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NATIONAL INSTITUTE OF JUSTICE

Research in Brief

Charles B. DeWitt, Director

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State and Local Money Laundering Control Strategies

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by Clifford Karchmer and Douglas Ruch

Money generated by narcotics trafficking and other profit-motivated crime in the United States is estimated at \$300 billion annually. Although analysts have difficulty accurately counting well-hidden crime proceeds, the amounts are staggering. Moreover, the effects of "dirty money" on legitimate commerce are grave.

Convenience, relative anonymity, and universal acceptability make hard cash the preferred medium of exchange in illegal

transactions. Drug traffickers and other racketeers who accumulate large cash inventories face serious risks of confiscation and punishment if considerable, unexplained cash hoards are discovered. For these criminals to fully benefit from their illicit activities, they must first convert those cash proceeds to an alternative medium—one that is both easier than cash to use in everyday commerce and that avoids pointing, even indirectly, to the illegal activity that generated it.

ACQUISITIONS
"Money laundering" is a term that describes the process of converting illegally earned assets, originating as cash, to one or more alternative forms to conceal such incriminating factors as illegal origin and true ownership. Recently, through heavy colloquial use, the term's meaning has broadened to refer not only to individual acts of laundering, but also to many complex steps of illegal asset conversion, beyond the basic exchange of cash, for less conspicuous and more socially acceptable methods of payment.

From the Director

In the past decade, drug trafficking and money laundering operations have become more profitable, more pervasive, and more sophisticated. Colombian drug cartels and other criminal organizations operate easily across international borders, forming joint ventures and limited partnerships among themselves and with other groups. They also have access to top legal and financial advisors.

In the United States, billions of dollars are "laundered" annually through complex illegal asset conversions. The presence of these sophisticated criminal activities has posed special problems for regulatory and criminal justice agencies, especially State and local agencies, due to their limited resources, constraints of State law, and the cross-jurisdictional nature of these activities. To effectively meet the challenge of this powerfully corrupt influence, it has become evident that all criminal justice agencies will need to increase their efforts to combat illegal financial activities.

A National Institute of Justice (NIJ) study revealed that most State and local law enforcement agencies already have sufficient legal jurisdiction to support a successful

money laundering enforcement program. The study concluded that identifying and creatively using existing laws were more important than creating an "omnibus" money laundering statute. However, agencies need to learn how to develop enforcement strategies and detection techniques that creatively use existing laws. NIJ has begun a national assessment of money laundering patterns and strategies of regulation and control that will identify effective techniques for prevention, detection, investigation, and prosecution of these offenses.

This *Research in Brief* is intended to assist managers of State and local law enforcement agencies in developing an appropriate enforcement role. It includes an overview of the money laundering process, steps involved in laundering schemes, and issues to consider in developing investigative strategies. It discusses the role of white-collar professionals who engage in fraud through their manipulation of financial, commercial, and legal procedures to conceal the origin or true ownership of the assets under their control. Strategies are outlined for developing money laundering intelligence programs and investigative techniques.

The Federal Government has traditionally taken the lead in building financially oriented cases against laundering operations. However, given changes in State laws and State and local crime-fighting priorities, the time is ripe to expand the roles of State and local agencies in addressing money laundering. Because of the growth of money laundering activities, State and local agencies need to join the front-line forces to combat this nationwide problem. In addition to arming themselves with aggressive enforcement programs and money laundering statutes, agencies can enhance their programs by continuing to work cooperatively with Federal agencies.

The National Institute of Justice is dedicated to supporting law enforcement investigations that have proven to be especially productive in identifying and incapacitating high-level operatives in money laundering and other financial crimes. It is essential that we maintain the integrity of our Nation's commercial life.

Charles B. DeWitt
Director
National Institute of Justice

The individual steps and the overall process of laundering form the core of a new variant of sophisticated crime. White-collar criminals extend into the previously isolated worlds of drug trafficking and organized crime, allowing criminals in those sectors to creatively broaden their reach into the white-collar world. Money laundering thus provides the essential linkage between the drug and racketeering underworld and virtually limitless commercial and financial options in the legitimate sector.

