations to the Office of Inspector General (OIG) and requested that the OIG perform an investigation. Congress established the OIG as an independent oversight authority within the Board. The OIG conducts audits, investigations, and other reviews related to the Board under the authorities and responsibilities of the Inspector General Act of 1978, as amended.

Objective, Scope, and Methodology

We performed this inquiry in response to Chairman Bernanke’s request. Our objective was to identify and assess any available evidence of undue political interference with Federal Reserve officials related to the 1972 Watergate burglary and Iraq weapons purchases during the 1980s. In assessing undue political interference, our review sought to identify any available evidence of the improper use of the political process or political authority that could have affected the conduct or decision-making of Federal Reserve officials. Based upon our review of the February 2010 hearing record, and discussions with the staffs of Representative Frank and Representative Paul, we focused our analysis on the following allegations: (1) the cash found on the Watergate burglars came through the Federal Reserve, (2) the Federal Reserve “stonewalled” congressional members and staff investigating the source of the cash found on the burglars, and (3) the Federal Reserve facilitated a \$5.5 billion loan to Iraq for weapons purchases during the 1980s.

We reviewed the February 2010 hearing record and contacted the staffs of Representative Frank and Representative Paul, as well as Board staff, to obtain further detail regarding these allegations. At the suggestion of Representative Paul’s staff, we reviewed a discussion of these

allegations in a book by a professor at the University of Texas at Austin and contacted the professor for any additional information regarding these allegations.

Methodology for Analyzing Watergate Burglary Allegations

To identify any evidence regarding the Watergate allegations, our office performed searches of voluminous Board and Federal Reserve Bank archives, as well as Federal Bureau of Investigation (FBI) and congressional records. We also obtained documents related to the cash found on the Watergate burglars from the Board's electronic and hard-copy records systems and the Board's collection of Board meeting minutes from that time period.

We contacted the FBI to request any Watergate investigative materials that mention or relate to the Federal Reserve. In response, the FBI made available, and we reviewed, over 10 boxes of Watergate-related documents consisting of status memorandums, photographs, investigative summaries, and transaction records. Our office examined the final report of the Senate Select Committee on Presidential Campaign Activities, which consisted of over 1,200 pages, and examined the related congressional Watergate hearings transcript, consisting of 3,000 pages of transcribed testimony from 37 witnesses testifying over a five-week time span. We also reviewed the Government Accountability Office's (GAO's) reports on Watergate and the *Washington Post's* online archive of Watergate articles.

We conducted employee interviews and examined documentation at the Federal Reserve Banks of Philadelphia and Atlanta and the National Archives and Records Administration. During on-site visits to the Federal Reserve Banks of Philadelphia and Atlanta, we reviewed the Federal Reserve Banks' boards of directors' meeting minutes and archived records for any additional information related to the cash found on the Watergate burglars. We also interviewed employees about the cash process in the 1970s. Our interviews included employees at the Federal Reserve Bank of Philadelphia and the Federal Reserve Bank of Atlanta, including its Miami branch, who had worked at these locations since before the Watergate scandal, as well as current Board staff who were also employed by the Board at the time. Additionally, we visited the Gerald R. Ford Presidential Library and Museum in Ann Arbor, Michigan, to review the library collection of Arthur Burns, Board Chairman at the time of the Watergate burglary. The collection includes Chairman Burns' handwritten journals, which contain his personal account of private interactions, staff meetings, and other information.

Based on information available in Board and FBI documents, our office developed a chronology of the Board's actions following the Watergate burglary to evaluate the Board's responses for any evidence that, as a result of undue political interference, the Board "stonewalled" congressional members or staff about the source of the cash found on the burglars. To develop the chronology, we utilized Board correspondence with Congress, Board staff chronologies written shortly after the burglary, press releases, and FBI investigative information. We analyzed the chronology to determine the extent to which various information was available to different individuals within the Federal Reserve System and externally, including Congress and the FBI. The detailed chronology is contained in appendix 3.

We also identified that, prior to the Watergate burglary, there was a well-publicized theft at the Federal Reserve Bank of Philadelphia involving its Cash Verification and Destruction (CV&D) process. Because of the relative proximity of the date of this theft to the Watergate burglary, and since it occurred at one of the Federal Reserve Banks that had distributed some of the \$100 bills found on the Watergate burglars, our office also searched for any available evidence of a connection between this theft and the Watergate burglary. At the Federal Reserve Bank of Philadelphia, we analyzed the FBI report of investigation on the theft and other related documents and spoke with current Federal Reserve Bank of Philadelphia employees with knowledge of the incident. We also reviewed Board documents and interviewed current and former Board employees familiar with the theft and the resulting changes to cash procedures and controls.

Methodology for Analyzing Iraq Weapons Purchases Allegation

To identify any evidence regarding the Iraq allegation, we performed multiple searches through Federal Reserve archives from the late 1980s and early 1990s. We also conducted numerous interviews of Federal Reserve officials. We identified that, during the 1980s, the Atlanta office of an Italian Foreign Banking Organization (FBO), Banca Nazionale del Lavoro (BNL-Atlanta), was involved in extending \$5.5 billion in unauthorized loans and letters of credit that largely benefited Iraq. We searched for any evidence of undue political interference with Federal Reserve officials related to BNL-Atlanta. As discussed below, BNL-Atlanta, as a U.S. office of an FBO, was primarily examined by the Georgia Department of Banking and Finance (State of Georgia), and the Federal Reserve had umbrella supervisory authority.

To identify any evidence that the Federal Reserve facilitated BNL-Atlanta's loans to Iraq, our office examined voluminous documents, including government reports, correspondence files, and internal memorandums. We reviewed transcripts of 15 congressional hearings, congressional staff reports, and GAO reports related to BNL-Atlanta. We also reviewed multiple reports by the Department of Justice (DOJ) regarding its investigation and prosecution of BNL-Atlanta employees. Additionally, we reviewed the Board's records concerning BNL-Atlanta, which included congressional correspondence, status memorandums, and internal reports.

