

A Guide to the
Financial
Analysis
of
Personal
and
Corporate
Bank Records

Second Edition

January 1998

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National White Collar Crime Center

Richard L. Johnston, Director

**A Guide to the
Financial Analysis
of Personal and Corporate
Bank Records**

by Marilyn B. Peterson, C.C.A., C.F.E.

Second Edition

PROPERTY OF
National Criminal Justice Reference Service (NCJRS)
Box 6000
Rockville, MD 20849-6000

Published by the National White Collar Crime Center
1001 Boulders Parkway, Suite 450
Richmond, VA 23225-5512
1-800-221-4424
1-804-323-3563

Additional copies available for purchase.

First edition, May 1996
Section edition, January 1998

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This project is supported by grant number 96-WC-CX-0001, awarded by the Bureau of Justice Assistance, Office of Justice Programs, U.S. Department of Justice. The Assistant Attorney General, Office of Justice Programs, coordinates the activities of the following program offices and bureaus: Bureau of Justice Assistance, Bureau of Justice Statistics, National Institute of Justice, Office of Juvenile Delinquency Prevention, and the Office of Victims of Crime.

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Preface

This monograph is intended to provide analysts and investigators who review bank records with a guide to how a bank record analysis can be done.

It would not have been completed without the encouragement and assistance of the following:

National White Collar Crime Center
New Jersey Division of Criminal Justice, Department of Law and Public Safety
Ed Adams, Federal Law Enforcement Training Center, Financial Fraud
Institute
Debbie Ansman, Federal Bureau of Investigation
George W. Arnett III, Esq., New Jersey Division of Criminal Justice
Karla Belcher, National White Collar Crime Center
Paula A. Carter, New Jersey State Commission of Investigation
Louis Jonas, New Jersey Bureau of Consumer Affairs
Clifford Karchmer, Police Executive Research Forum
Barry Riley, New Jersey Division of Criminal Justice
Charles Rogovin, Esq., Temple University School of Law
Gerald A. Schwartz, New York State Banking Department

Special thanks go to Jessie W. Fleming and Kathryn A. Malbon of the National White Collar Crime Center for their editing and production of this monograph.

For the second edition, several people made suggestions that were helpful in expanding and updating the text. They include:

Peter Engstad, Coordinated Law Enforcement Unit, British Columbia
Douglas Fraser, Bureau of Competition Policy, Ontario
Jason A. Thomas, National White Collar Crime Center
Larry Schwartz, New York State Banking Department
Richard Small, Federal Reserve Board
Professor Robert J. Kelly, Brooklyn College
Sandra J. Putnam, Georgia Bureau of Investigation
Stephanie L. Concodora, National White Collar Crime Center

I. INTRODUCTION

Modern criminal investigations require the review and analysis of bank account records which detail the deposits, checks, wire transfers, credit and debit memos, withdrawals, bank checks, and any other income or outflow from a bank account or accounts. The depth of this analysis depends upon the needs of the investigation and the time constraints under which it is done. The purpose of this monograph is to provide an exemplar of one approach to the analysis of bank records as part of a criminal investigation.¹ Indicators of particular types of illegal activities that may be seen during the review of bank records are also presented.

A. How Investigations Benefit From an Analysis of Financial Records

“Money is the reason for the big crime syndicates’ existence and . . . the source of their strength. Taking it away is the solution. Finding it is the problem”
(Sterling, 1994, p. 229).

Bank records are collected and analyzed because the majority of criminal acts are motivated by profit. Identifying those profits and their destinations are key not only to proving cases but also to determining the power structures of organized crime groups and continuing criminal enterprises.

Beasley, of the Federal Bureau of Investigation, noted that “documentary evidence can be of tremendous value” to racketeering cases. Without its analysis, charges or “cases may go unprosecuted and those cases prosecuted may not result in the maximum sentence (Beasley, 1993, p. 7).”

The most traditional use of bank record analysis has been in white collar, narcotics, and organized crime investigations. The dispersal of the profits and its timing give us keys to the illegal activity, as well as to the breadth and hierarchy of the conspiracy.

White collar and organized crime sometimes merge. In August 1995, federal authorities indicted 15 alleged Russian mobsters and 10 others in a diesel fuel sales tax scam that used dummy corporations to avoid paying \$140 million in excise taxes. The group was charged with 39 counts of tax evasion, money laundering, wire fraud, extortion, and other crimes (Zegart, 1995, p. A1). Sicilian Mafia associate Michele Sindona was a “financial consultant” to several mob-owned businesses and laundered billions of dollars of heroin profits from the U.S. back to Sicily in the late 1970s (Sterling, 1990, pp. 190-201).

According to Peter Lupsha, drug profits have made such an impact on segments of the Mexican economy that, when 200 million laundered pesos were frozen, the local chamber of commerce petitioned to have the money released saying its loss was “adversely affecting local business and commerce” (1995, p. 91).

Even the investigation of violent crimes may use a financial analysis to uncover certain activities of the perpetrator or to evaluate profit as a motive for the violence. Financial records should be analyzed in cases of contract killings, drug murder, insurance-related death, profit-motivated arson, and historical child-adolescent sex rings (Douglas, Burgess, Burgess, and Ressler, 1992, pp. 25-28).

¹ Civil investigators may also find utility in this exemplar as their use of paper trails techniques can equal the criminal side.

Bribery and corruption investigations often require the analysis of bank records. If a public servant's bank records show income or expenditures far beyond the known reported income of the official, then bribery may be indicated. The recent bribery conviction of former Camden County (NJ) Clerk Michael Keating showed cash deposits to Keating's bank accounts in large even numbers during time frames that followed the dates of bribery payments which were made to him.

Corporate accounts can be used to hide profits from many types of crime. In *U.S. v. All Funds* (F. Supp. 225 S.D.N.Y., 1986), for example, it was admitted that 60 to 70 percent of the funds deposited into a corporate account were drug proceeds (Goldsmith, 1988, p. 7).

In organized crime investigations (historically cases involving La Cosa Nostra), not only are investigators interested in who gets the profits and when, but in how the profits are disguised, hidden, "laundered," or invested. The New Jersey State Commission of Investigation noted: "For generations, organized criminals have owned or controlled cash-intensive businesses . . . so that they can commingle receipts . . . with cash generated by gambling, narcotics trafficking, or loan sharking" (1994, p. 1). The advent of the federal RICO (Racketeer Influenced and Corrupt Organizations Act) legislation (Title 18 U.S.C., §1961) has made any profits or property derived from a crime, or facilitating the commission of a crime, potentially forfeitable to the government (Fann, Gordon, and Leach, 1993, p. 4). It is important to have the evidence which proves the property is forfeitable. Thus, the investigator or analyst must link the proceeds to the crime. This evidence may be found in bank and credit card records (Fann, Gordon, and Leach, 1993, p.9).

Several approaches to the forfeiture of proceeds through bank accounts have been devised through case law. In one example cited by Goldsmith, the court (*U.S. v. Banco Cafetera Panama*, 797 F. 2nd 1154, 1160 [2nd Cir. 1986]) allowed the government to "maximize the proceeds subject to forfeiture by giving prosecutors the option between "drugs in, last out" or "drugs in, first out." The former is useful if the prosecution wants to seize the funds in the account, the latter if it wants to seize assets previously purchased by the account (Goldsmith, 1988, p. 6).

Less structured criminal networks, such as those processing and distributing narcotics, are favored targets for financial analysis. In 1988, Manhattan District Attorney Robert Morgenthau estimated that from \$40 to \$80 billion in drug proceeds are laundered, annually, in the United States (quoted by Holmes, 1992, p. 1). Sterling noted that a trillion and a half dollars a year is "gray" money that needs laundering (1994, p. 230), while Raine and Cilluffo estimated it at \$500 billion a year worldwide (1994, p. ix). Narcotics organizations, which often deal in large amounts of currency, can be seen to wire transfer funds back to drug source countries or to invest funds in what again may be potentially forfeitable to the government. In *United States v. Lewis* (759 F. 2d 1316, 1330 [8th Cir. 1985]), for example, a defendant's deposits of cash into bank accounts were analyzed and shown to correlate to narcotics ledger entries (Goldsmith, 1988, p.7).

Bank account analysis has been used to help uncover labor racketeering, bankruptcy fraud, and insurance fraud (Peterson, 1985, pp. 27-32). A \$1.6 million tax evasion indictment showed the flow of monies through nominee accounts, sham financial transactions, bogus foreign corporations, and unreported transfers of funds (Peterson-Sommers, 1986, pp. 16-17). In another investigation, video gaming machine vendors were found to have claimed \$13 million in profits when they had actually grossed \$34 million (Cook and Peterson, 1987, p. 34).

Major crime cases (including arson for profit, bank robberies, homicides, etc.) can also benefit from

the analysis of bank records. For example, unexplained infusions of cash into bank accounts following the date of a crime may be the profits of that criminal act. Conversely, a buildup of funds prior to a criminal act and then their withdrawal may show the source of funds used to support it (e.g., the robbery of armored cars for funds to support terroristic activities).

Bank records and money-laundering schemes have played major roles in recent cases, including that of William Aramony, former president of United Way of America (25 felony counts, including conspiracy, fraud, money laundering, and filing false tax returns); Richard Bailey (16 counts of fraud, racketeering, and money laundering relating to killing horses to collect insurance payments); and Heidi Fleiss, whose father, Dr. Paul Fleiss, pleaded guilty to helping his daughter launder money and hide the income she made from her prostitution service (*Facts-on-File*, 6/29/95, 6/1/95, and 6/22/95).

Money laundering has been made a crime at the federal level in the U.S. (Title 18 *U.S.C.*, 1956, Laundering of Monetary Instruments) and in over 23 states. A New Jersey money-laundering statute was passed in 1994 which makes it illegal to:

“engage in a transaction involving property known to be derived from criminal activity (1) with the intent to facilitate or promote the criminal activity; or (2) knowing that the transaction is designed in whole or in part (a) to conceal or disguise the nature, location, source, ownership, or control of the property derived from criminal activity; or (b) to avoid a transaction reporting requirement under the laws of this State or any other state or of the United States . . .” (*N.J.S.A.* 2C:21-25).

Similar connections between profits and crimes have been seen in other countries. In England, a bank account analysis was used to:

- Prove that the majority of credits to a bank account were housing benefit checks issued to registered drug addicts.
- Unearth significant evidence showing that the subject had purchased equipment which had been used on a high-value burglary.
- Show that between the date of offense and arrest, the offender spent the equivalent of 1/3 of the proceeds of the armed robbery over and above his legitimate income.
- Ascertain that large amounts of money had been deposited in a bank account which had originated from drug trafficking (in the face of the defendant's claim that the money had been made from car sales).
- Establish a motive for murder (Levi and Osofsky, 1995, pp. 14-15).

In Canada, the Criminal Intelligence Service-Ontario commented that:

The most common method used by organized criminals to launder money is through deposit-taking institutions (chartered banks, trust companies, and credit unions) . . . The criminal . . . continues to use . . . (banks) because of the ease with which they can be accessed and used for linkage to the international banking system (Todorovski, 1994, p. 10).

Offshore bank accounts are routinely used to launder funds. One attorney in the U.S. recounted his dealings with a bank chairman in the Cayman Islands: “He (the chairman) went on to explain how I could move money out of the United States by writing checks to corporations he and his bank had set up

here in the United States to receive money from people who wanted to hide it . . . ‘we’ll move the money (through the Caymans) to a bank in Europe, which will then lend the money back to you’” (Raine and Cilluffo, 1994, p. 15).