Despite saturation by the media on this topic, our knowledge remains limited and stems mainly from Federal enforcement efforts that unite personnel, budgetary, and (until recently) statutory authority that only a few local jurisdictions have the resources to match. While State and local agencies in Florida, Arizona, and several other States have been increasingly active in combating money laundering offenses, leadership is still exercised by the Federal Government. One reason is that tracking the international movement of drug moneys back to a Colombian cartel or to other foreign sources is a Federal priority. State and local priorities, on the other hand, usually address the deployment of resources closer to the street level. There is also a lingering belief that drug trafficking dominated by locally based criminals does not produce enough money to require laundering. However, recent prosecutions by Federal as well as State and local agencies have put this myth to rest.

This *Research in Brief* is directed to managers of enforcement agencies in States with laws that either directly proscribe money laundering or indirectly address the issues involved in laundering offenses, such as conspiracy, fraud, and violations of State Racketeer-Influenced and Corrupt Organizations (RICO) statutes. It is designed to encourage these executives to select an appropriate role for their agencies, considering the prevailing but realistic conditions of limited resources, constraints of State law, and criminal activities that often extend beyond local borders. It covers such areas as developing investigative steps, generating better leads about illicit money trails, and strengthening State regulatory efforts on the reporting of suspicious cash transactions.

Objectives of money laundering

Concealment is the foremost objective of money laundering—hiding the criminal source, true ownership, and future destination of the illegal funds. If criminals cannot effectively conceal the tainted cash from detection, as well as their involvement in the crimes that generated the money, they needlessly expose themselves to the risks of arrest and forfeiture of the proceeds.

To comfortably insulate themselves from their corrupt proceeds, criminals rely on a second objective: *anonymity*. Anonymity comes into play in the increasingly likely event that police locate a criminal's cash horde, thereby tying an owner directly to drug trafficking activity. Thus wary criminals seek a backup strategy, so that even if drug proceeds are uncovered, their connection to the owners remains tenuous. To maximize anonymity and foil investigators, criminals engage in deception, often effected through layers of false ownership and sale documents. It is here that fraud—a white-collar crime behind money laundering—comes into play. Some criminals engage in minimal deception to further their anonymity, while others use white-collar professionals to generate layers of phony transactions that masquerade as arm's-length purchases, sales, and loans.

Money laundering process

The number of steps involved in a money laundering scheme is directly related to the distance that criminals desire to put between their illegally earned cash and the laundered asset into which that cash is converted. The most basic factor in a laundering scheme is the conversion of cash to another asset—usually an alternative payment medium—so that criminals can more easily conceal its origin and spend it more freely, when desired. Banks and a number of other financial institutions routinely issue negotiable instruments such as cashier's checks and money orders in exchange for cash.

From the perspective of drug traffickers and other organized criminals and the money launderers who serve them, preferred negotiable instruments meet two basic criteria: (1) they are bearer instru-

ments, or are made out to fictitious payees, enabling the holder to use them in commerce without inviting questions of true ownership; and (2) they are "liquid" assets, enabling owners to use them immediately, if desired, avoiding unacceptable personal inconvenience. Although transactions with financial institutions are the most common basic step in laundering, the services of other commercial institutions are also required if illegally earned wealth is to be further converted to make it more difficult to trace.

The next step involves using the laundered funds to acquire one or more types of assets. Asset acquisition provides criminals with a source of income that appears to have been generated independent of any criminal activity.

The use of legitimate businesses and business transactions to launder funds is one of the oldest methods of choice for several reasons:

- They offer criminals a legitimate source of employment in the community and help cultivate an image of respectability.
- They offer a source of reportable income for tax purposes (although criminals still drastically underreport their true income). Particularly popular for laundering are businesses that deal in substantial numbers of cash sales, making accurate audits of business volume very difficult. High cash turnover businesses include bars, restaurants, entertainment establishments, and vending machines.
- They offer a base of legal operation and a secure planning site for a variety of criminal activities, such as fencing stolen goods.

Real estate purchases are also attractive money laundering vehicles for at least two reasons. First, as an investment, real estate has traditionally (although not recently) held and usually increased in value. Real estate represents a fixed asset that offers an array of tax benefits, ranging from property depreciation over the life of the asset to tax deductions for reported interest payments (which in fact may be fictitious, because of the fraudulent basis of the real estate loan). In addition, as a steady producer of income, real estate rentals may be altered on the books.