To obtain information on the Federal Reserve's supervision of BNL-Atlanta, our office performed multiple searches of Board and Federal Reserve Bank archives and interviewed examination staff. We obtained documents from the Board's records systems, including BNL-Atlanta examination reports, and from the Board's collection of Board meeting minutes. At the Federal Reserve Bank of Atlanta and the Federal Reserve Bank of New York, we reviewed records and interviewed examination staff for additional information on the supervision of BNL-Atlanta. We also interviewed bank examiners from the State of Georgia, which had primary examination authority for BNL-Atlanta. We reviewed examination reports for BNL-Atlanta for any evidence of unusual supervisory practices, such as inadequately addressed examination areas, or insufficient responses by BNL-Atlanta to identified deficiencies or recommendations. We also consulted with legal staff at the Board and the Federal Reserve Banks about changes to the supervision of foreign banks due to the enactment of the Foreign Bank Supervision and Enforcement Act of 1991.

We also reviewed whether the Federal Reserve directly provided funds to BNL-Atlanta through its discount window lending program. Our office interviewed staff in the Federal Reserve Bank of Atlanta's credit department and reviewed related congressional testimony by Federal Reserve officials. We also analyzed publicly available Federal Reserve information pertaining to the discount window lending program.

While conducting our inquiry, we determined that BNL-Atlanta participated in a government export guarantee program run by the U.S. Department of Agriculture's (USDA's) Commodity Credit Corporation (CCC), and the Board was a member of an advisory body to the CCC called the National Advisory Council on International Monetary and Financial Policies (NAC).¹ To gain an understanding of BNL-Atlanta's participation in the CCC and the Board's actions on the NAC, our office reviewed public reports and spoke with officials knowledgeable about the program. We obtained substantial information from DOJ reports documenting the results of its BNL-Atlanta investigation, including the use of CCC-guaranteed funds by Iraq. Our office interviewed USDA and various Board and Federal Reserve Bank officials, including a Board Governor, about the CCC program, BNL-Atlanta's participation, and the Board's role on the NAC. We also reviewed Board records and GAO reports about the CCC and the NAC's deliberations regarding Iraq's participation in the CCC during the 1980s.

We conducted our evaluation fieldwork from April 2010 through July 2011 in accordance with the *Quality Standards for Inspection and Evaluation* issued by the Council of the Inspectors General on Integrity and Efficiency.

Findings and Conclusions

We did not find any evidence of undue political interference with Federal Reserve officials related to the 1972 Watergate burglary or Iraq weapons purchases during the 1980s. Specifically, related to the Watergate allegations, we did not find any evidence of undue political interference with or improper actions by Federal Reserve officials related to the cash found on the Watergate burglars. We also did not find any evidence of undue political interference with Federal Reserve officials or inaccurate responses by Board officials regarding the allegation that the Federal Reserve officials "stonewalled" congressional members and staff regarding the source of the cash found on the burglars. With regard to the Iraq allegation, we did not find any evidence of undue political interference with Federal Reserve officials or any indications that the Federal Reserve facilitated a \$5.5 billion loan to Saddam Hussein or Iraq for weapons purchases during the 1980s. We also did not find evidence of any loans between the Federal Reserve and Saddam Hussein or Iraq during the 1980s.

¹ The Board's Chairman was the Board's principal representative on the NAC. The NAC also had a Committee of Alternates, composed of representatives from the member agencies who were empowered to act for their principals. The day-to-day work of the NAC was handled by a Staff Committee composed of economists and other professionals from the member agencies.

I. Allegations Regarding the Watergate Burglary

The Washington, D.C., Metropolitan Police Department arrested five individuals who had illegally entered the Democratic National Committee headquarters located at the Watergate office building in Washington, D.C., on June 17, 1972. At the time of the arrest and the subsequent search of the burglars' hotel rooms at the Watergate Hotel, 44 new \$100 bills were discovered, some of which were sequentially numbered. Thereafter, the five burglars were indicted and found guilty on charges arising from the burglary. The Watergate burglary led to a political scandal that eventually led to the resignation of President Richard Nixon.

The Watergate scandal was the subject of multiple investigations by the FBI, the U.S. Attorney's Office for the District of Columbia (U.S. Attorney's Office), DOJ's Criminal Division, and GAO. Congress also held public hearings during spring and summer 1973 to investigate the Watergate burglary and illegal and improper practices during the 1972 presidential campaign. Congress' final report, published in June 1974, included findings and recommendations based on its investigation.

To assess undue political interference related to the Watergate burglary allegations, we searched for any evidence of the improper use of the political process or authority that could have affected the conduct or decision-making of Federal Reserve officials. Based on these allegations, our review focused on the cash found on the burglars, the cash distribution process, and the Board's response to congressional members and staff about the source of the cash found on the burglars.

Our review did not find any evidence of undue political interference with or improper actions by Federal Reserve officials related to the cash found on the Watergate burglars. With regard to the allegation that the Federal Reserve "stonewalled" congressional members and staff about the source of the cash found on the burglars, we found no evidence of undue political interference with Federal Reserve officials or inaccurate responses by Board officials. The documentation we reviewed indicated that the Board's decision not to provide information requested by congressional members and staff was consistent with the U.S. Attorney's Office advising the Board at the time to not disclose the information because such disclosure may impede the investigation and jeopardize the subsequent prosecution.

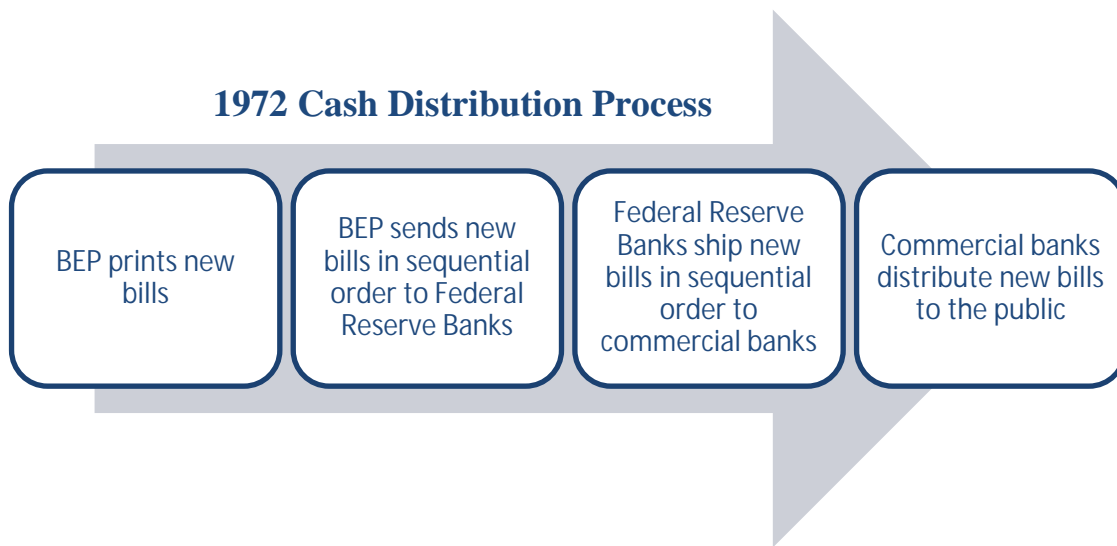
Our office also analyzed a well-publicized theft that occurred prior to the Watergate burglary at the Federal Reserve Bank of Philadelphia involving its CV&D process. We did not identify any evidence of a connection between the cash stolen during this theft and the cash found on the Watergate burglars.