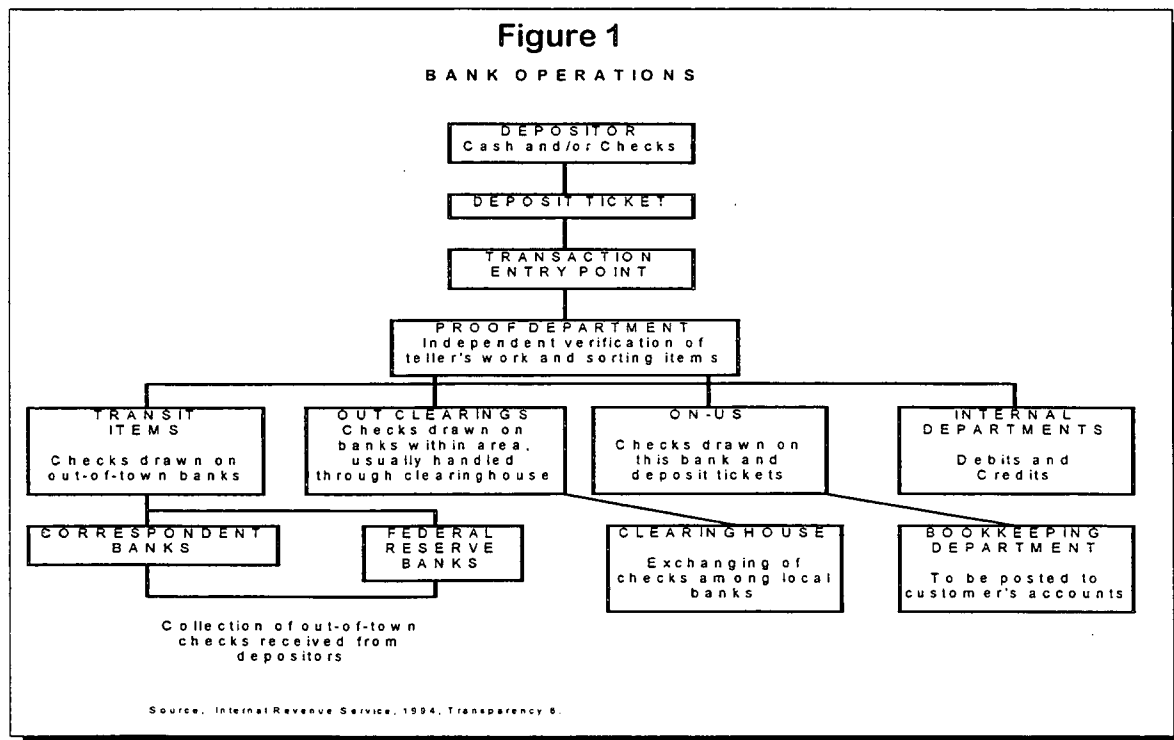
Strategic uses of financial analysis include identifying emerging money-laundering centers, identifying facilitators and implementers, assessing the sophistication levels of criminals and analyzing money laundering’s impact on the economics of various countries (U.S. State Department, 1995).

What is clear is that today’s criminals are sophisticated in the techniques used to commit crime and the techniques used to hide their profits. Even mid-level cases can be complex enough to test the persistence and expertise of the veteran investigator and analyst. But the results are often worthwhile. As Wilson notes, if you know a person’s money, you know the person (1993, p. 221).

B. Previous Guidance on Bank Record Analysis

A few authors have given guidance on the topic of bank record analysis. Morley lays the groundwork by providing an explanation of how banks work:

“The transaction begins at a(n) entry point . . . a teller, a memo entry from another department, or input from the cash services department (commercial cash enters through the latter). From the entry, transactions go to the proof department. Here each item is encoded with a discrete number so it can be located in the bank’s records system. In addition, the MICR number (computerized numbers at the bottom of the check) is encoded. . . . Each item is then microfilmed. . . . The items are entered into the bank’s computer system. . . . All items are batched . . . to facilitate further processing. . . . The last step . . . occurs in the bookkeeping department. . . . There, they are filed.” (Morley, 1989, p. 11-14)



The flow of checks has also been charted by the Internal Revenue Service and is shown in Figure 1. This chart includes the "clearing" of checks outside of the bank as they are organized to go to other banks for payment.

Canadian banking experts have written that those using the banking systems for money laundering usually have guidance from someone who has spent time in the system (Solicitor-General, 1993, p. 19). These facilitators would know, for example, that:

- a branch bank in a not-seedy section of the city should be used.
- a branch that is busy all the time is a good choice.
- a branch in a retail area would receive large cash deposits from stores, gas stations, and restaurants, so cash deposits would not arouse suspicion.
- a branch that does not ask a lot of questions of people opening an account may also not ask questions later about transactions (Solicitor-General, 1993, p.25).

The IRS notes that financial investigation requires certain skills and abilities:

- Understanding the laws relating to the crime(s) under investigation.
- Knowing the proper way to handle evidence.
- Employing investigative techniques, including surveillance, undercover operations, and interviewing.
- Locating and obtaining all relevant financial records.
- Using auditing, accounting, and analytical techniques to review those records.
- Linking the financial data to other case information to prove the crime (IRS, 1993, p. 8).

Richard A. Nossen, a former Internal Revenue Service agent, wrote *The Detection, Investigation, and Prosecution of Financial Crime*, first and second editions (the latter with Joan W. Norvelle). Nossen and Norvelle included a chapter, "The Investigative Plan Phase Four - Analysis of Checking and Savings Accounts" (1993, pp. 47-59). In it, they describe a financial analysis of bank records as including:

- A reconciliation of all deposit and withdrawal data to the bank statements.
- Summaries of all bank statements for each month, showing beginning and ending balances, total deposits, and total withdrawals.
- A check spread of all check withdrawals in several formats.
- Detailed analysis of all deposits, including a determination of amounts of currency deposits and identification of makers of all deposited checks.
- Identification of all wire transfers of funds, in and out (Nossen and Norvelle, 1993, p. 49).

When these accounting schedules have been completed, other steps to be completed are:

- Analysis of the source of deposited funds.
- Comparison of deposit patterns with known profiles of financial crime perpetrators.
- Identification of pertinent leads to the acquisition of assets.
- Uncover the patterns of standard of living that are not commensurate with known sources of available funds.
- Development of audit trails which may lead to sources of evidence (Nossen and Norvelle, 1993,

p. 49).

The Internal Revenue Service (IRS) advises investigators to use different (computer) sorts of bank account data including:

- By payee and date.
- By payee, date, and amount.
- By date and amount.
- By writer, payee, date, and amount.

It suggests that patterns and breaks in patterns be identified and that unusual payees and amounts and patterns of dates, payees, and amounts be documented (IRS, 1994, p. 5-17).

Within the investigative area of money laundering, a number of authors refer to bank records and the money-laundering processes using banks. Among them, Holmes devised a model which shows that financial institutions (e.g., banks, brokerage houses, and casas de cambios) are integral to the money-laundering process. Likewise, evasion techniques can include the layering of transactions through several accounts and banks (Holmes, 1992, p. 6).

Specific guidance on how to develop a financial profile has been provided by the Association of Certified Fraud Examiners and is seen in Figure 2.



Figure 2

The Financial Profile

Typical Assets

Residence
Real Estate
Bank Accounts
Stocks & Bonds
Automobiles
Insurance
Cash on Hand

Jewelry
Clothing
Collectibles
Pensions
Boats
Home Furnishings

For each significant asset, determine:

- When it was acquired, and from whom?
- How much did it cost?
- How was it paid for (cash, check, cashier's check)?
- What source of funds was used to acquire it?
- What documentation exists for the purchase & where is it ?

Typical Liabilities

Mortgage(s)
Other Loans
Lines of Credit
Credit Cards/Installment Purchases
Accounts Payable
Taxes and other Bills
Alimony or Child Support

For each significant liability, determine:

- What was the original amount of the liability?
- What is the present balance due?
- When was the liability incurred?
- What was the purpose for the loan or debt?
- How were the proceeds used? Where were they deposited?
- What security (collateral), if any, was given for the debt?
- What documentation exists for the transaction? Where is it?
- Was the debt written off as a bad loan for tax purposes?
- Who was the creditor or lender?

Typical Sources of Funds

Salary
Insurance Proceeds

Gifts
Dividends

For each source of funds, determine:

- What was the total amount during a given period?
- What was the source?

Commissions and Rental Income Fees	- How was it paid (currency, check, other means)?
Awards	Inheritances - When were the funds received?
Interest	Sale of Assets - Where was it deposited?
Disability Payments	- How was it spent?
	- What documentation exists (W-2 or 1099, and where is it)?

Typical Expenditures

Rent and Mortgage	Clothing
Health costs	Utilities
Interest on Loans	Food
Credit Cards	Insurance
Car Payments	Travel

For each major expenditure item, determine:

- What was the total amount spent?
- How was it paid for (currency, check, credit card, etc.)?
- Where were the funds obtained to pay the expense?
- When was the payment made?
- What documentation (i.e., receipts, bills, etc.) exists, and where is it?

Source: Fraud Examiner's Manual, Section 111, pp. 47-49.



C. Limitations of the Monograph

This monograph is a guide to completing a financial analysis of bank account records, specifically records relating to a checking or savings account. Because each financial analysis is done on a unique set of records, each bank record analysis will be unique and may not require all of the steps, products, and reports that are detailed here.

The guide has been limited to checking and savings account records held by banks in order to give their analysis adequate coverage. Other financial transactions--safe deposit activity, loans, bank credit card activity, investments--are deliberately excluded.

Additionally, a section contains information on analyzing business records as they support or conflict with banking records and/or each other. This is not an exhaustive look at that subject but some guidance is presented.

The intended purpose of the financial analysis detailed in this guide is tactical in nature--geared toward tracing assets or determining if crime profits are present. It is not designed to support strategic analysis of banking institutions or their roles in criminal activity.

This monograph is also not designed to discuss the IRS Bank Deposit Analysis method used to determine a target's net worth and potential access to illegal income (IRS, 1993, pp. 209-214).²

It is important to note that several other financial institutions, besides banks, are used to launder funds. Investment brokerage accounts, casinos, check-cashing companies, money-changing houses, money transmitters, and post offices all deal in taking in currency and putting it into another form. Their role and regulations are not discussed here in detail. However, some reference is made to 1996 and 1997

² For those who have not seen this formula, it is:

	Total deposits to all accounts
<i>Minus</i>	<u>- Transfers and redeposits</u>
Equals	Net deposits to all accounts
<i>Plus</i>	<u>+ Cash expenditures</u>
Equals	Total receipts from all sources
<i>Minus</i>	<u>- Funds from known sources</u>
Equals	Funds from unknown sources

changes in the regulation of money transmitters in the United States.

Throughout this guide, examples of bank analysis products done on a computer are presented. Because the author is most familiar with the data base program Q&A 4.0™ and the spreadsheet program Excel 5.0™, they were used to generate these products. There is no doubt that other data base or spreadsheet software could be used to achieve similar results and no statement to the contrary should be inferred. A few examples of charts from the Analyst's Notebook are seen in later figures.

II. BANK RECORD ANALYSIS

Bank record analysis encompasses any review or analysis of bank records for any purpose. When used in an investigative setting, it becomes a part of the search for assets or for the location of proof that someone profited from a crime. Within this context, a methodology has emerged which is presented in this monograph.

Figure 3

Bank Record Analysis Steps

1. Plan for the collection of the records.
2. Obtain and inventory the records.
3. Develop schedule, data base, or spreadsheet template.
4. Place the records into the template.
5. Review the records for investigative leads.
6. Analyze the records:
 - a. By date.
 - b. By payees.
 - c. By deposits.
 - d. In combination.
7. Review the records for patterns.
8. Review the records for unusual deposits or payments.
9. Analyze flow among multiple accounts.
10. Draw flow chart if necessary.
11. Prepare summary of the financial activities.
12. Develop conclusions from the records.
13. Make recommendations based on the records.
14. Collate materials and present to management.

Bank record analysis requires a methodical and precise approach. One such approach can be seen in the steps shown in Figure 3. These steps allow the investigator or analyst to proceed with the analysis in

a rational and logical way, with attention to the set of facts and purpose of the analysis.

Each of these steps is reviewed, along with figures and examples, in the following pages.

A. Plan the Collection of the Records

Planning for the collection of bank records is based upon the theory of the case. The questions to be asked are: What proof do I need to complete the investigation (or prosecution)? Who may have the proof? Where can I get it? Lack of planning results in having too many (or too few) bank records collected, collected too late, or collected for the wrong actors or time frames.

A rule of thumb about the collection of financial records is: if they appear integral to the crime, begin the collection of the central bank records immediately after opening the case. The review of these records invariably points to other accounts and other records which must then be subpoenaed. Collecting them early allows more time to establish the presence of related accounts and identify transactions that will need to be collected. This process may continue for months (or even years) as the trail of funds is followed.