A subsequent step is liquidating laundered assets by reconverting them to their original cash form. This step completes most standard money laundering processes by reconstituting the asset into a liquid form for use in criminal or legitimate activities or for the consumption of goods or services that leave little if any traceable documentation. Criminals are increasingly using banks to wire transfer their funds out of the locality, and often to another country, where the funds are converted to cash at their final destination.

The particular money laundering method(s) selected depends on three factors: (1) the particular money laundering situation (for example, the source and amount of cash to be laundered, preferences of the money launderer, time pressures, and plans for future use of the money); (2) the sophistication of a money launderer's techniques; and (3) a money launderer's access to the types of resources or mechanisms, or both, required for each money laundering method.

Laundering specialists

Features of convenience, speed, and privacy associated with modern-day financial transactions place "self-laundering" within easy reach of most criminals. However, because many criminals fear detection from exposing themselves in their money laundering transactions, they have begun to employ a variety of laundering specialists. These specialists sell their services to criminals, often in the form of multiservice packages, or they may simply assist in one or two independent steps of a more complex laundering process.

There are three basic types of money laundering specialists:

- *Couriers* arrange for the transport of currency to a laundering site where it is converted to another method of payment, such as money orders. Couriers working for foreign traffickers may smuggle the currency out of the United States to a "safe" foreign jurisdiction, where the laundering transactions are completed on foreign soil. The value of couriers lies in their apparent legitimacy and lack of any obvious connection to the true owner of the currency; they may not even know the owner of the money they are transporting.

- *Currency exchange specialists* operate formal or informal businesses that can

either be ostensibly legal or dedicated solely to service an illegal clientele. The most formalized exchanges, *casas de cambio*, exchange dollars for pesos. Usually, the exchanges are legitimate foreign currency exchange houses that are used by criminals seeking quasi-banking services.

- *White-collar professionals*, such as attorneys and accountants, provide investment counseling, create nominee trust accounts, handle international funds transfers, and exploit tax avoidance schemes in foreign jurisdictions. Their main service is the manipulation of financial, commercial, and legal procedures to conceal the origin or true ownership of the assets under their control.

Specialists who launder funds for large criminal organizations often create infor-

mal organizations to provide their services. Unlike the Mafia, which is held together by rigid hierarchical rules, these are loose coalitions united by consensus and related to a common objective—the pursuit of steady, lucrative income. Only rarely do the laundering organizations operate as subordinate units of the criminal organizations they serve. Rather, they function as loose clusters of free agents who may sell their services on a one-time or longer term basis to such organizations. These specialists may work for more than one criminal organization, as well as for high-level individual criminals who manage independent organizations, such as drug importers and first-tier wholesalers who amass substantial assets.

A Locally Based Laundering Scheme

In 1981, the Baltimore City Police Department began an undercover narcotics investigation of Maurice King, a local heroin distributor. Their investigation quickly showed that King had become proficient at more than distributing drugs. He had also crafted a sophisticated money laundering operation that skillfully hid his drug proceeds.

King and his associates were known to be distributing large, wholesale quantities of heroin in Baltimore. During this same period, King was operating a refreshment stand as a cover. But more than one kind of customer patronized his refreshment stand—many came to pick up and deliver drugs. As a wholesale dealer who supplied many Baltimore street retailers, King amassed a large surplus of cash that supported a lavish lifestyle.

King laundered some of his money through Atlantic City, traveling to the gambling casinos and exchanging cash for casino checks, giving the impression that the checks represented gambling winnings. These checks were then used to open an investment account with a nationally recognized investment firm.

On the day that Thomas Ricks, an associate of King's, was released from prison, King bought Ricks \$10,000 worth of

clothing at a local store and paid with cash. Within a matter of months, Ricks had purchased a new automobile and leased and bought furniture for a new apartment. Although Ricks did finance a portion of the automobile purchase, the remainder of his expenditures were cash transactions.