The Federal Reserve and the Cash Found on the Watergate Burglars

According to an FBI report on Watergate, the authorities found 44 new \$100 bills, some of which were in sequential order, belonging to the Watergate burglars. The FBI investigation that traced the serial numbers of the bills revealed that the Bureau of Engraving and Printing (BEP) distributed some of these \$100 bills to the Federal Reserve Bank of Philadelphia and the Federal Reserve Bank of Atlanta's Miami branch. Through tracing the serial numbers on the bills, the FBI report indicated that the Federal Reserve Bank of Philadelphia's records disclosed that the

bills had been shipped to the Girard Bank and Trust Company in Philadelphia, and the Federal Reserve Bank of Atlanta’s Miami branch confirmed to the FBI that its bills were part of a shipment to the Republic National Bank in Miami.

As depicted in the following figure, the cash distribution process for new bills in the 1970s involved a number of steps before the bills were dispersed to the general public. BEP printed new bills and then distributed them to Federal Reserve Banks and their district branches around the country. The Federal Reserve Banks and district branches then shipped the new bills to commercial banks. The Federal Reserve Banks only issued new bills to commercial banks and did not provide them directly to individuals. Lastly, the commercial banks distributed the new bills to the public through teller windows and other means.



New bills were kept in sequential order by “series” and distributed to commercial banks from the Federal Reserve Banks in “straps” of 100 bills of the same denomination. As such, commercial banks that distributed new bills could distribute such bills in sequential order. As new bills circulated, sequential bills became separated. Circulated bills that were deposited into commercial banks were eventually returned to the Federal Reserve Banks through normal commerce. The Federal Reserve Banks counted and authenticated the bills, and then determined whether the bills were “fit” or “unfit.” Bills that were torn, soiled, or too worn for recirculation were deemed unfit and destroyed. Fit (reusable) bills were stored in the Federal Reserve Banks’ vaults until they were recirculated through the commercial banks.

We reviewed this process to identify any evidence of undue political interference with Federal Reserve officials in relation to the distribution of the cash found on the Watergate burglars. Specifically, our office searched Federal Reserve records relating to the burglary and interviewed staff employed at the Board, the Federal Reserve Bank of Philadelphia, and the Federal Reserve Bank of Atlanta, as well as its Miami branch, at the time of the burglary. None of the records or interviewees revealed anything unusual or improper about the Federal Reserve’s role in the distribution process that existed at the time of the Watergate burglary. The documentation indicated that the Federal Reserve Banks delivered the bills to the commercial banks. While the Federal Reserve Banks recorded the serial numbers of new \$100 bills distributed to commercial

banks, the commercial banks did not record the serial numbers of new bills distributed to the public. As such, the FBI traced the new \$100 bills found on the Watergate burglars to commercial banks in Philadelphia and Miami, but it was unable to determine when or how the bills were distributed from these commercial banks. We did not find any evidence of undue political interference or that the Federal Reserve provided the new \$100 bills directly to the burglars.

In addition to our review of the cash found on the burglars and the cash distribution process, we identified a well-publicized theft of unfit bills from the Federal Reserve Bank of Philadelphia that occurred prior to the Watergate burglary. We analyzed the details of the theft to identify any evidence of a connection to the Watergate burglary. In this incident, known as the “CV&D theft,” several Federal Reserve Bank of Philadelphia employees conspired and stole a total of \$1.4 million in unfit bills over a period of time, prior to their arrest in February 1972. Because of the relative proximity of the date of this theft to the Watergate burglary, and since it occurred at one of the Federal Reserve Banks that had distributed some of the new \$100 bills found on the Watergate burglars, our office searched for any evidence of a potential connection between the cash involved in the CV&D theft and the cash found on the Watergate burglars. We found that the CV&D theft involved only unfit bills, while the Watergate burglars possessed new bills. Our review of documentation on the theft and interviews with Federal Reserve officials did not identify any evidence of a connection between the unfit cash stolen during the CV&D theft and the new cash found on the Watergate burglars.

The Federal Reserve’s Responses to Congressional Members and Staff

To evaluate the Board’s responses to congressional members and staff during the days subsequent to the Watergate burglary regarding the source of the cash found on the burglars, we developed a chronology based upon various documents written shortly after the burglary. The documents that we identified and analyzed included four written accounts by Board staff, several items of correspondence from the Board and from Congress, press releases, and FBI investigative files.

To better understand the chronology, it is helpful to explain the structure of the Federal Reserve System. As the central bank of the United States, the Federal Reserve System includes the Board of Governors of the Federal Reserve System, which is an independent federal agency located in Washington, D.C. The Federal Reserve Act provides that the Board shall consist of seven members, called governors, who are appointed by the President and confirmed by the Senate.

The Federal Reserve System also includes 12 regional Federal Reserve Banks. As previously mentioned, Federal Reserve Banks distribute cash to commercial banks, which then circulate the cash to the public. Federal Reserve Banks combine both public and private elements in their makeup and organization. Each Federal Reserve Bank has a nine-member board of directors that oversees its operations. Additional information on the structure and function of the Federal Reserve System is contained in appendix 2.

To address the allegation that the Federal Reserve “stonewalled” congressional members and staff about the source of the cash found on the burglars, we assessed the Board’s responses to

congressional information requests for any evidence of undue political interference. Based on our analysis of the chronology and available documentation, we did not identify any evidence that the Board's initial or subsequent responses to congressional requests regarding its knowledge about the \$100 bills were inaccurate or the result of undue political interference.