B. Obtain and Inventory the Records

The most common method of receiving bank records is by subpoena, although they can also be obtained through civil discovery, civil summons, or by a search warrant. A subpoena is a formal request for the records which has been signed by a judge and is accompanied by a listing of what is specifically wanted. The subpoena usually lists the names(s) of the person(s) or business(es) targeted along with any bank account numbers known. Traditionally, the request is for bank accounts in the name of the target individual or company. Another method now used is to ask for all accounts over which an individual has signatory authority. In this manner, the agency receives all corporate accounts tied to the person, as well as other individual accounts (such as relatives) from which payments were generated or to which deposits were made on behalf of the target, so long as the target has signatory authority on the account.

It is important to note that banks must comply with the Right to Financial Privacy Act which states that banks are forbidden to provide a customer's banking records (without customer permission) unless they are compelled to by subpoena, summons, or court order. This law also requires banks to notify the customer of the request unless they are legally told not to (Title 12 *U.S.C.* §3403 (c)). To prevent this information from being disclosed, law enforcement personnel may submit an affidavit for nondisclosure which states why the information should be kept secret; one usual reason could be that the target might, if notified, divest him or herself of the monies thus obscuring the trail of illegal proceeds even further. One investigator notes that since targets may be steady customers, bank personnel may tell them of the request for information.

When the subpoena reaches the bank, it is processed by a unit which accesses microfiche or microfilm files and copies the bank statements, checks, and other transaction papers. While the subpoena instructs the appropriate bank official to appear before the grand jury with the bank records on a certain date, the return of records is often done by mail or by having an investigator pick them up. However, banks can be several months behind in their response to requests. There are several ways in which the investigator or analyst can try to speed this process. One is to make the request as specific as possible; that is, to ask only for the records needed. This is called "minimization" of the request. One veteran financial investigator suggests wording the subpoena such that the bank official must appear before the

grand jury unless the records are provided to the agency before the scheduled appearance date. This may also encourage banks to comply.

Figure 4 (Schedule A) shows a "laundry list" of records requested, from both business and personal accounts, for all records from the accounts' openings to their close. This request could be minimized by shortening the time period of the records requested (if the time under investigation were actually shorter) or by requesting only checks over a threshold dollar amount. The threshold could be \$500, \$1,000, or more, depending upon the general level of checks written on the account.

If an investigator were reviewing records to uncover sources of possible illegal income, then deposit patterns in the statements such as multiple large deposits on the same day, repeated deposits of the same amount, deposits made with regularity, deposits over \$5,000, or deposits over \$1,000 made in even \$100s may allow for a lesser request for records (Morley, 1989, p. 19).



Figure 4
Bank Record Subpoena
Schedule A

All bank records of _____, account number _____ from _____ to _____ including:

- A. All open or closed checking, savings, and NOW accounts:
 - 1. Signature cards.
 - 2. Bank statements.
 - 3. Cancelled checks (both sides).
 - 4. Deposit tickets and items (both sides of items, including ATM and direct deposits).
 - 5. ATM withdrawals and point of sale debits.
 - 6. Credit and debit memos.
 - 7. Wire transfer records.
 - 8. Forms 1099 or back-up withholding statements.

- B. Retained copies of all open or closed bank loan or mortgage documents:
 - 1. Loan applications.
 - 2. Loan ledger sheets.
 - 3. Copy of loan disbursement documents.
 - 4. Copy of loan repayment documents.
 - 5. Loan correspondence files.
 - 6. Collateral agreements.
 - 7. Credit reports.
 - 8. Copies of notes or other instruments reflecting the obligation to pay.
 - 9. Copies of real estate mortgages, chattel mortgages, or other security for bank loans.
 - 10. Copies of annual interest paid statements.
 - 11. Copies of loan amortization statements.

- C. Certificates of deposit (purchased or redeemed):
 - 1. Copies of the certificates.
 - 2. Records pertaining to interest earned, withdrawn, or reinvested.
 - 3. Forms 1099 or back-up withholding statements.

- D. Open or closed investment or security custodian accounts:
 - 1. Documents reflecting purchase of security.
 - 2. Documents reflecting negotiation of the security.
 - 3. Safekeeping records and logs.

4. Receipts for receipt or delivery of securities.
 5. Copies of annual interest paid statements.
- E. All open or closed IRA/ Keogh, and other retirement plans:
1. Account statements.
 2. Investment, transfer, and redemption confirmation slips.
 3. Documents reflecting the purchase of an investment.
 4. Documents reflecting the redemption of an investment.
 5. Copies of annual interest earned statements.
- F. Safe deposit box information:
1. Deposit box rental information, including signature cards.
 2. Logs of dates and times of entries to box.
- G. All cashier's, bank, or traveler's checks and money orders purchased:
1. Copies of documents used to purchase checks or money orders.
 2. Copies of documents reflecting negotiation of the checks/money orders.
 3. Retained copy of application.
 4. Retained copy of check/money order.
- H. Wire transfer files:
1. Request for authorization to wire funds by target.
 2. Fedwire, Swift, or other documents reflecting the transfer of funds to, from, or on behalf of the person.
 3. Documents reflecting the source of funds for a wire out.
 4. Documents reflecting the disposition of a wire transfer in.
- I. Currency Transaction Documents:
1. Copies of Currency Transaction Reports (Form 4769) by individual.
 2. Copies of CTR Exempt List and justification of exemption documents if individual under investigation is on the list.
 3. Suspicious Transaction Reports and supporting documentation.
 4. Copies of Currency or Monetary Instrument Reports (form 4790).



Some banks will respond to a subpoena by sending statements only and will ask the investigator or analyst to highlight what specific item (check, deposit slip, deposit item, wire, memo, etc.) copies are needed. If all the records from Time 1 to Time 2 are needed, repeat the previous request. If only certain items are needed, ask only for them. An example of the latter would be if an account had been used as a pass-through for \$350,000 which entered the account on a wire transfer on March 8 and exited the account as two certified checks for \$200,000 and \$150,000, respectively, on March 9. If the account balance in this period indicated that the certified checks could only have been generated by the \$350,000 traced into the account, then the statement shows the pass-through clearly. A follow-up request for only the wire transfer record and two certified check records would then be sufficient.

Minimization, however, must be carefully employed so it does not interfere with the goals of the financial analysis. If, for example, an overview of the target's general expenses is needed, then all checks for the time period are needed. On the other hand, if the analyst is looking for the payment of large sums to fictitious corporations as a money-laundering technique, then deposits and outflows over \$1,000 in size may be requested.

While minimization may encourage the bank to get the records to the requesting agency months sooner, it should be remembered that all checks and deposits for a certain time period should be collected and entered whenever possible. An "insignificant" check amount of \$64.73 could lead to a significant asset if the target were paying it to a utility company for electricity at a location of which he or she was the hidden owner (Nossen and Norvelle, 1993, p. 51).

The bank can be encouraged to fill the request for records by contacting them regularly while awaiting the records. Given that other agencies are asking for records concurrent to your request, the bank may respond quickest to the person who makes the request sound the most urgent. A phone call asking for a status report each week may be effective. Conversely, if the subpoena is sent and the investigator or analyst waits months before calling to follow-up, the bank may presume that the request is not urgent and set it aside to work on the requests of those who are calling every week.

Depending upon the breadth of the criminal activity involved in an investigation, interstate or even international subpoenas may be required. Interstate subpoenas are permissible under the Uniform Act to Secure the Attendance of Witnesses from Without a State in Criminal Proceedings (*N.J.S.A. 2A:81-18*) which has been adopted in all U.S. states and the District of Columbia. This covers subpoenas *Duces Tecum* (records requests). The subpoena requesting the records must first be signed by a judge in the state requesting the records. This judge certifies that the records being requested are material to the matter under investigation. The subpoena is then sent to the jurisdiction which has the records, where a prosecutor takes the subpoena to a judge who then issues an order to show cause, saying that the person subpoenaed (the record holder) must appear before the grand jury in the other state with the records.

International subpoenas are coordinated through the U.S. Department of Justice and its International Affairs section. If the offshore bank being subpoenaed is a country with which the United States has a mutual aid treaty, the Department of Justice can work with its counterpart in that country to obtain the records through a local prosecutor. See Appendix C for contact information.

Another way to obtain bank records is through a search warrant. If the warrant covers a business or residence, there may be bank statements, cancelled checks, and papers relating to other bank activity on the premises. In most investigations, these records should be taken and examined. Due to the difficulty of getting records from banks, it might be best to get whatever possible through the company or individual being investigated. Some investigators and investigating attorneys generally have the view "take all the records you can find and figure out what you need later." In that scenario, more financial records than are needed may be taken. The investigator should be aware, however, that the checks and statements obtained through a search warrant may be incomplete and missing items may still need to be subpoenaed. For example, statements, deposit slips, and cancelled checks are generally returned to the business or individual by the bank and may be on hand; however, deposit items and wire transfer information will not be present and must be subpoenaed. Additionally, some general organization or grouping of financial records in boxing and recording them during the execution of the search warrant may save time in dealing with the records later as they will be easier to review.

A financial search warrant is employed when there is an expectation of finding certain records and documents at a particular location. A detailed description of the property to be seized should be in the warrant, such as "books, records, receipts, bank statements, etc., evidencing the obtaining, secreting, transfer and/or concealment of assets and the secreting, transfer, concealment and/or expenditure of money" (Stolker, 1989, p. 12). Another acceptable request has been "all checkbooks, cancelled checks, deposit slips, bank statements, trust account receipts, check stubs, books, and papers, etc., which would tend to show a _____ intent or any elements of the crime of _____" (Stolker, 1989, p. 13). In today's computerized environment, a search warrant could also include an order to seize computer-stored material, computer manuals, "floppy" disks, and perhaps the computer itself (Stolker, 1989, p. 18).

Inventorizing and Filing Records

When records are obtained, they become evidence in the investigation. A cancelled check is considered "real" evidence (IRS, 1994, 3-9 and 5-14). Standard procedures³ require that the records be placed into evidence boxes and that a record be kept relative to the contents of each (numbered) box. This evidence is then stored in a secure manner. The records can then be reviewed, analyzed, and used, but must be kept securely and their integrity maintained. In general, that means they should not be altered in any way (e.g., highlighted, notes added directly on them, whited-out, cut up). If they need to be marked, then a copy of the records should be made so it can be marked, highlighted, or cut.

"Best evidence" is an original document; secondary evidence is a copy (IRS, 1994, p. 3-15). Banks can only supply copies of checks, deposit tickets, and deposit items, while search warrants of the target's residence may net originals.

The evidence voucher is the first step toward indexing and inventorizing the records. Once the evidence boxes have been signed out of the vault, a more thorough inventory and index can be completed. Often, this is accompanied by an organization of the material for ease of handling the data. It is imperative that this inventory be done so that what is there--and what is missing--can be known. A follow-up subpoena or letter to the bank(s) for the missing records can then be prepared. Without an inventory, the presence of documents that may prove or disprove the alleged crime(s) may not be noticed.

An inventory can also be used to lessen the negative impact that a search warrant has had on a business. If, for example, 100 boxes of data were taken, an inventory might show that only a fraction of the boxes contain data relevant to the investigation. Thus, the non-relevant materials could be returned to the target. The obvious question is: what constitutes relevant? As is noted elsewhere, financial records often provide leads to other bank or business records. Therefore, relevancy should be interpreted broadly to include what may, by extension, be related to the activity at hand.

One effective system of organizing bank records includes creating a specific file, or set of files, for the records along with the legal documents used to obtain them and any correspondence relating to their acquisition with the financial institutions or companies from which they were received.