Using cash—ultimately traced by investigators to drug deals—King and Ricks purchased and renovated two large grocery stores in Baltimore. Their move was made in part to develop a source of legitimate income, but was mainly intended as a vehicle to launder cash from drug sales.

Evidence at King's trial disclosed huge sums of money that he and Ricks had expended. For example, at one local clothing store they had spent more than \$160,000 in cash over a period of slightly more than one year. The purchase of jewels, fur coats, expensive cars, real estate, travel arrangements, and other extravagant items was also detailed. Almost all of these expenditures, which totaled over \$1 million, were in cash.

King was convicted in 1982 on charges of drug trafficking and racketeering, and of operating a continuing criminal enterprise.

Laundering organizations

Laundering organizations can be distinguished according to the specialties they offer. Some specialize in a single highly valued function, such as the smuggling of bulk currency out of the United States. Others may perform a variety of services that include selling a "package" that ranges from currency smuggling to laundering funds through scattered U.S. banks, followed by the wire transfer of those funds to preselected foreign bank accounts.

These organizations can also be distinguished according to the predominantly foreign- or U.S.-based character of their clients. Many foreign-based laundering organizations work for foreign cocaine cartel members and perform the mundane function of facilitating payment for illegal goods, such as cocaine, that are purchased on consignment. Since *casas de cambio* are frequently located near international borders, they are the most commonly used exchanges for moving money. Despite a rudimentary organization and simplicity of operation, *casas* are capable of moving hundreds of millions of dollars annually in drug proceeds. This approach is often preferred by many foreign traffickers due to their mistrust of American financial institutions and business deals and the reality that money tied up in U.S. financial institutions can more easily be seized and forfeited.

The second type of laundering organization operates primarily in the United States, offering services to U.S.-based criminals who prefer to keep their assets close by. Such organizations tend to be small, possibly because only a few employees are needed to arrange many laundering transactions and because their leaders' expertise covers a wide range of financial institutions and business transactions. Domestic money laundering organizations are often aided by advisers in various types of legitimate business endeavors, who, apart from laundering criminal proceeds, also advise wealthy, legitimate clients who seek to avoid or minimize their tax liability.

New focus for State and local enforcement

Throughout the country, the presence of sophisticated criminal activities, such as

drug trafficking, and ancillary white-collar crimes such as money laundering, has posed challenges for Federal, State, and local enforcement agencies. Because locally active criminals often remain local, keeping their financial manipulations close to their base of operations, State and local agency involvement in addressing both criminal and related money laundering activities now requires a new focus. Issues to consider in developing new strategies include the following:

- **Locally active criminals generate and launder substantial amounts.** Organized criminals at almost all levels of operation desire ready access to, and use of, their illicit proceeds (cash). Local racketeers and drug dealers, primarily at the wholesale level, who keep their funds close to their bases of operation, also launder a portion of their funds. This fact may be easily obscured by the focus of media and Federal-enforcement attention given to the international dimensions of laundering operations.

- **Laundered amounts may indicate the scope of illegal activities.** Information on the processes for laundering illicit funds, and the amounts involved, constitutes useful intelligence on the size, diversity, and other dimensions of illegal operations.

Due to variations in the spending practices of criminals, as well as incomplete and otherwise poor intelligence on sophisticated criminal operations, it can be difficult to estimate the size and scope of a particular illegal operation. Although it may be difficult to obtain information on the number of transactions in which a subject is involved during any given time period, intelligence on laundering activities provides one of the best indicators of the true range of activities.

- **A laundering focus helps in combating ancillary crimes.** Treasury Department officials obtained Al Capone's conviction for tax evasion when they could not successfully prosecute him for racketeering, murder, and sundry other crimes. A focus on money laundering enables State and local personnel to follow a similar approach to supplement an investigation for substantive organized crime or narcotics violations with tax fraud and business fraud aspects.

- **Enforcement programs expose white-collar involvement.** Criminals who want

to take maximum advantage of investment opportunities in the legitimate business sector rarely handle their own laundering transactions. An enforcement focus on money laundering will uncover the usually illegal activities performed by certain lawyers, accountants, stockbrokers, and other investment advisers.