The documentation we reviewed did not contain any indications that the Board was aware of any information about the source of the cash found on the burglars at the time of its initial responses to congressional members and staff. The documentation showed that on June 19, 1972, two days after the Watergate burglary, Senator William Proxmire, Chairman of the Financial Affairs Subcommittee of the Joint Economic Committee, made a request to the Board in Washington, D.C., for the name(s) of the Federal Reserve Bank(s) involved in issuing the \$100 bills found on the burglars, the name(s) of the person(s) receiving them, and the source of the check or financial instrument used to purchase the bills. That day, Board Chairman Burns responded by letter, "We at the Board have no knowledge of the Federal Reserve [B]ank which issued those particular notes or of the commercial bank to which they were transferred. Without this information, there is nothing we can do to comply with your request." Chairman Burns' letter also stated that once the investigative authorities provided that information to the Board, "we shall of course be glad to cooperate in every possible way." Board staff also told Senator Proxmire's office that day that the Board "had an obligation to ascertain whether anything the Federal Reserve might disclose would interfere with the investigations that were being carried on by the law enforcement authorities." The documentation we reviewed did not contain any Board communications about the Watergate burglary prior to the receipt of Senator Proxmire's June 19 request, including any communications with the investigative authorities or the Federal Reserve Banks. We also did not find any indications that Chairman Burns or any Board staff were aware of the issuing Federal Reserve Banks or the serial numbers of the \$100 bills when they responded on June 19 to Senator Proxmire's request.²

We noted from documentation that a Board staff member initiated contact with the FBI on the evening of June 19 and learned which two Federal Reserve Banks had issued the bills. However, the documentation did not indicate that the FBI shared any other investigative information that evening, including whether the FBI had contacted the two Federal Reserve Banks. The next morning, the Board staff member provided the names of the two Federal Reserve Banks to the other Board staff who were in communication with Senator Proxmire's office.

In response to the Board's initial statements regarding its lack of information concerning the \$100 bills found on the Watergate burglars, we noted several statements by congressional members and staff that the Board was not cooperating with their request. For example, Senator Proxmire's press release of June 20, 1972, stated:

At the same time that the FBI told my staff on Monday [June 19] they had already been in touch with the Federal Reserve to identify where the bills came from, Chairman Arthur Burns wrote me that 'We at the Board have no knowledge of the Federal Reserve [B]ank which issue[d] those particular notes'.

² Each bill contains a series number and a serial number, which together make the bill unique. Bills can be traced to the issuing Federal Reserve Bank using the serial numbers on each bill.

According to Board staff accounts, Chairman Burns' letter (referenced in Senator Proxmire's press release) was sent on June 19 at 4:20 p.m. At 5:00 p.m. that evening, the Board's Director of Reserve Bank Operations learned from the FBI the names of the two Federal Reserve Banks that issued the \$100 bills. We noted that the Board staff accounts indicated that they learned throughout the day of June 20 from the Federal Reserve Bank of Philadelphia and, the Federal Reserve Bank of Atlanta, and its Miami branch, that the previous day (June 19) the Federal Reserve Banks had provided the FBI with detailed information about the \$100 bills found on the Watergate burglars. We did not identify any evidence that the Board was aware of the contacts between the Federal Reserve Banks and the FBI when it responded to Senator Proxmire's request on June 19.

After the Board's initial responses to congressional members and staff that it would cooperate with their information request, the Board subsequently decided that it should not provide the requested information. Based on our review of available documentation, the Board's decision not to provide the information was consistent with the Board being advised by the U.S. Attorney's Office to not disclose it. Senator Proxmire's final letter about this matter to Chairman Burns, on August 1, 1972, stated, "I now find that the U.S. Attorney did not ask in any formal way that you withhold the information from me. . . ." In our evaluation of the Board's responses to congressional members and staff, we noted that the Board staff accounts written shortly after the Watergate burglary contained multiple references to discussions in which the U.S. Attorney's Office requested that Board officials not disclose the information because such disclosure may impede the investigation and jeopardize the subsequent prosecution. For example, the account by the Board's General Counsel stated that when he called the U.S. Attorney's Office to ask about disclosing the information to congressional members and staff, the U.S. Attorney responded that "with respect to any case in his office, his firm policy was that, subject to contrary directive from the Attorney General, there would be no disclosure of investigative evidence prior to presentation of facts to a Grand Jury. . . ."

Our office compared the Board staff's written accounts with FBI records relating to discussions between the Board and the investigative authorities. The FBI investigative files confirmed that the FBI referred the Board staff to the U.S. Attorney's Office regarding the disclosure of information to Congress. The files also indicated that the FBI responded to similar requests by stating that the information was part of its investigation and that the FBI could not share the information with Congress. In our review of the available documentation, we did not find any evidence of undue political interference in the Board's decision not to provide the requested information, and we noted that the documentation indicated that the Board's actions were consistent with the U.S. Attorney's Office advising the Board to not disclose the information because such disclosure may impede the investigation and jeopardize the subsequent prosecution.

II. Allegation Regarding Iraq Weapons Purchases

To address the allegation that the Federal Reserve facilitated a \$5.5 billion loan to Iraq for weapons purchases during the 1980s, we searched for any evidence of undue political interference with Federal Reserve officials related to BNL-Atlanta. BNL-Atlanta, one of five U.S. offices operated by Banca Nazionale del Lavoro, a large Italian bank headquartered in Rome, was involved in \$5.5 billion of unauthorized credit activity largely to benefit Iraq in the 1980s. BNL-Atlanta did not document the purposes of all of its loans to Iraq, leading to allegations that Iraq used the funds for weapons purchases. BNL-Atlanta employed 19 staff, and received its license to operate as an office of an FBO from the State of Georgia on April 14, 1982. It was primarily examined by the State of Georgia, and the Federal Reserve had umbrella supervisory authority. BNL-Atlanta offered banking services to Italian companies that had relationships with other Banca Nazionale del Lavoro offices and was involved in extending loans. BNL-Atlanta did not accept deposits, nor did it offer deposit insurance through the Federal Deposit Insurance Corporation.

On August 4, 1989, the FBI, assisted by Federal Reserve representatives, executed a search warrant on BNL-Atlanta and uncovered evidence that it had engaged in unauthorized credit transactions with Iraq. The federal authorities initiated the search of BNL-Atlanta based on information provided by two BNL-Atlanta employees. The U.S. Attorney's Office for the Northern District of Georgia created and led an investigative task force (BNL Task Force), which consisted of representatives from the FBI, the Federal Reserve, Customs and Border Protection, USDA's OIG, and the Internal Revenue Service. Bank examiners from the Federal Reserve Bank of Atlanta were detailed to the BNL Task Force to contribute their knowledge and experience in banking and regulatory compliance. The BNL Task Force conducted an extensive investigation into the size and scope of BNL-Atlanta's unauthorized transactions and identified \$5.5 billion in unauthorized credit activity largely to benefit Iraq.