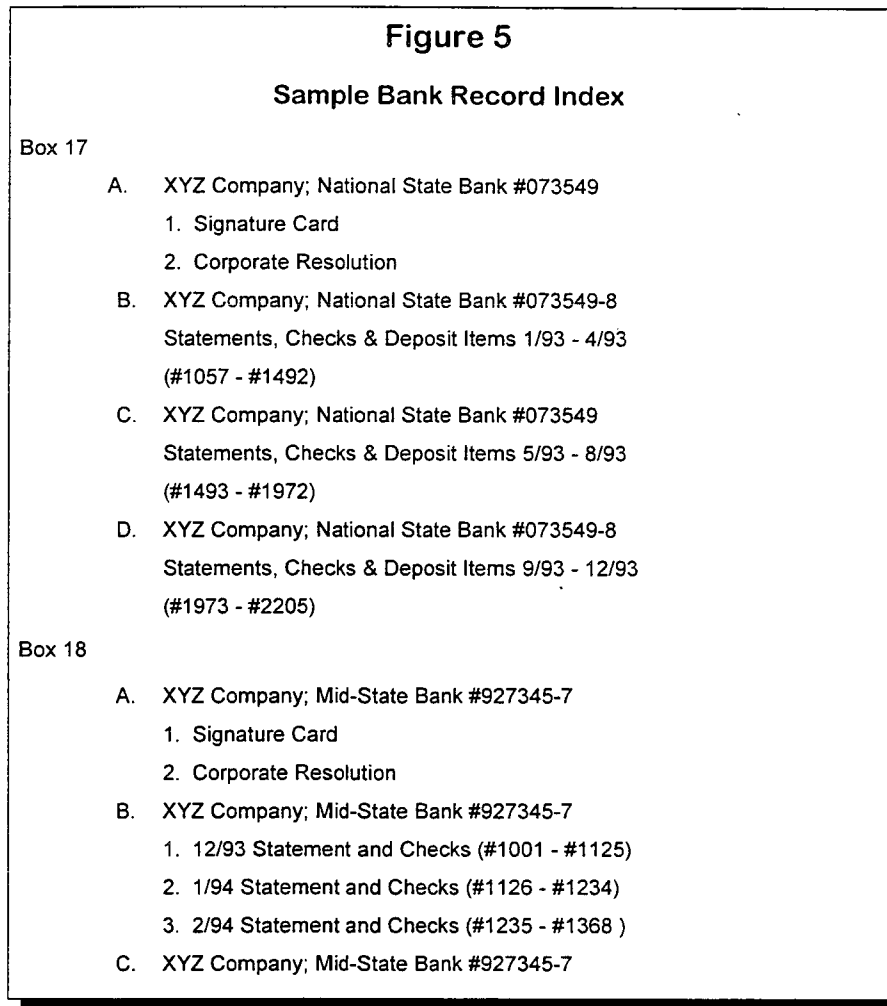
The financial materials obtained are best filed by bank, account number, type of record, and date. The volume of materials dictates the amount of records to be consigned to any given file; a year may be broken into quarters or even months to allow for the records to fit into the file. Each file folder should be marked with the case number, account name and number, type(s) of records included, date span of the records, and their source.

Care must be taken to keep all the records sent secure and in order. The envelopes in which the records have been mailed (or delivered) should be filed along with the records.

Within these files, papers are generally organized by date unless they are numbered--i.e., checks--in which they are generally organized by check number. It is wise to establish an index to these files. The boxes into which the records are organized are numbered. The file folders are given numerals or alphas. If necessary, documents within the file folders can also be numbered, with their assigned number placed

³ Federal Rule 901 (A) states that evidence obtained must be marked, identified, inventoried, and preserved to maintain original condition until introduced at trial.

on a "self-stick" memo and attached to the document. The index would give the account name, number, date span or check number span covered, and document name, thus enabling rapid retrieval of the data. A bank record sample index is shown in Figure 5. This index is expanded as more records are received and organized.

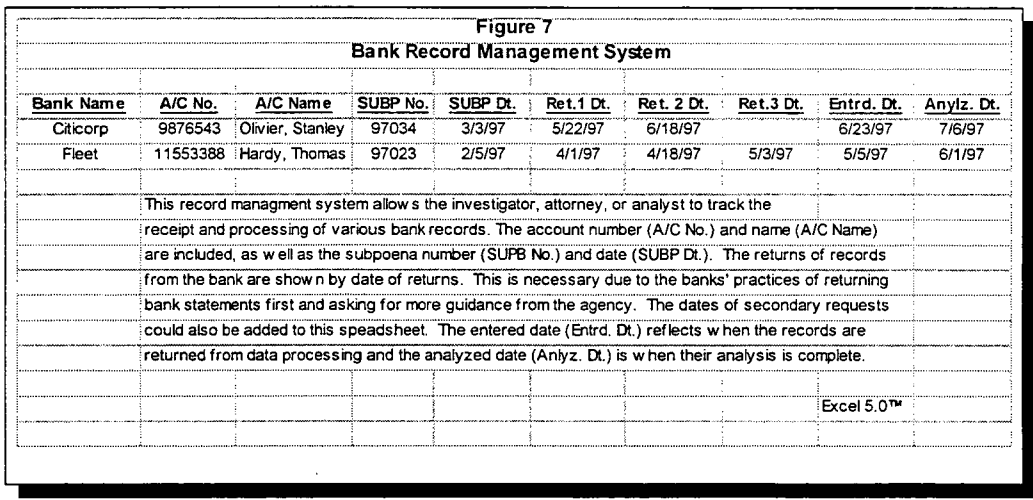
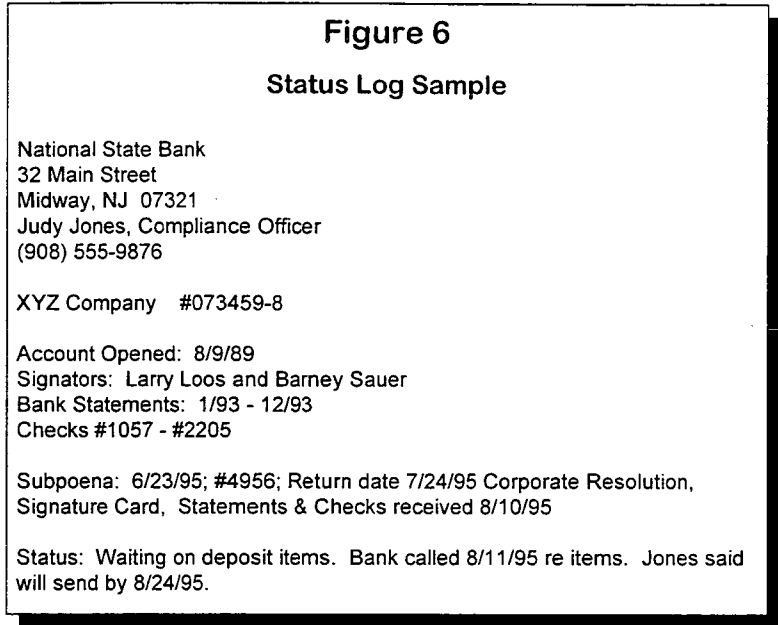


If the records are from separate sources (i.e., some from search warrants and some from subpoenas), then they must be kept in separate boxes so their sources are clearly delineated.

If the financial records being analyzed are complex, involve multiple accounts (more than 6), or are being received from various sources in different time frames, then it may benefit the investigation to track the acquisition of the records. A status log can be developed that will allow the analyst, investigator, and/or attorney to determine the status of requests for records that were/were not received and who to contact regarding the records. This log can be kept in a word processing format or in a data base. It is updated as new information is received or contacts with banks are made. Keeping it up-to-date allows all investigative team members to be aware of the status of each batch of records. A sample Status Log entry is seen in Figure 6.

If there are a very large number of bank accounts (over 50) being dealt with, then a computerized record management system (RMS) might be developed that would track the

subpoena and receipt of bank records in more detail and with more ease of manipulation. This could be done in a database or spreadsheet format. An example of one RMS for bank records is seen in Figure 7.



Over the course of the investigation, it may become clear that certain specific transactions were key to the trail of money or form part of the proof of the crime. These specific checks or other records should then be copied, tagged (as to their source), arranged in proper order, and placed into a binder or grand jury or trial box. This allows the prosecutor to access the required proofs at a glance and see the gaps in the proof that need to be filled.

C. What Bank Records Look Like

Banks are required to retain, for five years, an original or copy of checking and savings account records, including signature cards, statements, transaction records, checks, wire transfers, deposit slips, and deposit items (Title 31, U.S.C. 103.34). Transactions under \$100 do not have to be kept, but

generally are. Most of the records kept are on microfilm; the originals are returned to the account holder or bank on which a deposit item was written (and then back to its customer). Below are brief descriptions and samples of the most common bank records.

Statements

The most common bank record is the statement which lists each transaction cleared in the account since the date of the last statement. Statements are sent out monthly to account holders.

Figure 8 shows an example of a personal bank statement. A statement contains a listing of all deposits and withdrawals made in the account during the period covered. If the statement is obtained by a search warrant on the target, then there should be original checks, deposit slips (not deposit items), and credit/debit memos along with it. If the statements were received pursuant to a bank subpoena, wire transfers and deposit item data should also be included. Statements may vary widely in format but their content is similar.

Figure 8
Personal Bank Statement

Central Trust National Bank
2 South Main Street
Frostburg, USA

"Where your money counts"

Statement

William & Mary Cooleridge
105 North Church Street
Frostburg, USA

Period ending: 4/30/95
Account No: 058312-7
Ending Balance: \$1,732.91

Transaction Detail

<u>Date</u>	<u>Check No./Detail</u>	<u>Amount</u>	<u>Balance</u>
4/3/95			\$942.73
	1375	-\$73.94	868.79
	1377	-\$25.00	843.79
4/4/95	1372	-\$93.21	750.58
	1374	-\$630.71	119.87
	ATM DEP 1112 4111 723 Broad Frostburg, USA	+\$1,275.93	1,395.80
	ATM WTH 1112 4111 723 Broad Frostburg, USA	-\$100.00	1,295.80
4/5/95	1378	-\$52.90	1,242.90
	1376	-\$300.00	942.90
4/12/95	ATM WTH 1112 4111 723 Broad Frostburg, USA	-\$100.00	842.90
	1384	-\$53.95	788.95
4/17/95	1379	-\$84.31	704.64
4/18/95	ATM DEP 1112 4111 723 Broad Frostburg, USA	+\$1,275.93	1,980.57
	ATM WTH 1112 4111 723 Broad Frostburg, USA	-\$100.00	1,880.57
4/19/95	ATM PURCHASE Frostburg Market	\$84.57	1,796.00

Bank statements have become more detailed in the 1990s due to the use of electronic fund transfers. These occur primarily at points-of-sale and at automated teller machines (ATM). Financial institutions are required to provide periodic statements which include the following data for each electronic transfer:

- Amount.
- Date transfer was credited or debited.
- Type of transfer and type of account used in the transfer.
- In reference to the location of the transaction, the address, street number, name of the location, and name of the place of business.
- If funds are being transferred to a third party, that name.
- The account number for the statement issued.
- Any bank fees charged for the transaction.
- Balance of the statement at the beginning and end of the statement period (12 C.F.R. 205.9B 1-4).

The use of a VISA Check Card (or other non-ATM-tied debit card) by an account holder produces similar results. These cards, which act as money access cards, are accepted more widely and generate records of the transaction which are reported on the bank statement.

Checks

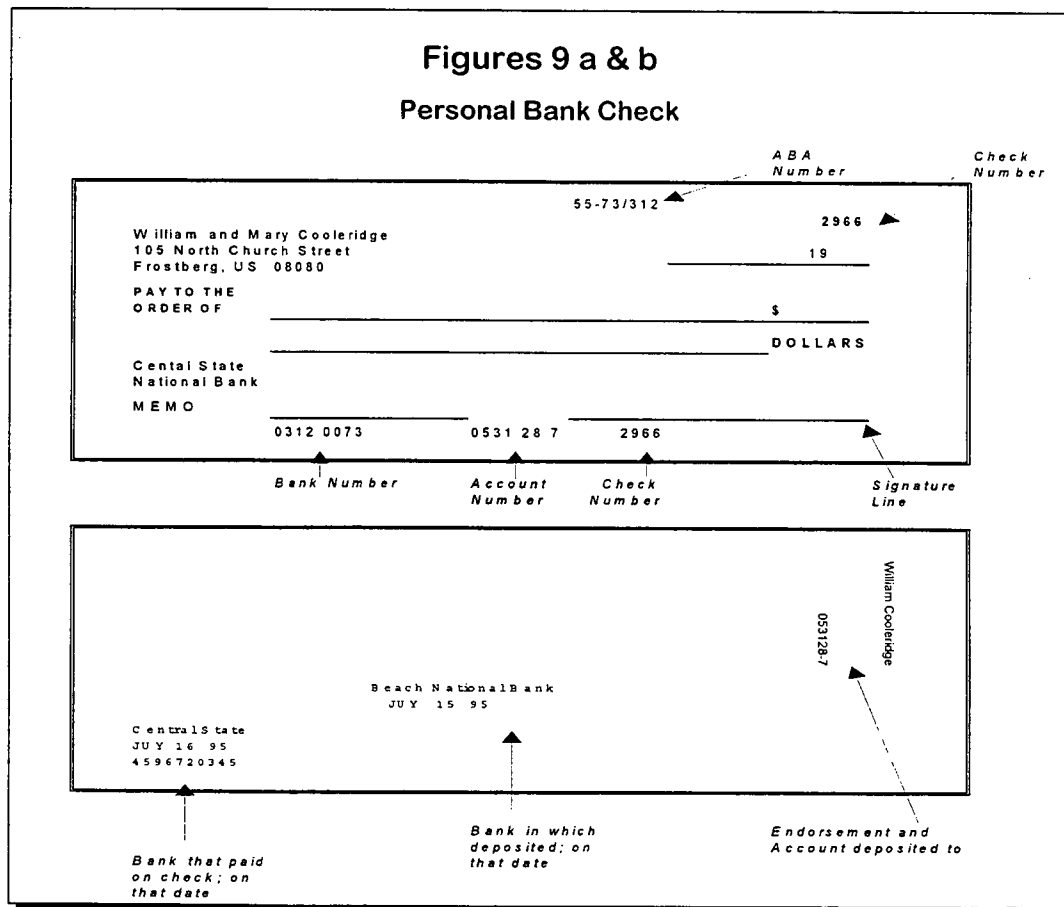


Figure 9 (a and b) shows a sample of a check written on a personal checking account. A cancelled check can provide a wealth of information to the investigator or analyst. First, it gives information about the writer, often including not only the names on the account but the address and telephone number. It tells you the bank at which the account is housed--often with its logo and branch address, as well as the ABA bank number,⁴ found in two locations: in the upper right corner and at the bottom left of the check. The account number is found on the bottom center of the check, followed by the check number which is also imprinted on the top right of the check. (It is helpful to have the check number in two places on its face in case the upper corner has been torn off or that portion of the photocopy is blurred.)