Sustained enforcement campaigns against money laundering may encourage these white-collar professionals to withdraw their illegal services or demand more exorbitant fees. This situation could encourage the increase of greedy newcomers whose inexperience may expose criminal profits to more frequent confiscation through, for example, asset forfeiture actions.

- **Enforcement programs enable asset seizure.** Criminals who use their laundered funds to buy luxury items or invest in legitimate institutions run the risk, under Federal and many State laws, of losing them to asset seizure and forfeiture actions. An increasing number of States now have laws that allow for the confiscation of property obtained, either directly or indirectly, with funds derived from proscribed activities. Enforcement personnel who have seized property used purely as conveyances may now have the option, under broadened State laws, of also seizing more expensive assets, such as luxury homes, high-priced automobiles, bank and securities accounts, and real property.

Asset forfeiture represents one of the most potent weapons available to law enforcement against economically motivated crime. It is a remedy for both illegal money laundering and the illicit activity that initially generated the laundered income. In addition to generating funds for law enforcement activities, forfeiture allows Government agencies to strip criminals of the profits of their crimes, and seize assets such as equipment and supplies that are used to facilitate the manufacturing, distribution, and sale of illegal commodities. At its best, this approach can subject criminals to a 100-percent tax on their earnings—a clear disincentive for them and others to remain in that business.

Devising an enforcement strategy

State and local law enforcement agencies need to understand the demands of a

money laundering enforcement program and be able to assess whether they have sufficient resources to justify and sustain a local effort. An agency should begin to mold a responsive strategy only after its leadership first determines that it has a realistic role to play. This is a critical issue in view of a possible mismatch between an agency's limited resources and a sophisticated local laundering problem. In that situation, it is probably advisable either for a large State enforcement agency, or one or more Federal agencies, to take the initiative. The local agency could still participate, but jointly with a lead agency and by providing information collected during drug investigations.

A core money laundering enforcement program has a greater chance of success if three factors are already present in the agency: (1) specialization in white-collar crime enforcement, which ensures a sufficient complement of investigators and accountants to successfully track money laundering paper trails; (2) a record of cooperative investigator-prosecutor relationships, especially on narcotics and organized crime issues; and (3) a history of coordination with Federal enforcement agencies, at least to the extent that there is sharing of information, division of responsibilities in joint investigations, and a track record of cooperation.

State and local agencies that want to undertake initiatives to detect money laundering should consider three basic components of a comprehensive detection strategy. For an optimum program, all three elements should be included: (1) an intelligence-gathering and analysis program, (2) analysis of indicators of current laundering transactions, and (3) detection of completed laundering transactions.

Intelligence gathering. The paper trails surrounding the different steps in the money laundering process are prime candidates for intelligence collection efforts. Elements of a comprehensive money laundering intelligence effort should include the following:

- Encouraging the reporting of large cash transactions by financial institution personnel or others with knowledge of such activities.
- Developing an intelligence program to detect money laundering specialists whose

presence might indicate a developed local market for laundering services.

- Following financial and commercial transactions arranged by individuals known or suspected of specializing in money laundering services.
- Investigating assets acquired with large amounts of cash or other arrangements that depart from routine practices for conducting similar kinds of transactions.

Analyzing current transactions. Illegally earned cash enters financial and commercial systems at many entry points. However, the money laundering preferences of individual criminals have the effect of limiting those points to a manageable number of preferred methods—at least for that offender. We know that financial institutions and certain businesses play a vital facilitating role in money laundering transactions. Therefore, detection and analysis should focus on locations known for conducting laundering transactions, such as currency exchanges, check-cashing services, and certain financial institutions.

Detecting completed transactions. To comply with Federal laws, currency transactions made through financial institutions, such as banks, must be recorded on Federal Currency Transaction Report (CTR) forms. To minimize the risk of detection associated with compliance, criminals who launder their own money and professional launderers who do it for them often falsify information on CTR's or try to avoid completing them altogether. Some of the more common evasive techniques include:

- Concealing or misrepresenting the ownership of the funds being exchanged or providing false identification data.
- Entering into corrupt relationships with employees of financial institutions to avoid completing CTR's or to ensure that completed forms will not be forwarded to the Treasury Department.
- Changing couriers frequently to conceal the large number of transactions being conducted for the benefit of one person.
- Breaking large volumes of currency into lots smaller than the \$10,000 sum that triggers the CTR requirement, and arranging for currency transactions under the \$10,000 amount. (These are called "structured transactions," or "smurfing," and are now illegal under Federal law.)