The investigation revealed that many of the unauthorized transactions were neither recorded on BNL-Atlanta's official books and records nor reported to banking regulators or the parent bank in Rome. The unauthorized activities were concealed by BNL-Atlanta employees through a variety of means, including maintaining a parallel set of secret books and records, utilizing the names of legitimate customers to record loans not authorized by the parent bank, and removing records of unauthorized transactions from the office and moving them between employees' homes and cars. BNL-Atlanta employees also created fake documentation to conceal the transactions from internal and external auditors, as well as bank examiners, and filed false reports with the parent bank in Rome, Banca Nazionale del Lavoro, and with federal and state regulators. These transactions violated BNL-Atlanta's lending limits, which were established by its parent bank.

The purpose of some of BNL-Atlanta's loans to Iraq was to finance the export of U.S. agricultural products through a USDA export guarantee program run by the CCC. The Board participated, along with the Department of the Treasury and other federal agencies, on the NAC, which was an advisory body to the CCC.

The BNL Task Force investigation spanned several years and ultimately resulted in criminal charges and prosecutions of multiple BNL-Atlanta employees, including the manager, Christopher Drogoul, as well as Vice Presidents Paul Von Wedel, Thomas Fiebelkorn, and Therese Barden. The Federal Reserve imposed a consent cease and desist order that required Banca Nazionale del Lavoro to maintain an additional reserve deposit equivalent to a reserve deficiency payment of \$5.2 million at the Federal Reserve Bank of Atlanta for 18 months. Congress held multiple hearings related to BNL-Atlanta's activities. The BNL Task Force final report, published in October 1994, reviewed criminal allegations relating to BNL-Atlanta's credit extensions to Iraq and government actions taken in connection with exports to Iraq. The BNL Task Force final report stated, "We did not find evidence that U.S. agencies or officials illegally armed Iraq or that crimes were committed through bartering of CCC commodities for military equipment."

To assess undue political interference with Federal Reserve officials related to Iraq weapons purchases during the 1980s, we searched for evidence of the improper use of the political process or political authority that could have affected the conduct or decision-making of Federal Reserve officials. Specifically, we analyzed (1) the Federal Reserve's supervisory role and actions regarding BNL-Atlanta, (2) whether BNL-Atlanta borrowed any funds from the Federal Reserve Bank of Atlanta through the Federal Reserve's discount window lending program, and (3) the Board's participation on the NAC.

We did not find any evidence of undue political interference with Federal Reserve officials related to Iraq weapons purchases during the 1980s or any indications that the Federal Reserve facilitated any loans to Iraq through BNL-Atlanta for weapons purchases during the 1980s. Also, we did not find any evidence of loans between the Federal Reserve and Saddam Hussein or Iraq during the 1980s. Details of our review follow.

Foreign Bank Supervision in the 1980s

Based on the documents we reviewed, during the 1980s the International Banking Act of 1978 (IBA) governed the supervisory responsibilities for FBOs, such as Banca Nazionale del Lavoro. The IBA granted primary examination authority for FBOs' U.S. branches and agencies to the responsible licensing authorities (the state or the Office of the Comptroller of the Currency) and provided the Federal Reserve with umbrella supervisory authority. This umbrella supervisory authority included residual examination authority, but emphasized that the Federal Reserve was to use, to the extent possible, the examination reports of the primary examination authorities.

In accordance with the IBA, the Board developed a supervisory program in which each FBO with U.S. operations was assigned to a responsible Federal Reserve Bank. The Federal Reserve Bank of New York was identified as the responsible Federal Reserve Bank for the U.S. operations of Banca Nazionale del Lavoro. This responsibility involved evaluating the FBO's condition and strength by analyzing reports on its financial condition, periodically contacting the parent bank's managers and the home country banking authorities, and reviewing examination reports by the U.S. office's primary regulators. The Federal Reserve Bank of Atlanta assisted the Federal Reserve Bank of New York by ensuring that all offices of Banca Nazionale del Lavoro in the southeast region were examined on a timely basis and by providing copies of the

examination reports to the Federal Reserve Bank of New York after each examination was completed.

BNL-Atlanta Supervision and Examinations

Based on our review of State of Georgia and Federal Reserve examination reports from 1986 to 1990 and BNL Task Force reports, interviews with State of Georgia bank examiners who participated in examinations of BNL-Atlanta, and discussions with Federal Reserve bank examiners, we did not identify any evidence of any undue political interference with Federal Reserve officials in the examination and supervision of BNL-Atlanta. Consistent with the regulatory structure described above, the State of Georgia was the primary examination authority for BNL-Atlanta. The State of Georgia conducted annual examinations of BNL-Atlanta with limited participation by the Federal Reserve Bank of Atlanta. The Federal Reserve Bank of Atlanta's participation was generally limited to a review of compliance with federal laws and regulations, such as ensuring consistency between the quarterly financial reports submitted by BNL-Atlanta to banking regulators and BNL-Atlanta's official books and records.

Prior to the FBI's execution of the search warrant on BNL-Atlanta in August 1989, the State of Georgia conducted the bank examinations of BNL-Atlanta and determined its overall safety and soundness rating, while Federal Reserve Bank of Atlanta examiners provided assistance as requested throughout the examination process.³ From 1986 through January 1989, the State of Georgia assigned BNL-Atlanta overall ratings of 1, indicating that it was in satisfactory condition and that no violations of laws or regulations were identified during the examinations. After the search in August 1989, when the unauthorized lending activities were uncovered, the Federal Reserve performed independent examinations of BNL-Atlanta and assigned overall ratings of 5 (significant concern). Our review of examination reports from 1986 through 1990 did not identify any unusual examination procedures, and we noted that the BNL Task Force investigation of BNL-Atlanta's activities also did not identify any unusual examination practices.