The amount of the check appears in three places on its face once the check has been cancelled. The maker of the check (its signatory) writes both a numerical and a written version of the money amount on the check. This is done to avoid mistakes in interpreting the numerical or written value shown. When the check is cancelled, that amount is also imprinted on the lower right corner of the check, thus verifying the amount handwritten above.⁵

The back of a personal bank check, shown in Figure 9b, shows the endorsement by the payee and the cancellation stamps of the banks involved. The endorsement space on the check can be quite informative. If endorsed by an individual, it may show not only the signature of that person but also the account number to which the check was deposited. If the check was presented for cash, it might have an identifying drivers license number and/or credit card number on it.⁶ Restrictive endorsements (e.g. "for deposit only") are used to prohibit other use of the check (*N.J.S.A.* 12A:3-205).

Another endorsement method on a check is by rubber stamp used by a company or bank which may say: "XYZ Company, Inc. / For Deposit Only / Account #073549-8 / National State Bank." If a stamp is used, then the analyst knows the exact destination of the check.

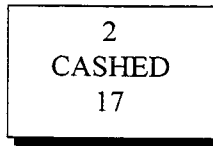
There are usually several processing stamps banks make on the back of a cancelled check. The banks stamp the check each time it is presented. Thus, if a check is written on one bank and presented to another for cashing or deposit, then the second bank stamps it when the check is deposited or cashed. The stamp generally includes the bank name, branch office/number, and date of the deposit/cashing. It will sometimes include an account number, particularly if it is going to an account owned by the bank for a loan or credit card. If the check is cashed at the bank on which it was written, then only the stamp of one bank will be seen. There should, however, be a "cashed" stamp on the check (front or back), which

⁴ ABA (American Banking Association) numbers. Generally, these are shown as: 55-73 where the top left number is the state code (in this case, New Jersey), the top right is the bank number, and 312 the bottom number signifies the Federal Reserve District (first numeral = 3 = Philadelphia District), the center numeral distinguishes between head offices (1) and branches (2-5), and the right numeral designates the availability of credit--1-5 = deferred credit, where 0 = immediate. A listing of bank codes can be found in Appendix C.

⁵ If the written numeral and spelled out numbers are not the same, bank law says that (1) handwritten terms control typewritten and printed terms, (2) typewritten terms control printed, and (3) words control figures unless the words are ambiguous (*N.J.S.A.* 12A:3-118). If a payee's name is misspelled, then the person can endorse the check in both the incorrect name and his own; some banks require both signatures before paying the check (*N.J.S.A.* 12A:3-203).

⁶ In the case of foreign nationals residing in the U.S., their alien registration number may be used.

varies in appearance from bank to bank, but could look like the following:



This stamp may identify the teller who handled the transaction. That individual may recall the transaction in question and could be a valuable witness for the prosecution.

In the event that the check was negotiated at a commercial check-cashing establishment, the establishment's stamp may be seen on the back of the check. This stamp can include the name of the establishment, the bank account into which it deposited the transacted check, and its license number (in states where these entities are licensed⁷). It has also been reported that some check-cashing businesses do not use an identifying stamp so that the transactions cannot be recognized as being made through a commercial check casher.

Deposit Tickets

Figure 10
Deposit Ticket

DEPOSIT TICKET		Currency			
Barbara Taylor 32 Main Street Oxford, NJ 08876		Coin			
DATE _____ 19__		CASH			
Sign Here for Cash Received _____		List Checks Singly			
		Total From Other Side			
		TOTAL			
		Less Cash Received			
		Net Deposit			

CORE STATES BANK
:031200730: 05851031

ABA Number
55-73
312

ABA Number Account Number

A deposit ticket is used to provide a record verifying the check amounts and ABA numbers of checks deposited into an account. It includes a space for the date, a line for each check's amount, a line for cash deposited (and sometimes for cash subtracted from checks deposited which is paid to the depositor), and a total. On pre-printed deposit tickets, the account holder's name, address, and account number are imprinted, along with the name of the bank. Some deposit slips also have a signature line for use "if cash received from deposit." Figure 10 shows a deposit slip.

⁷ In New Jersey, for example, the Check Cashers Regulatory Act of 1993 (*N.J.S.A. 17:15A-30 et seq.*) establishes the fee allowed to be charged by check-cashers, along with the stamping required and restrictions on the cashing of corporate checks.

Deposit ticket copies are generally maintained by the depositor. The bank retains not only a copy of the deposit ticket, but makes copies of the fronts and backs of deposit items--the checks that have been deposited. If cash has been deposited, some banks use a "CASH IN" ticket on which they imprint the date, amount, and account number when it is processed.

Signature Cards and Resolutions

A signature card provides certain information to the investigator. First, it gives the name and social security number of the account holder and the date the account was opened. (This could vary significantly from the date upon which deposits or other activity began and could indicate the presence of planning (intent) and shell companies/accounts.) It also shows the names, signatures, and social security numbers of other persons authorized to sign on the account. On a business account, it also tells what the account openers claimed the business was involved in, its address, and its federal identification number. A sample signature card is shown in Figure 11.

Corporate bank accounts generally require written permission to open by virtue of a corporate resolution, signed by the officers of the corporation. A sample resolution is seen in Figure 12. It is important to note that if the person initiating the corporate banking is known to the bank, it may allow the individual to certify the information on officers and the permission for account opening in contravention to the note at the bottom of the form, which says it needs to be countersigned if the person submitting it is also a signatory.

Figure 11

Business Signature Card

Title of Account		Account Number:		
Customer No.	CHK	CORP	TN	
	SAV	PARTN	UNINC	
Soc. Sec. #	No. Sign. Required			
Fed. Tax ID				
Authorized Signers (Name, Title)				
Business Phone		Type Business		
ID Verified By				
Branch Name	Opened by	MGR Date		
Opened	Amount			

In addition to the corporate resolution, there may also be a copy of the certificate of incorporation filed with the account opening information. This also has important data on it, including when the company was incorporated and who its directors were at that time. If the company was not incorporated, but is "doing business as" or "trading as," then a copy of the fictitious name papers filed with the county may be submitted to support the account opening.



Figure 12

Corporate Resolution

Account Number

Tax ID Number

I, the undersigned, hereby certify to _____ --("Bank"), _____ Township, _____ (state), that I am the Secretary of _____ ("Corporation"), a corporation duly organized and existing under the laws of the State of _____; that the following is a true copy of resolutions duly adopted by the Board of Directors of said Corporation at a meeting held on _____, 19 _____, at which a quorum was present; and that such resolutions have not been rescinded or modified.

- 1. Resolved, That _____ Bank is hereby designated a depository of this Corporation and that an account be opened and maintained in the name of the Corporation with said Bank; that any _____ of the following officers of this Corporation (list titles only):

are hereby authorized, on behalf of this Corporation and in its name; to sign checks, drafts, notes, bills of exchange, acceptances, or other orders for the payment of money from said account; to endorse checks, notes, bills, certificates of deposit, or other instruments, owned or held by this corporation, for deposit in said Bank; to accept drafts, acceptances, and other instruments payable at said Bank; to waive presentment, demand, protest, and notice of protest, or dishonor any check, note, bill, draft, or other instrument made, drawn, or endorsed by this Corporation; and,

- 2. Further resolved, That any _____ of the following officers of this Corporation (list titles only):

are hereby authorized to borrow on account of this Corporation from the said Bank upon such terms as they shall deem advisable and to make and deliver notes, secured or unsecured, drafts, acceptances, agreements or obligations of this Corporation therefore and for any and all obligations of this Corporation to said Bank, now or hereafter existing, to pledge or assign and deliver upon such terms as they may deem desirable stocks, bonds, bills, receivables, accounts, merchandise, bills-of-lading, warehouse receipts, mortgages, insurance policies, certificates, negotiable paper, and any other property held by or belonging to the Corporation, with full authority to endorse, assign, and guarantee the same on behalf of the Corporation; to discount any bills receivable or any paper held or owned by the Corporation, with full power to endorse the same in the name of the Corporation; and to execute and deliver all instruments required by said Bank in connection with any of the foregoing; and,

- 3. Further, Resolved, That any _____ of the following officers of this Corporation (list titles only):

are hereby authorized to effect Letters of Credit and Bankers Acceptance financing at any time or times on behalf of this Corporation from said Bank and to sign, endorse, accept, make, execute, and deliver in the name of the Corporation, either originally or in substitution or renewal, any and all applications for credit, drafts, acceptances, and bills of exchange and to secure the payment of any indebtedness or liability of this Corporation to said Bank, by the assignment, pledge, mortgage, transfer, and/or delivery of and the creation of security interests in any assets and property of this Corporation and the proceeds thereof and by execution of any Security Agreements and Financing Statements with respect to any assets and property of the Corporation and the proceeds thereof.

4. Further Resolved, That _____ Bank be and it hereby is authorized to honor, receive, certify, or pay all instruments signed in accordance with the foregoing resolutions even though drawn or endorsed to the order of any officer signing the same or tendered by him for cashing, or in payment of the individual obligation of such officer, or for deposit to his personal account; and said Bank shall not be required or be under any obligation to inquire as to the circumstances of the issuance or use of any instrument signed in accordance with the foregoing resolutions or the application or disposition of such instrument or the proceeds thereof; and,
5. Further Resolved, That the Secretary of this Corporation shall certify to said Bank the names of the persons who are at present the duly elected and qualified officers of the Corporation and shall from time to time hereafter, as changes of said officers are made, immediately certify such changes to the Bank, and said Bank shall be fully protected in relying on such certifications of the Secretary and shall be indemnified and saved harmless from any claims, demands, expenses, loss, or damage resulting from, or growing out of, honoring the signature of any officer so certified, or refusing to honor any signature not so certified; and,
6. Further Resolved, That the foregoing resolutions shall remain in full force and effect until written notice of their amendment or rescission shall have been received by said Bank, and that receipt of such notice shall not affect any action taken by the Bank prior thereto; and,
7. Further Resolved, That the Secretary be, and hereby is, authorized and directed to certify these resolutions to said Bank and that the provisions thereof are in conformity with the Charter and the Bylaws of this Corporation.

FURTHER CERTIFY that the following are the names of the present officers of this Corporation:

Name	Title
_____	_____
_____	_____
_____	_____

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of said Corporation, this _____ day of _____, 19 _____.

_____ Countersigned	_____ Secretary
------------------------	--------------------

NOTE: In case the secretary or other recording officer is authorized to sign checks or any other instrument by the above resolution, this certificate must be countersigned by any other executive officer of the corporation.