To get a strategic picture of large cash transactions that may mask laundering activities, a number of State enforcement agencies have entered into agreements with the Treasury Department to obtain computer tapes of CTR data involving such transactions for their States. The tapes are analyzed for patterns and trends that identify both financial institutions with high volumes of cash transactions and individuals making the transactions. In addition, several States have passed laws patterned after Federal legislation that provides immunity from legal suits to financial institutions that report suspicious financial transactions, such as large cash transactions. Preliminary reports suggest that the quantity of suspicious transaction reports is fairly low (in comparison to the volume of CTR's), but the quality is high in terms of pointing to probable laundering activity. The suspicious transaction reports help agencies to find the "needle in the haystack."

Choosing investigative techniques

Investigation of money laundering usually applies white-collar crime investigative techniques to narcotics trafficking or other forms of sophisticated criminality. The most appropriate investigative technique for a particular case depends on many circumstances. Listed below are several common techniques that may be used in investigating money laundering.

● **Financial auditing and accounting.** It is essential that agencies sustain a capability to track financial and ownership patterns and employ investigative accounting techniques. This will help investigators document discrepancies between the amounts of income and other assets accumulated by suspects, compared with the reported amounts that can be verified through records of legitimate employment. Such evidence builds upon a variation of an IRS investigative technique, known as the "net worth" method, and is used increasingly in Federal and State money laundering prosecutions.

● **Undercover operations.** Many Federal money laundering cases were developed through the use of "sting" operations. Undercover personnel pose either as criminals in search of laundering services or,

more frequently, as launderers willing to provide their services to drug traffickers to help the latter transport their currency and deposit it in banks or other institutions.

● **Electronic surveillance.** By capturing conversations between launderers and criminals issuing directions for the movement of their hidden assets, court-authorized electronic surveillance represents a potentially effective technique for laundering investigations. However, this technique is extremely labor-intensive and time consuming, and many agencies have little experience using it against white-collar oriented criminals. Electronic surveillance is, therefore, a technique with unproven potential against money laundering.

● **Alternative investigative strategies.** In cases where statutory, staff, and other resource restrictions make direct money laundering investigations difficult, money laundering violations can be investigated indirectly as part of the investigation of the underlying substantive crime.

There are two advantages to incorporating laundering investigations into other criminal investigations. First, a financial investigative approach is added to investigations of drug trafficking and organized crime. This "second front" presents an additional opportunity to generate evidence of both the targeted activity, such as drug dealing, and related offenses, such as tax evasion. Another advantage is that the financial investigation facilitates asset-forfeiture actions that may follow on the heels of criminal charges. As discussed earlier, an active asset-forfeiture program, coupled with criminal investigation of the offenses that produce the laundered funds, enables law enforcement agencies to deprive criminals of their illegally earned wealth.

Using enforcement statutes

To effectively investigate money laundering activity, it is essential that agencies begin within an appropriate legal framework. Most agencies have sufficient legal authority to support a money laundering enforcement program. For example, police departments routinely conduct criminal investigations into narcotics trafficking offenses. In many States, police enforce

laws involving conspiracy, RICO, fraud, and similar statutes that penalize those who conspire to aid and abet the criminal activities of drug traffickers. Prosecutors have authority to bring charges for these offenses and, in many jurisdictions, also have direct access to such special evidence-gathering techniques and procedures as court-authorized electronic surveillance, special grand juries, and powers to grant immunity from prosecution. These methods can be used to build cases against money launderers who receive the direct proceeds of the underlying criminal conspiracies.

Legal framework. Depending on a State's legal framework, *traditional* statutory violations that are involved in money laundering may include conspiracy, aiding and abetting, fraud, and tax violations. A number of *innovative* State statutes have been patterned after the 1986 Federal laundering statute and a variety of other innovative antiracketeering (for example, RICO) laws. California, Arizona, New York, Florida, and 14 other States have enacted laws that specifically penalize the conversion of criminally derived property into other forms of assets.