We interviewed State of Georgia and Federal Reserve examination officials who participated in examinations of BNL-Atlanta and did not find any evidence of undue political interference regarding their supervision and examinations of BNL-Atlanta. The State of Georgia examination officials stated that they did not experience any undue political interference with their duties and did not recall any unusual practices in the examinations of BNL-Atlanta. Similarly, Federal Reserve examination officials did not report any unusual activity or undue political interference regarding the supervision of BNL-Atlanta. During the time that BNL-Atlanta conducted the unauthorized transactions, it was also subject to internal and external audits. According to a BNL Task Force report, none of the audits or examinations led anyone to suspect the unauthorized, off-book activities. The BNL Task Force investigation, as well as the officials from the Federal Reserve and the State of Georgia who we interviewed, indicated that it was unlikely that BNL-Atlanta's unauthorized activity would have been detected through audits or

³ The examination procedures focused on safety and soundness by evaluating management and supervision, asset quality and credit administration, liquidity and funds management, earnings, and trading activities, to determine an overall rating. The overall rating was expressed on a scale from 1 to 5, with 1 being the highest rating (indicating minimal concern) and 5 being the lowest rating (indicating significant concern).

bank examinations due to the extent of fraudulent documentation and false statements by BNL-Atlanta employees, as well as collusion by a number of BNL-Atlanta employees.

Following the events at BNL-Atlanta, the Federal Reserve recommended legislation to respond to the perceived need for more federal oversight resulting from misconduct by a few foreign banks operating in the United States. Congress passed the Foreign Bank Supervision Enhancement Act of December 1991, which established minimum standards for foreign bank entry and expansion into the United States and gave the Federal Reserve enhanced supervisory and regulatory authority over foreign banks operating in the United States.

The Federal Reserve's Discount Window and BNL-Atlanta

In addition to analyzing the Federal Reserve's supervisory role and actions regarding BNL-Atlanta, we also examined the Federal Reserve's discount window lending program for any evidence that it was used to facilitate BNL-Atlanta's loans. We did not identify any evidence that funding was provided to BNL-Atlanta. The Board does not engage in lending or providing any direct funds to commercial banks. The Federal Reserve Banks, the operating arm of the Federal Reserve System, have the authority to extend loans through the discount window to member banks in their districts. The discount window lending program serves as a contingency source of liquidity for eligible banks by providing temporary funding, generally when banks are experiencing short-term liquidity pressures. The loans are generally provided on an overnight basis and must be secured by collateral that is approved by the lending Federal Reserve Bank.

The IBA amended the Federal Reserve Act to provide the U.S. operations of FBOs that maintained reserves in the United States access to their district Federal Reserve Bank's discount window lending program on the same terms as access was provided to domestic depository institutions. To be eligible, offices of FBOs, such as BNL-Atlanta, had to meet requirements similar to those required of domestic depository institutions, including reserve requirements. We discussed BNL-Atlanta's discount window activity with Federal Reserve Bank of Atlanta staff responsible for the operations and reviewed related congressional testimony by Federal Reserve officials. We found no evidence that BNL-Atlanta requested or received any loans through the Federal Reserve Bank of Atlanta's discount window.

BNL-Atlanta's Participation in the CCC and the Board's Participation on the NAC

To finance some of its loans to Iraq, BNL-Atlanta participated in an export guarantee program run by the CCC. During the 1980s, the CCC was a federal corporation within the USDA that promoted the export of U.S. agricultural commodities by providing repayment guarantees to U.S. banks, which financed the exported commodities on behalf of the foreign importer's bank. The CCC export guarantee program was used primarily by developing countries, such as Iraq, where credit was necessary to increase or maintain U.S. export levels and private banks were less willing to provide financing without such a repayment guarantee. As the USDA was responsible for the operations and oversight of the CCC, the Federal Reserve did not have any direct involvement or decision-making authority over the CCC export guarantee program. The Board participated, along with the Department of the Treasury and other federal agencies, on the NAC, which was an advisory body to the CCC.

Some of BNL-Atlanta's unauthorized credit arrangements with Iraq were financed through the CCC export guarantee program. BNL-Atlanta's parent bank in Rome determined BNL-Atlanta's credit policies and limited its individual authority over lines of credit, including CCC-guaranteed loans, to less than \$2.5 million. The BNL Task Force reported, however, that BNL-Atlanta entered into approximately \$1.89 billion in concealed credit arrangements with Iraq to purchase U.S. agricultural commodities through the CCC.

Following the discovery of BNL-Atlanta's unauthorized transactions with Iraq, members of Congress, as well as various newspaper articles, questioned Iraq's use of the funds, including allegations of falsified CCC transactions and possible weapons purchases. According to the BNL Task Force final report, several of these allegations grew out of reports that Iraq may have acquired military equipment by bartering agricultural commodities that it obtained through the CCC export guarantee program. The BNL Task Force final report concluded that there was no evidence that U.S. agencies, or their officials, illegally armed Iraq or that crimes had been committed through the bartering of CCC agricultural commodities in exchange for military equipment. In addition, the USDA conducted an administrative review of the CCC export guarantee program for Iraq that focused on four operational problem areas identified by the USDA, none of which involved the Federal Reserve.

Congress created the NAC as an advisory group and assigned it the responsibility of evaluating policies and practices of government agencies that made loans or issued guarantees as part of foreign lending programs. The NAC advised the USDA on its agricultural export guarantee programs, such as the CCC, with various countries, including Iraq. However, the NAC itself did not directly make any loans or issue guarantees. The NAC membership consisted of the Board; the Departments of the Treasury, State, and Commerce; the U.S. Trade Representative; the U.S. Export-Import Bank; and the U.S. International Development Cooperation Agency.⁴ While the NAC's advisory decisions were not binding, the USDA generally obtained NAC approval before issuing credit guarantees. According to congressional testimony by a Board governor, the Board's principal contribution to the NAC was sharing its expertise with the other members and objectively assessing the financial and economic soundness of proposals brought before the NAC.

The documentation we reviewed showed that the Board repeatedly raised concerns about Iraq's creditworthiness and the amount of proposed CCC guarantees for Iraq during NAC deliberations. For instance, in August 1988, the Board, along with the Department of the Treasury, objected to the USDA's proposal for \$1.1 billion in CCC guarantees to Iraq for fiscal year 1989 because it felt the level was too high given Iraq's creditworthiness. Similarly, in fall 1989, the Board again expressed concerns regarding the extension of \$1.2 billion in CCC guarantees to Iraq for fiscal year 1990. While a majority of NAC members supported the fiscal year 1990 proposal, the Board was concerned about Iraq's creditworthiness and the increased amount of the proposal. The unfolding BNL-Atlanta matter also reinforced the Board's reservations and opposition to additional CCC guarantees to Iraq for fiscal year 1990. Previously, the Board had opposed increasing CCC guarantees to Iraq in January 1987 and supported limiting the amount of CCC

⁴ Refer to footnote 1 for additional NAC membership information.

guarantees to Iraq for fiscal years 1986 and 1987. Our review of internal documents and external reports, and interviews with Federal Reserve officials familiar with the NAC, did not identify any evidence of undue political interference with Federal Reserve officials related to the Board's participation on the NAC. In addition, we did not find any indications that the Board used its role on the NAC to facilitate BNL-Atlanta's unauthorized transactions with Iraq.