(SEAL)	BANK USE ONLY	
_____	_____	
Branch/Department	Date Received	



Debit/Credit Memos

One use of debit and credit memos is to transfer money from one account to another within a single bank. The bank-generated form includes space for a date, amount, approval, office number, account charged/debited, and a box for particulars about where the proceeds of the charge went. When it has been processed, the account number, amount, and bank number are imprinted on the bottom of the debit. A credit memo mirrors the debit memo; the difference is that it says "CREDIT" on it in place of "DEBIT" and has the line, "We CREDITED your _____ account."

Debit memos can appear in any account; they are used by the bank to be paid for checkbook charges, returned-check fees, safe-deposit box fees, or automatic payments, such as auto loans or

insurance payments. They also are used when monies are transferred from savings accounts to checking accounts. Conversely, credit memos are generated by automatic payroll deposits or interest payments to the account. An example of a debit memo can be seen in Figure 13.

Figure 13
Debit Memo

The United Bank of Mid-State

WE CHARGED YOUR CHECKING ACCOUNT DATE _____

DEBIT Approved by _____

TO Office _____

:983216543: *070321567*

Bank Number Account Number

Debit and credit memos are used to transfer money between accounts and are usually generated in response to a request by the person responsible for the account to be debited. This person may telephone the bank or visit it in person, authorizing the transfer.

Wire Transfers

Wire transfers are used to move money to and from accounts that are in different banks. The movement of the funds is done electronically and a log of the transaction is kept by the bank. These logs include the sequence number of the transaction, the originating bank's ABA number and name, the target bank ABA number, and name and account numbers debited and credited. An example of a bank Transaction Log and code explanations, compiled by FinCEN, is seen in Figure 14.



Figure 14

**Segment of a Detailed Corporate Bank Account
Statement Reflecting Wire Transfer Activity**

Bank Name: ABC Bank
Account Name - XYZ, Inc.

Date	Batch Track #	Transaction Description	Debits	Credits	Ledger Balance
11/30/92	(eleven-digit #)	Same Day Transfer Our Ref. Num: xxxxxx Details: Payment for Products	50,000.00		.00

Other Ref: xxxxxxxxxxxx
Beneficiary: Johnson, Inc.
Order Party: XYZ, Inc.
Credit Party: Star Bank
Order Party: ABC Bank

Code Interpretations:

- Account Name:** Name of account owner either sending or receiving the wire transfer payment.
- Date:** The date that the transaction is to take place (i.e., the value or entry date).
- Batch Track Number:** Reference number utilized by the bank to locate/trace the particular transaction.
- Our Reference Number:** Reference number assigned to the transaction by the bank.
- Details:** Details explaining the reason behind the wire transfer payment (e.g., payment for products purchased).
- Other Ref:** A structured reference for the beneficiary.
- Beneficiary:** Party for whom the wire transfer is intended.
- Other Party:** Customer ordering the wire transfer.
- Credit Party:** Financial institution which is receiving the wire transfer on behalf of the beneficiary (in some cases, may also be an intermediary bank).
- Order Bank:** The ordering customer's bank.
- Debits:** Amount of wire transfer if it is being sent out of the bank account.
- Credits:** Amount of wire transfer if it is being sent into the bank account.
- Ledger Balance:** Account balance reflected after the transaction.

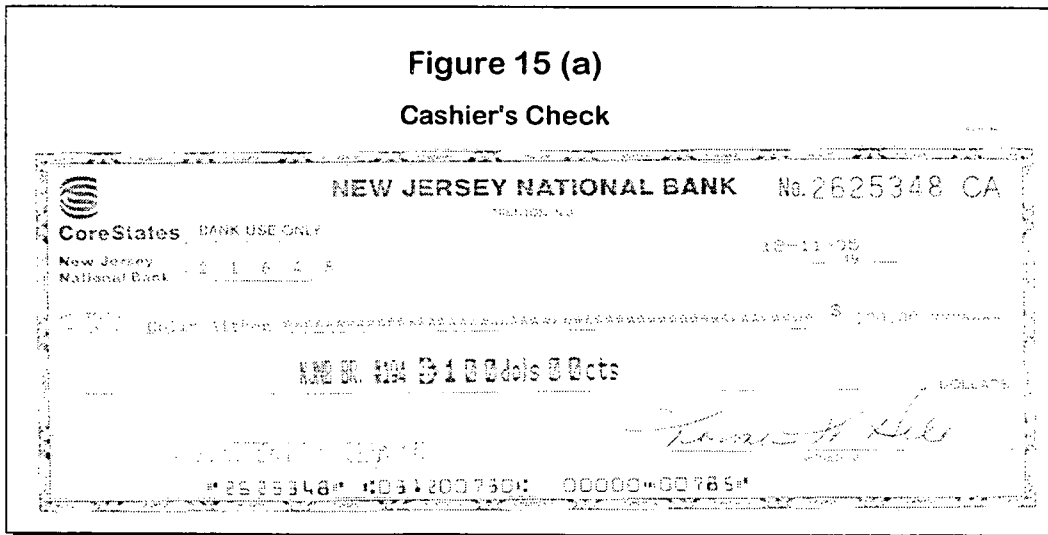
Synopsis of transaction:

The above segment of a detailed corporate bank account statement reveals a wire transfer for the amount of \$50,000 which has been sent by XYZ, Inc. out of its account at ABC Bank to Johnson, Inc. at its account at Star Bank. The reason for the wire transfer payment is the payment for products purchased by XYZ, Inc. from Johnson, Inc. This type of detailed statement would be sent by ABC Bank to its customer, XYZ, Inc.

Source: FinCen, 1993, p. 18



Cashier's Checks



While banks generally use a 180-day limit on paying checks presented, certified checks can be presented at any time for payment. A certified check sample is seen in Figure 16.

Money Orders

Both banks and the United States Post Office issue money orders. The maximum amount on a U.S. postal money order is \$700; on a bank money order the maximum is \$1,000.

Federal regulations cover the issuance of money orders, traveler's checks, and bank checks that are \$3,000 or more (31 *C.F.R.* 103.29). The regulations state that if the purchaser has a deposit account at the institution, then a chronological log must be kept which records:

- the name of the purchaser.
- the date of the purchase.
- the type of instrument purchased.
- the serial number of each instrument purchased.
- the dollar amount of each instrument (31 *C.F.R.* 103.29 a.1.i).⁸

In addition, account-holder status must be verified and the purchaser's identification must be checked, either by the examination of a signature card or a piece of identification normally accepted within the banking community (31 *C.F.R.* 103.29 a.1.ii).

If the purchaser does not have an account at the institution, then the log must contain:

- the purchaser's name and address.
- the purchaser's Social Security Number or Alien Registration Number.
- the purchaser's date of birth.
- the date of the purchase.
- the type of instrument purchased.
- the serial number on the instrument purchased.
- the amount of the purchase price made in currency (31 *C.F.R.* 103.29 a.2.)⁹

Again, the identification of the purchaser must be checked.

Contemporaneous purchases totalling \$3,000 or more will be treated as one, e.g., three purchases of \$1,100 each will be logged. Multiple purchases on one day are treated as one purchase (as long as the institution is aware of them). One way this is avoided is by going to several branches on the same day

⁸ The requirement to log information on the branch where the instrument is purchased was rescinded in October 1994. Effective May 28, 1996, 31 *C.F.R.* 103 was amended to end the reporting requirement for certain transactions, including those by U.S. governmental entities. The Federal Register should be reviewed for more details.

⁹ A requirement to obtain information on persons "on whose behalf the instrument was purchased, the branch where the instrument was purchased, and the fact that it was purchased as part of a multiple sale" was eliminated from the regulations as of 10/17/94 (*Compliance Manager*, 10/26/94).

A savings account is a standard bank account that may be located at a bank or at a savings and loan. Its purpose is to provide an interest-bearing repository for funds. Some have penalties for frequent withdrawals. There are both passbook and statement savings accounts; the difference lies in the type of records kept. In a passbook account, deposits, withdrawals, and interest payments are posted in the customer's passbook when it is brought in to execute a transaction. Statement savings accounts provide the owner with regular statements on the account which are similar to those received with a checking account. A sample savings account deposit slip is seen in Figure 19.

Money Market Accounts

Money market accounts operate similarly to checking accounts, but have a varying rate of interest.

Nominee Bank Accounts

Nominee bank accounts are accounts opened in the name of one person but actually controlled by another person. This may be done to hide legal or illegal assets from discovery by creditors, investigators, or former spouses.

Escrow Accounts

Escrow accounts are established by a fiduciary representative (usually a lawyer, banker, or accountant) to hold money on another entity's behalf. In a simple example, a deposit toward the purchase of a house is placed into an escrow account. In other instances, an escrow account can be part of a series of accounts used to layer financial transactions and hide the source or destination of funds (i.e., launder money).

Trust Accounts

Trust accounts are generally established by attorneys on behalf of their clients. Trust accounts may not be reflected in the books of a law practice because they do not contain practice money, but money held on a client's behalf. Trust accounts may be used (illegally) to pay legal fees directly to an attorney and thus avoid their reporting (through the firm's general activities) as income. They may also be used to hold fees for later distribution (Barson, 1986, p. 37). Trust accounts can be used to purchase assets on behalf of the client without the client's overt participation and can thus be part of a money-laundering-layering technique.

This listing of bank records has been intended to give the reader a general sense of the types of records that can be received in an investigation. Once the records have been received, the next step, compiling the records in a standardized format, is pursued.

E. Compilation Methods

Financial records can be compiled manually or in the computer; in the latter, either data base or spreadsheet software can be used. Regardless of the method used to compile the data, there are certain explanatory and cautionary items to consider.

The most tedious part of analyzing bank records is the entry of the data into the manual or computerized compilation format. A business may have thousands of checks and deposits over a

one-year period; analyzing financial records is often for a two- to five-year period. In many cases, both personal and business accounts need to be reviewed. The average financial analysis may include 3,000-5,000 records.

Data entry is an imperfect task. Mistakes are made; numbers transposed, dates confused. All data entry should be reviewed and verified. Errors can then be corrected prior to the analysis of the data.

Before one can enter bank record data into a manual or computerized template, decisions must be made about categories of information to be entered, how the data will be entered, and any coding that will be used.

Bank records are a combination of numbers (account numbers, dates, transaction amounts) and names (company and individual names, signatories, endorsers). Decisions must be made on how the different numbers and names will be entered. For example, take the bank account number 08-746251-2. If it is entered with the "0" (zero) in some instances and without the zero in others, it may look like two different numbers. The same holds true for the dashes. If they are not used, or put in a different spot (087-462-512), the number looks like it is different. Names may cause a similar problem. If you enter "Washington, George" in some places and "George Washington" in others, it will be harder to pick them up as being the same.

In the interest of preserving space in the manual or computerized data base, coding may be used. Coding is the use of abbreviations, alphas or numbers, to indicate something that would require more space. For example, if you were analyzing several bank accounts and did not want to be placing the 8-9 digit bank account number into the column for "account number" in each entry, you could designate that account as account number three (3). A separate listing of account numbers and their codes would be kept. Similarly, if you were putting down the signatories of business checks in an account with three official signatories, you could use their initials instead of their full names (so long as these initials are unique). The initials would also be maintained on a separate listing with the full names of the signatories.

Once a representation of a name or a code is decided, it should be used consistently or reviewing the records will be confusing to verify and analyze. If more than one individual is involved in data entry or analysis, all should agree on what coding will be used.

Typical codes (abbreviations) used in bank account analysis include:

A/C = account	FDO = for deposit only
AMT = amount	NSF = non-sufficient funds
ATM = automated teller machine	PEG = prior endorsement guaranteed
CERT = certified check	PTO = pay to order of
CK = check	W/D = withdrawal
CSHRCK = cashier's check	WR = wire
DEP = deposit	VCC = VISA check card

Manual Accounting Template

In non-computerized environments today, financial analysis involves placing bank account information on green accounting sheets and tallying the figures using an adding machine or calculator.

Computers are unforgiving about errors in data that is entered. Misspellings, non-specific references (ABC Co. Inc. vs ABC Inc.), or misused articles (Society of Engineers vs Society for Engineers) cause the data to not be sorted correctly by the computer. Care must be taken to insure accuracy and consistency.

Also of importance is determining what "open" fields (e.g., memo or comment fields) will be included. The best data base or spreadsheet is one which has fields for every type of information to be extracted from the data, leaving only incidental information to be placed into the "open" fields. When data is placed into open fields that should be categorized in their own columns, the ability to easily search and sort on that data is lost.