The Arizona statute is one of the most comprehensive. Since money laundering is a predicate offense under Arizona's Racketeering Act, substantial criminal and civil remedies are available. These remedies include a personal civil judgment equal to the amount of the illegal gain, forfeiture of the proceeds of money laundering and of the underlying criminal acts, and forfeiture of the defendant's interest in any enterprise used for money laundering.

The Arizona statute also enhances the degree of the money laundering offense if a person "knowingly initiates, organizes, plans, finances, directs, manages, supervises, or is in the business of money laundering." This provision is aimed at specialists such as attorneys, financial advisers, real estate brokers, bankers, and operators of *casas de cambio*. In Texas, the *casas de cambio* are likely to come under closer scrutiny with the implementation of newly passed legislation.

In addition, several States have passed laws that are either patterned after the Bank Secrecy Act of 1970 and require the

reporting of large cash transactions or that otherwise proscribe activities that facilitate laundering. Such activities include (1) the unregulated operation of a business that performs financial services, such as check cashing and currency exchange, and (2) failure to disclose owners and interested parties in the formation of corporations. At least 16 States have enacted laws that address the specific offense of money laundering.

Overcoming lack of legal jurisdiction

Those agencies discouraged by a deficiency in supportive State laws can form the foundation of an antilaundering program using a few basic, but well-drafted laws on the books in a number of jurisdictions, such as Arizona, California, Florida, Georgia, and New York. Such laws span extremes. Some proscribe money laundering as a statutorily defined criminal activity (as in Arizona, California, and other States). Others (such as Georgia and Florida) require that foreign-based business entities register with a State agency and that duplicate copies of CTR's be filed with the State bank regulatory agency. New York requires that nonbank financial institutions be properly registered before performing such bank functions as exchanging currency for other monetary instruments. Drafting and submitting a proposed package of State laws, using these statutes as guides, may be appropriate for a State agency wishing to strengthen its legal authority.

Cooperating with Federal agencies

State and local agencies' enforcement programs can also be enhanced by continued cooperation with Federal agencies that have broader jurisdiction and more specific statutory authorization. Principal Federal agencies concerned with money laundering are the Customs Service (outbound and inbound movements of currency and monetary instruments); the IRS (criminal tax violations and CTR violations); the Drug Enforcement Agency and FBI (narcotics, RICO, and other antiracketeering violations); and Postal Service inspectors (mail fraud and narcotics violations).

Many investigations conducted by the Federal Organized Crime Drug Enforcement Task Forces (OCDETF's) have involved (and benefited) State and local agencies. For example, State and local efforts carried out in conjunction with Federal involvement may more quickly bear fruit. Also, joint efforts may produce evidence that can, with certain restrictions, be used in State courts. And States and local agencies qualify for a share of assets seized from criminals under the Department of Justice's equitable asset-sharing program. In addition to equitable asset-sharing under Federal antidrug statutes, the Money Laundering Control Act of 1986 (as amended) provides for equitable sharing of currency, monetary instruments, and other assets forfeited in laundering investigations.

Conclusion

As drug traffickers shift operations away from locations that have grown hazardous from enforcement pressure, their money

laundering operations will follow suit. As laundering operations are transacted within more States and extend into still more local communities, a nationwide problem, whose magnitude has strained Federal resources, will fall more squarely on the shoulders of State and local enforcement agencies. To challenge this powerfully corruptive influence, States will need to consider arming themselves with the dual sword of money laundering statutes and aggressive enforcement programs.

In 1988, the National Institute of Justice commissioned the Police Executive Research Forum to conduct a comprehensive study of illegal money laundering in the United States to provide a strategy and resource guide for law enforcement agencies. The study was conducted by Clifford Karchmer, Project Director, and Douglas Ruch, Intern. This *Research in Brief* is an update of that report.

Findings and conclusions of the research reported here are those of the researchers and do not necessarily reflect the official position or policies of the U.S. Department of Justice.

The National Institute of Justice is a component of the Office of Justice Programs, which also includes the Bureau of Justice Assistance, Bureau of Justice Statistics, Office of Juvenile Justice and Delinquency Prevention, and the Office for Victims of Crime.

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