Overall Conclusion

We did not find any evidence of undue political interference with Federal Reserve officials related to the 1972 Watergate burglary or Iraq weapons purchases during the 1980s. Specifically, regarding the first Watergate allegation, we did not find any evidence of undue political interference with or improper actions by Federal Reserve officials related to the cash found on the Watergate burglars. Our office also did not find any evidence of undue political interference with Federal Reserve officials or inaccurate responses by Board officials regarding the second Watergate allegation (i.e., that the Federal Reserve "stonewalled" congressional members and staff about the source of the cash found on the burglars). The documentation we reviewed indicated that the Board's decision not to provide information requested by congressional members and staff was consistent with the U.S. Attorney's Office advising the Board to not disclose the information because such disclosure may impede the investigation and jeopardize the subsequent prosecution. Finally, with regard to the Iraq allegation, we did not find any evidence of undue political interference with Federal Reserve officials or any indications that the Federal Reserve facilitated a \$5.5 billion loan to Iraq for weapons purchases during the 1980s. We also did not find evidence of any loans between the Federal Reserve and Saddam Hussein or Iraq during the 1980s.

Analysis of Comments

We provided a draft of our report to the Board's General Counsel for review and comment. In his response, the General Counsel stated that our report confirmed past statements by Federal Reserve officials in relation to these incidents and indicated his appreciation for the thoroughness of our review. His full response is included as appendix 1.

Appendixes

Appendix 1 – Management’s Comments



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

SCOTT G. ALVAREZ
GENERAL COUNSEL

March 29, 2012

Mark Bialek, Inspector General
Board of Governors of the Federal Reserve System
20th & C Streets, N.W.
Washington, D.C. 20551

Dear Mr. Bialek:

This is in response to your request for our comment on the draft report titled "Inquiry into Allegations of Undue Political Interference with Federal Reserve Officials Related to the 1972 Watergate Burglary and Iraq Weapons Purchases during the 1980s". Your report confirms past statements by Federal Reserve officials that no Federal Reserve official was subjected to undue political influence or acted improperly in relation to these incidents. I am particularly grateful for the thoroughness of the investigation by the staff of the Office of the Inspector General and for the detailed and complete report. We appreciate the opportunity to review the draft and have no comments to offer.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott G. Alvarez". The signature is fluid and cursive, with a large, stylized "A" at the end.

Appendix 2 – The Federal Reserve System’s Structure and Function

The Federal Reserve System serves as the central bank of the United States. It was established by Congress in 1913 and includes 12 regional Federal Reserve Banks and an independent federal agency called the Board of Governors of the Federal Reserve System. The OIG is an independent oversight authority within the Board.

Board of Governors of the Federal Reserve System

The Board is an independent federal government agency located in Washington, D.C. The Federal Reserve Act provides that the Board shall consist of seven members, called governors, who are appointed by the President and confirmed by the Senate. In addition to conducting research, analysis, and policymaking related to domestic and international financial and economic matters, the Board plays a major role in the supervision and regulation of the U.S. banking system. It also has broad oversight responsibility for the nation’s payments system, which includes ensuring that enough cash is in circulation to meet demand, and oversees the operations and activities of the Federal Reserve Banks.

Federal Reserve Banks

The Federal Reserve Banks are the operating arms of the nation’s central banking system. Congress chartered the Federal Reserve Banks for a public purpose; however, they combine both public and private elements in their makeup and organization. Each Federal Reserve Bank has a nine-member board of directors that oversees its operations. For the purpose of carrying out the day-to-day operations of the Federal Reserve, there are 12 Federal Reserve districts, each managed by a separate Federal Reserve Bank: Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco.

Many of the services that the Federal Reserve Banks provide to depository institutions and the government are similar to services provided by banks to business customers and individuals. Federal Reserve Banks hold the cash reserves of depository institutions and make loans to depository institutions at the discount window. They move currency and coin into and out of circulation; collect and process millions of checks each day; and operate automated clearinghouses, which are computerized facilities that allow for electronic exchange of payments among participating depository institutions. They maintain the U.S. Treasury’s operating cash account to support the Treasury’s transactions, issue and redeem government securities, and serve as a fiscal agent for the U.S. government. Under delegated authority from the Board, they supervise and examine the safety and soundness of state-chartered banks that are members of the Federal Reserve System, as well as bank holding companies and foreign bank offices in the United States.

Office of Inspector General

Pursuant to the 1988 amendments to the Inspector General Act of 1978, Congress established the OIG as an independent oversight authority for the Board, the government agency component of the broader Federal Reserve System. In addition, the Dodd-Frank Wall Street Reform and

Consumer Protection Act established the OIG as an independent oversight authority for the Bureau of Consumer Financial Protection (CFPB). Within this framework, the OIG conducts audits, investigations, and other reviews of the Board's and the CFPB's program functions. Through this work, the OIG promotes integrity, economy, efficiency, and effectiveness; helps prevent and detect fraud, waste, abuse, and mismanagement; and strengthens the agencies' accountability to Congress and the public.

Appendix 3 – OIG Chronology of the Board’s Responses to Congressional Inquiries Related to the Watergate Burglary

Chronology of Board Correspondence (1972)

June 17 Watergate burglary and arrest of the burglars.

June 19 (9:45 a.m.) The Board’s Special Assistant receives a phone call from Senator Proxmire’s staff requesting information about the bills found on the Watergate burglars and responds that he will look into it. That afternoon, Chairman Burns receives a letter from Senator Proxmire reiterating this request.

June 19 (12:37 p.m.) Board staff state during a conversation with Senator Proxmire’s staff that the Board has an obligation to ascertain from law enforcement authorities whether disclosing the requested information would interfere with the investigation.

June 19 (4:20 p.m.) Chairman Burns replies in a letter to Senator Proxmire that the Board does not have knowledge of the Federal Reserve Bank that issued the bills or of the commercial bank to which they were transferred. He also states that once the investigative authorities provided that information, he would be glad to cooperate.