The use of data base software versus spreadsheet software is a matter of personal habit and preference. Those who have accounting backgrounds seem to prefer using spreadsheets, since they are the type of data compilation format taught in accounting-related courses. Spreadsheets are excellent for any form of analysis which requires running balances, significant computation, or computation-derived fields (columns).

On the other hand, data bases allow you to easily change the order of columns, how they are totaled (e.g., based on date, payee, or other modifier) for the purpose of reporting that data. Data bases manipulate data best, while spreadsheets compute data most easily.

Figure 21 is the Explanation of Fields in a Multiple Bank Account Analysis. This larger data base is used when tracing the flow of money through several accounts is needed. The additional fields used (Entity From, Account Number From, Bank From, Amount From, and Bank Deposited To) provide more detail on the sources and destinations of funds flowing through the accounts. Thus, it is an effective tool for use in cases where money laundering is suspected.



Figure 21

Explanation of Fields in a Multiple Account Bank Record Analysis

1. **DATEW:** The date check is written or transaction such as wire transfer or debit memo is generated or withdrawal is made (this is not the date shown on the statement that the check clears; this date is generally not used except in specific cases where a check is held for some time).
2. **CKNO:** The number of the check written on account or check deposited to the account. In the case of a wire transaction, ATM transaction, or debit memo, there would be no check number. A deposit would include a check number unless it were cash.
3. **PAYEE:** The person or entity to which the check is written.
4. **AMTW:** The amount written on the face of the check; if there is a discrepancy between the numerical-amount written and the word-written amount, the bank will usually go by the written amount. Check the amount the bank has imprinted on the bottom right hand side of the check to find which it chose. For the purpose of adding correctly, deposits could be put in as a positive number and checks and withdrawals in parentheses as a negative number (\$14.00).
5. **SIGNR:** The person or persons who signed the check as the authorized signatories. Initials are often used for principal participants.

6. **ENDRSR:** The person or persons who signed the check on the back as the endorser; on checks to companies this may be stamped with the company name and account number with no endorsing signature.
7. **ENTITYFR:** The company or person whose account initiated the transaction.
8. **ACNOFR:** The account number on which the check, debit memo or wire transfer was written.
9. **BNKFR:** The name of the bank from which the check was written.
10. **TRTYP:** The type of the transaction; check, transfer, wire, debit memo, credit memo, deposit, or ATM transaction.
11. **MEMO:** The notation put on the "memo" or "note" line on front of the check or in the box on the front of a company check.
12. **DEPTOBNK:** The name of the bank the item was deposited into (or at which the check was cashed). This could be the name of the bank from which records have been subpoenaed (in the case of deposits to the account) OR the name of the bank stamped on the back of the check as the bank in which the payee deposited the check or the bank at which the check was cashed.
13. **DEPTOACNO:** The account number the check was deposited to. This could be the number of the bank account from which records have been subpoenaed (in the case of deposits to account) OR the number of the account stamped on the back of the check as the account to which the payee deposited the check.
14. **DATED:** The date of the deposit or receipt of the wire transfer or debit memo into the account.
15. **DEPAMT:** The amount of money credited to the account by deposit, wire transfer, or credit memo.
16. **COMMENTS:** The comments field is used to make other comments about the transaction. "NSF" (Non-sufficient Funds) could be placed here, for checks with that notation. Information of a text nature could be placed here. Notes about this transaction's relationship to other transactions could also be included.
17. **LOCTN:** A location field captures locations of ATM withdrawals, deposits, and purchases.
18. **TIM:** A time field captures the time of ATM withdrawals, deposits, and purchases.



A simpler listing of fields (types of information) to be included in a data base or spreadsheet for the entry of bank record information from a single account might include date, payee, check number, signer, endorser, type of transaction, and memo/comments. This format could be used in cases where tracing the funds is not necessary.

Standard data base software can easily be used by a non-programmer to create a data base with these parameters. Some types of shelf data base software include FoxPro™, Q&A™, Access™, and dBase™. Q&A™, which the author has used most, allows the analyst to design the data fields by name, length, and type of data. Once a few records have been added, redesign can be accomplished simply to add or subtract fields, change their length, their type, or their name. There are even shortcuts to be used in data entry that allow you to globally set key items (like bank name and account number, for example,) to save entry time. Figure 22 shows a Q&A™ data base report of bank analysis information.

Figure 22

BANK RECORD ANALYSIS DATA BASE REPORT

SORTED BY CHECKNUMBER

18 FIELDS

Sample Q&A™ Database

CKNO	PAYEE	DATEW	AMTW	SIGNR	ENDRSR	ENTITY	ACNOFR	BNKFR	TRTYP	MEMO	DEPTOBNK	DEPTOACTNO	DATED	DEPAMT
	BANCO DE PLAYA	7/16/95	\$9,000.00			TAYLOR	3421-875	COREST	WIR			548712		
		7/17/95	\$500.00			TAYLOR	3421-875	COREST	ATM		COREST	3421-875	7/14/95	\$6,000.00
	PATHMARK	7/8/95	\$54.89	BT		3421-875	COREST	ATM						
11345	BELL ATLANTIC	7/2/95	\$45.67	BT	BELL	TAYLOR	3421-875	COREST	CK	JUNE BILL	MIDLAND	9876543		
1347	JONES, C	7/2/95	\$25.00	BT	JONES	TAYLOR	3421-875	COREST	CK	PIANO SUSAN	COREST		7/3/95	
1348	EATON VANCE	7/3/95	\$3,000.00	BT		TAYLOR	3421-875	COREST	CK	INVEST	UNITED	198374		
1350	CHASE MORTG	7/5/95	\$752.45	BT		TAYLOR	3421-875	COREST	CK	JULY MORTG	CHASE	97547231		
1351	DR MORGAN	7/7/95	\$65.00	BT	MORGAN	TAYLOR	3421-875	COREST	CK	SUSAN	SOVRGN			
1682	COMCAST	7/18/95	\$52.76	BT		TAYLOR	3421-875	COREST	CK		NATIONAL			
1843	VISA	7/15/95	\$500.00	BT		TAYLOR	3421-875	COREST	CK		COREST			
9632	TAYLOR	7/3/95			BT	BEAR'S TAVERN	532176	MIDLAND	DEP		COREST	3421-875	7/3/95	\$621.68

Q & A 4.0.™

Spreadsheet Analysis

Bank records can also be analyzed using spreadsheet software such as Lotus 1,2,3™ or Excel™. As mentioned earlier, spreadsheet programs are best used for financial analysis which requires numerous computation or a declining balance. They have the added benefit of including graphic software which allows the completion of bar charts, line graphs, pie charts, and freeform charts (particularly event and commodity flow charts).

The same types of data that are placed into a data base can be put into the columns of a spreadsheet, which is, in effect, an electronic accounting sheet.

Figure 23

BANK ACCOUNT ANALYSIS SPREADSHEET IN EXCEL™

DATE	CKNO	PAYEE	AMT	SGNR	ENDRSR	ENTITYFR	ACNOFR	BNKFR	TRTYP	MEMO	DEPTOBNK	DEPTOACNO	COMMENTS
7/2/95	1345	BELL ATLANTIC	(\$45.67)	BT	BELL	TAYLOR	3421-875	CORE ST	CHK	JUNE BILL	MIDLAND	9876543	
7/2/95	1347	JONES, C	(\$25.00)	BT	JONES	TAYLOR	3421-875	CORE ST	CHK	PIANO SUS	CORE ST		CASHED
7/3/95	1348	EATON VANCE	(\$400.00)	BT		TAYLOR	3421-875	CORE ST	CHK	INVEST	UNITED	1928374	
7/3/95	98765	TAYLOR, BETH	\$621.68		BT	BEARS TAV	532176	MIDLAND	DEP	PAYROLL	CORE ST	3421-875	
7/5/95	1350	CHASE MORTG	(\$973.24)	BT	CHASE	TAYLOR	3421-875	CORE ST	CHK	JULY MTG	CHASE	97547231	
7/7/95	1351	DR MORGAN	(\$65.00)	BT		TAYLOR	3421-875	CORE ST	CHK	SUSAN	SOVRGN	7765497	
7/8/95			(\$54.89)	BT		TAYLOR	3421-875	CORE ST	ATM	PURCHS			8TH & MARKET
Total:			(\$942.12)										

This fragment of a spreadsheet shows the bank account information as it might appear in Excel 5.0.

Excel 5.0™

Spreadsheets are good for showing summaries of account information. They can easily depict anything that needs columns and computations. Information can be imported into them from data bases and vice-versa. Figure 23 shows an Excel 5.0™ version of a financial analysis compilation form. It includes the date, check number, payee, amount, signer, endorser, entity from, account number from, bank from, transaction type, memo, deposited to bank, deposited to account number, and comments. Checks going out are expressed in negative (\$0) numbers, while deposits are shown as positive numbers (no parens). Accordingly, a balance figure can be calculated from the amount column.

One advantage to using a spreadsheet is that you can see it being created as input is made; thus, alterations to column size, etc., can be made easily. A separate report function does not have to be entered to create output from the information. Sorting the columns can be cumbersome, however, and care must be taken to “select” all columns before asking it to sort or a batch of unrelated columns will be created. Also, when a spreadsheet has been sorted a certain way for the purpose of a report, it does not then revert back to the original format. Thus, additional sorting may be required.

Regardless of the method chosen to compile the bank account records--manual, data base, or spreadsheet--the key to the effective compilation of the records is accuracy and retrievability. Taking a shortcut in data entry may require the analyst to go back over the records several times to pick up information that was not included the first time.

F. Review the Records for Investigative Leads

Figure 24

Bank Records' Leads Extraction Table

Records Information

CK#	A/C#	Date	Amount	LEAD
101	1234567	2/5/95	\$5,000.00	CK dep into a/c 87654321, Union Bank
	1234567	4/16/95	\$50,000.00	Wire TR to Royal Canadian Bank, BVI, a/c 3459876
	1234567	6/11/95	\$25,000.00	Wire TR to FL Home Mortgage, a/c 00309087
196	1234567	10/1/95	\$65.94	Electric bill at 79 Main St. Cranville, AZ
		8/19/95	\$10,000.00	Wire TR from Banco de Cayman, a/c 70395

This table shows five leads found in bank transactions within account #1234567. Four are outgoing transactions, three of which show accounts with records that may be subpoenaed. The fourth shows an electric bill being paid which may indicate ownership of a previously unknown property. The fifth shows income from an offshore bank; the owner of this offshore account should be identified to determine the source of the \$10,000.

Bank records can provide a wealth of information not just about the persons whose records have been received but also about their sources of funds and the people and places to which they forward funds. The IRS comments that every check has at least one lead (1994, 5-14). Reviewing the records for investigative leads is a critical part of the analysis of records and is often done, at least in a cursory manner, at the onset of the records review. This records review may be done in conjunction with

compiling the data in a manual or computerized file format (data base). One way to compile the leads is to use a Lead Extraction Table which allows the analyst to keep a running list of leads and their follow-up. A sample is seen in Figure 24.

It is imperative that all information on source and destination accounts of key amounts be extracted from the records. The nature of the investigation will dictate threshold amounts of funds appropriate for tracing. The varied pieces of data found in bank records are listed below with what data or leads might be gleaned from them.

Signature Cards

Signature cards show who is authorized to sign the company's checks. These are updated as people are added or deleted from the list; thus, changes in who is responsible for fiscal, administrative, or management duties are reflected here with the effective date of the change. Previous persons involved in the business may be shown on earlier signature cards, giving the names of other people with information on the business. One follow-up to this type of information is checking corporate records for lists of officers, directors, and agents. The signature card may also give the social security number of the signatory or the federal identification number of the company. A business address and telephone number may also be shown.

Corporate Resolution/Articles of Incorporation

A corporate resolution must be filed with the opening of a corporate bank account and is sometimes accompanied by the company's articles of incorporation. These give information on the corporate directors, the registered agent, and how long the business has been in existence. Again, the people named can then be contacted for further information.

Check Payee

The payee of a check can tell the investigator not only who the primary recipients of money are but also who the individual or company does business with. Based on the checks, a picture of a person's lifestyle can emerge--hobbies, pets, educational endeavors, support of relatives, shopping habits, vacations, medical and dental visits, magazines read, etc. These all can be seen through analyzing payees.