June 19 (5:00 p.m.) The Board’s Director of Reserve Bank Operations (DRBO) calls the FBI and is advised of the names of the two Federal Reserve Banks that issued the bills.

June 20 (9:50 a.m.) The Board’s DRBO tells other Board staff the names of the two Federal Reserve Banks that he was told issued the bills and states he does not know whether the Federal Reserve Banks have been contacted by the FBI.

June 20 (10:05 a.m.) The Federal Reserve Bank of Philadelphia notifies the Board’s DRBO of contact with the FBI. The Federal Reserve Bank of Philadelphia also states it has been contacted by Senator Proxmire’s staff and requests guidance as to how to handle the congressional request.

June 20 (10:10 a.m.) The Board’s Special Assistant calls Senator Proxmire’s office. Senator Proxmire’s staff member states that he learned the FBI had contacted “the Federal Reserve” and that the Board is not being responsive. The Board’s Special Assistant affirms that no one at the Board “had been contacted by the FBI.”

June 20 (10:10 a.m.) Upon conclusion of the above phone call, the Board’s DRBO tells the Board’s Special Assistant about his discussion with the Federal Reserve Bank of Philadelphia, in which the Federal Reserve Bank of Philadelphia reported contact with the FBI and requested guidance in handling the congressional request.

June 20 (11:00 – 11:30 a.m.) Board staff meet with Chairman Burns for an update. The Board’s DRBO is directed to obtain the position of the FBI with respect to the release of information and also asked to contact the two Federal Reserve Banks to ensure they are cooperating with the investigative authorities and to obtain available information.

June 20 (11:55 a.m.) The Board’s Special Assistant confirms the Federal Reserve Bank of Philadelphia’s contact with the FBI to Senator Proxmire’s staff, but states he does not have any details. He says that the situation is fluid and further information will be provided when it is more definite.

June 20 (before 12 p.m.) The Board’s DRBO calls the FBI regarding the release of information and is referred to the U.S. Attorney’s Office for the District of Columbia (U.S. Attorney’s Office).

Chronology of Board Correspondence (1972)

June 20 (12 p.m.) The Board's DRBO calls the Federal Reserve Bank of Philadelphia and learns that the bank informed the FBI on the afternoon of June 19 that 10 of the bills found on the burglars had been shipped by the Federal Reserve Bank of Philadelphia to the Girard Bank and Trust Company in Philadelphia.

June 20 (after 12 p.m.) The Federal Reserve Bank of Atlanta's Miami branch contacts the Board's DRBO to report contact with the FBI on the afternoon of June 19. The Miami branch states that it advised the FBI that the serial numbers on the bills described had not been paid out of the bank. The Board's DRBO suggests that the Miami branch re-contact the FBI to clarify the matter.

June 20 (after 12 p.m.) The Board's DRBO contacts the Federal Reserve Bank of Atlanta, which reports it had been contacted by the FBI on June 19 and told the agent that the bills described had been forwarded to its Miami branch.

June 20 (2:20 p.m.) The Board's General Counsel contacts the U.S. Attorney's Office to discuss the disclosure of the information to Congress. The U.S. Attorney opposes the disclosure to Senator Proxmire or any other congressional members as such prior disclosure may impede the investigation and potentially jeopardize the conduct of a fair trial.

June 20 (after 2:20 p.m.) The Board notifies the Federal Reserve Bank of Philadelphia and the Federal Reserve Bank of Atlanta's Miami branch of the U.S. Attorney's Office's advice to not share information regarding the bills found on the burglars with anyone other than the investigative authorities. During this conversation, the Miami branch reveals that it reviewed its records and determined that seven of the \$100 bills described by the FBI had been paid by the branch to the Republic National Bank in Miami. It reports that it already provided the corrected information to the FBI.

June 20 (3:45 p.m.) The Board's Special Assistant reads a prepared statement to Senator Proxmire's staff indicating that the Board contacted the FBI and the U.S. Attorney's Office and was advised that the information should not be released to anyone other than the investigative authorities.

June 20 (after 4:00 p.m.) Senator Proxmire issues a press release stating that the Board has avoided his calls requesting information on the bills found on the burglars. The Senator further asserts that the purpose of the Board's refusal to cooperate with his request is to cover up for the Executive Branch. The press release states, "At the same time that the FBI told my staff on Monday [June 19] they had already been in touch with the Federal Reserve to identify where the bills came from, Chairman Arthur Burns wrote to me that 'We at the Board have no knowledge of the Federal Reserve [B]ank which issue[d] those particular notes'."

June 21 The Board issues a press statement to address Senator Proxmire's claims, which states that it was advised by the U.S. Attorney's Office to not disclose information other than to responsible law enforcement agencies.

July 28 Chairman Burns sends Senator Proxmire a letter stating that Board staff contacted the U.S. Attorney's Office twice, as well as consulted with the Board's legal advisors and members of the Board. The letter states that the Board's legal advisors recommend that the Board follow the U.S. Attorney's Office's advice by not disclosing the requested information. The letter also denies Senator Proxmire's claim that the Board is covering up for someone high in the Executive Branch.

August 1 Senator Proxmire sends a letter to Chairman Burns stating that he is now aware that the ". . . U.S. Attorney did not ask in any formal way" that Chairman Burns withhold the information from him. Senator Proxmire states that much of the information he sought is now public and it clearly ties in the President's Re-election Committee with the bugging incident.

Appendix 4 – Abbreviations

BEP	Bureau of Engraving and Printing
BNL-Atlanta	Atlanta office of Banca Nazionale del Lavoro
Board	Board of Governors of the Federal Reserve System
CFPB	Bureau of Consumer Financial Protection
CCC	Commodity Credit Corporation
Committee	House Committee on Financial Services
CV&D	Cash Verification and Destruction
DOJ	Department of Justice
DRBO	Board's Director of Reserve Bank Operations
FBI	Federal Bureau of Investigation
FBO	Foreign Banking Organization
Federal Reserve	Federal Reserve System (includes Federal Reserve Board and Federal Reserve Banks)
GAO	Government Accountability Office
IBA	International Banking Act of 1978
NAC	National Advisory Council on International Monetary and Financial Policies
OIG	Office of Inspector General
State of Georgia	Georgia Department of Banking and Finance
U.S. Attorney's Office	U.S. Attorney's Office for the District of Columbia
USDA	U.S. Department of Agriculture