The purchase of assets may be shown through these checks or the payment of items related to assets which may not be held in the name of the individual but are, in fact, the person's assets. For example, a \$45,000 check to Bay Marina could indicate the purchase of an asset (boat) outright. A check for \$120 a month to Bay Marina with "slip" written on the memo line could indicate ownership of a boat docked at the Marina.

Missing payees may also provide leads. If no housing, utility, credit card, or other "usual" monthly checks are shown, the person may have other accounts which should be identified and subpoenaed.

Check Number

The usual sequence of check numbers is linear--check 124 is written at a time and date soon after

check 123 and so on. In some accounts, checks may have been written widely out of sequence--123 is followed by 474 which is followed by 381. Several things may cause this: the most innocuous explanation is that there are several signatories for the company, in different locations and each of them has a differently numbered batch of checks which are issued concurrently.

If there is only one authorized signatory and checks are written out of order, it may indicate some illegal activity, ranging from forgery to misuse of funds to money laundering.

Check Date

The date of the check may tell the investigator if the entity is paying its bills on time, is paying late, or is post-dating the checks. These may be indicators of the financial health of the individual or company. The date can also reflect a pattern of payments: weekly, bi-weekly, or monthly payments showing an on-going relationship between individuals or entities. The date shows the span of payment activity. Gaps in the pattern of dates may be meaningful.

Check Amount

If several checks show an amount which is consistent, this may indicate a continuing agreement for legal or illegal goods or services, including kickbacks, payoffs, loan sharking pay back, etc. An amount inconsistent with the "usual" amounts of checks to or from the account may also indicate questionable activity (e.g., a check for \$5,000 when checks are normally under \$1,000).

Check Signatory

The signatory on a company check might be of interest if that signatory changes depending on the nature of the check or depending on other factors. If a signatory signs for checks, say under \$500 and another signs the checks over \$500, this could show their relative hierarchical standing in the company.

If one person usually signs the checks and another one signs rarely, then the checks which the latter person signed should be examined. Is the payee unusual? Is the amount of the check unusual? Is it to cash?

Memo Line

One of the best sources of explanation for a payment or leads is the "memo" line on the front of the check. This can provide an invoice number, the date of a bill (July rent), the account a transfer is destined for (TR to #105379), the payment period (payroll 1/9-1/15/94), and others.

Catchall phrases used on this line can tip off the analyst to possible irregularities. Some catchall phrases used are "loan," "loan back," "pay back loan," and "consulting fees." Some targets have even been known to note illegal activity on the check memo line, including "EXT" (for extortion payment) and "LS" (for loansharking payment). Sometimes account numbers of credit cards are shown on the memo line. In a business account, this can reflect the payment of personal expenses by the business. Likewise, on telephone or utility bill payments, the account number (or telephone number) can signal a payment of personal expenses by the business.

Check Endorsement

A "normal" endorsement on a check would be the name of the payee. Endorsements can provide leads to other information on the endorser. If the check is deposited, an account may be shown. If it is cashed, a driver's license or credit card may be used for identification.

In some instances, a secondary endorsement might show the actual destination of the amount of the check. For example, a check to "Cash" might be endorsed by someone to whom the account holder owes money who does not want their name appearing on the check as payee, as they do not wish to declare the income as taxable (this is not uncommon for odd-job home repair people, cleaning people, etc.).

Secondary endorsement can also be seen on checks written out by the signatory which show that individual as payee. He or she might then endorse the check and give it to another individual who endorses it prior to depositing or cashing it. This activity might be done to obscure the destination of the check and should be noted in a bank records analysis.

Check Stamps by Bank

Regardless of the detail of the check's endorsement (signature, account number, or none), the bank at which the transaction (deposit or cashing) was done can be seen through the stamps on the back of the check. If there was only one bank involved (the check was cashed or deposited at the bank upon which it was written), then the bank's name the date, and varied numbers will be stamped on the back of the check. The banks also use a specific code number to show the check was cashed.

If there were two banks involved (the second being the making bank), then both will have stamped the back of the check as described. Thus, if you have a signature and account number, you also have the bank name at which the account is held and can request information from that account if necessary.

Another bank stamp "NSF" indicates that there were non-sufficient funds in the account when the check was presented for payment. If this is occurring with increasing frequency, the company (or individual) may be heading toward significant financial problems. If the check was negotiated at a commercial check-cashing establishment, that may be stamped on the bank such as:

"For Deposit Only
XYZ Check Cashing, Inc.
123245-42-6
Licensed Cashier of Checks"

Deposit Ticket

Deposit tickets allow the investigator to determine if cash is being deposited and, if so, in what amounts. If the business is cash-oriented (a bar, restaurant, laundry, medical or dental office, medical laboratory, therapist, chiropractor, pizza shop, drug store, convenience store, etc.), it would be unusual for there to be no cash deposited (Barson, 1986, p. 35). It would also be unusual if the cash receipts totaled an even amount (i.e., \$200 or \$1,000) on a regular basis. Barson notes: "The absence of cash being deposited (from cash-oriented business) is a clear indication that cash is being pocketed" (1986, p. 35).

Likewise, the presence of large cash deposits, in "round" numbers, may be an indication of illegal activity. A follow-up to large, regular (e.g., every Friday or the 1st of the month) cash deposits might be a surveillance of the individual at times before such deposits are made to determine the source(s) of the funds.

Cash deposits made the day before checks are written for a mortgage or utility payment may indicate the person has another account (IRS, 1994, p. 5-7).

Some banks require the signature of the person initiating the cash deposit. If this is other than the account holder, the person might be interviewed about the source of the funds.

Deposit Items

Deposit items provide leads on an individual's place(s) of employment, salary, other sources of income, cash income, etc. The dates of deposits should form a pattern (paydays if the individual is working) and may include some larger deposits (tax refund, bonus, cumulative back pay for promotion).

The sources of deposits that are not an individual's known employment may warrant further investigation, including records checks. These deposit items generally have information on their source, including the bank and account number written upon, the name of the person making the check, and some number identifier on the check. They may also have the name of the company or individual who holds the account, its address (and possibly telephone number), and the purpose of the payment (on the memo line).

Certified Checks

Certified checks are generally used only when requested by the payee. In a corporate setting, if vendors are requiring certified checks, this may indicate that the company's checks have "bounced" in the past and, thus, the vendor wants to be guaranteed its money. Some businesses, such as moving companies, may require payment by certified check or cash.

Cashier's Check

Cashier's checks are commonly used to blur the trail of funds used in support of (or as proceeds from) illegal activities. In one example, 149 cashier's checks, each less than \$10,000 were acquired from banks in California and Hawaii and then used to purchase a \$1 million residence (Langone, 1988, p. 54).

In another case, a bank employee helped facilitate the deposit and processing of more than \$2.3 million in cashier's checks which had been purchased in California (with drug proceeds), sent to Colombia, and deposited in Luxembourg (U.S. Department of State, 1995, p. 72).

The bank where the cashier's check was made can be contacted and information obtained on who purchased the check and the source of the funds used for the purchase.

Wire Transfers

Wire transfer data includes the beneficiary bank and account number and the originating bank and

account number. Identifying the destination of the wire and the activity of the beneficiary (e.g., investment house, real estate firm, attorney trust account) is important in asset and proceeds tracing.

Money Orders

The presence of a large number of money orders deposited into an account may be indicative of money laundering. In one example, over \$40,000 in bank and postal money orders were deposited into four shell corporation accounts in a New York bank one day after their purchase at varying New York locations. The monies were then used to purchase large blocks of stock on behalf of these corporations which were, in fact, owned by a broker dealer who used them to manipulate the price of the stock. This beneficial ownership was only uncovered after subpoenaing the records of the attorney for the owner, who was shown to have assisted in the fraud.

Postal or bank money orders, or their application forms, can provide information on their purchasers which may allow the money trail to be followed. The name and address of the purchaser may be shown. On postal money orders, the zip code is shown which will give a location to the purchase. Bank money orders should indicate the branch number where they were purchased. The numbers on the money orders can show if they were purchased sequentially in an effort to avoid larger figure reporting requirements. If they were purchased at varying locations on the same date, this may be an indication that their purchase was part of an effort to avoid currency transaction reporting requirements.

Location of Check's Negotiation

Checks can be deposited or cashed at traditional financial institutions or at other places of business including bars, restaurants, and commercial check-cashing establishments. In some instances, legitimate businesses (such as supermarkets) offer check-cashing privileges to all qualified customers. In others, checks are cashed as a favor to regular patrons. This privilege may imply a relationship between the business owner and the cashier; the owner might then be a source of information on the target. In other countries, nontraditional banking (called "hawallah," "hundi," or "chiti") is common.

When a check has been cashed at a bank, the person cashing the check either has an account there or the company on which the check is written has an account there. Thus, if a bank is cashing checks for an individual, it should be checked for accounts for that individual.

In the United States, commercial check-cashing establishments are found in virtually every city. They serve a legitimate purpose for those who do not wish or cannot afford to keep a bank account. They serve as a convenience to those whose businesses are not near a traditional bank. Some also have wire transmission capabilities which allow people to wire money to relatives in other countries.

Commercial check-cashing entities also support money laundering, tax evasion, skimming, and corporate theft. They support money laundering because they end the "paper trail" of the money once it is converted to cash there. Tax evasion may occur when a company or individual benefiting from the cashed checks does not declare them as income. Similarly, they can be used to remove money from the corporation that never is recorded "on the books." Also, by allowing individuals to cash corporate checks, they may be abetting theft from the corporation.

In effect, corporate checks that are cashed in a commercial establishment end the paper trail of the money, since once they are cashed, the money can go anywhere; it loses its identity (New Jersey State

Commission of Investigation, 1988, p. 91). Accordingly, many checks that flow through check-cashing businesses may be suspect. One source estimated that billions of drug-related dollars are laundered through commercial check-cashing establishments each year (South, 1995, p. 25).

Checks to individuals with known bank accounts may also be suspect if they have been cashed at a commercial establishment. This may have been done to avoid linking the check to the person's account, particularly if it is followed by a cash deposit to his bank account in a similar amount. These records, then, should be compared to known sources of income and bank account records to see if the "trail" can be reestablished.

Check cashing firms are regulated by state law, but in many states those regulations are few. New Jersey law requires that check cashers be licensed, that they meet minimum capital or net worth requirements, that they charge no more than 2 percent in fees, and that corporate checks can only be cashed if the casher has a corporate resolution from the company on hand authorizing the cashing of corporate checks (*N.J.S.A.*, 17:15A-30-52).

Other Leads

The presence of certain types of activity may also be seen through reviewing bank records. For example, frequent payments for express mail from a non-business may indicate that cash or bearer instruments are being sent to other countries. In one case, federal postal inspectors analyzed express mail labels to detect patterns involving packages sent to Colombia, South America. Sixty-one packages were found to contain \$6.1 million in illegal proceeds (U.S. Department of State, 1995, p. 72.). It may be possible to get records of the address(es) the packages are sent to from the express mail service, thus finding out-of-area destinations of the funds.

G. The Analysis of Bank Records

Once the records needed have been identified, obtained, collated (hopefully in a computer), and reviewed for leads, the analysis of the records can begin.

The primary question of most financial analyses is "who profited from the crime?" From there, other questions may be appropriate, including:

- Were the profits received directly or indirectly (through businesses or other people)?
- Were the profits shared with any other individuals or companies?
- How were the profits spent?
- Were assets purchased with the profits?
- Were the assets purchased directly or indirectly (through facilitators, straw parties, or businesses)?
- Were the profits reinvested in the illegal activity (to buy more product etc.)?
- Were the profits spent on consumables and/or higher living? (Are there any profits remaining?)
- Were the profits reported for tax purposes?
- What bank accounts are known for the targets?
- Who are the businesses and individuals being used as conduits for the profits?

Figure 25
Bank Account Summary

XYZ Corporation

#1234567

Union Bank

Period of 1/1/95 to 12/31/95

Beginning Balance 1/1/95	\$ 1,256.93
Deposits (53) 1/3/95 to 12/29/95	\$200,826.16
Withdrawals (50) 1/2/95 - 12/31/95	<u>\$138,288.41</u>
Ending Balance 12/31/95	\$63,794.68

A bank account summary includes opening and closing balances and the totals of all deposits and withdrawals from the period.

Figure 26

Bank Account Summary by Month

XYZ Corporation

Union Bank

A/C # 1234567

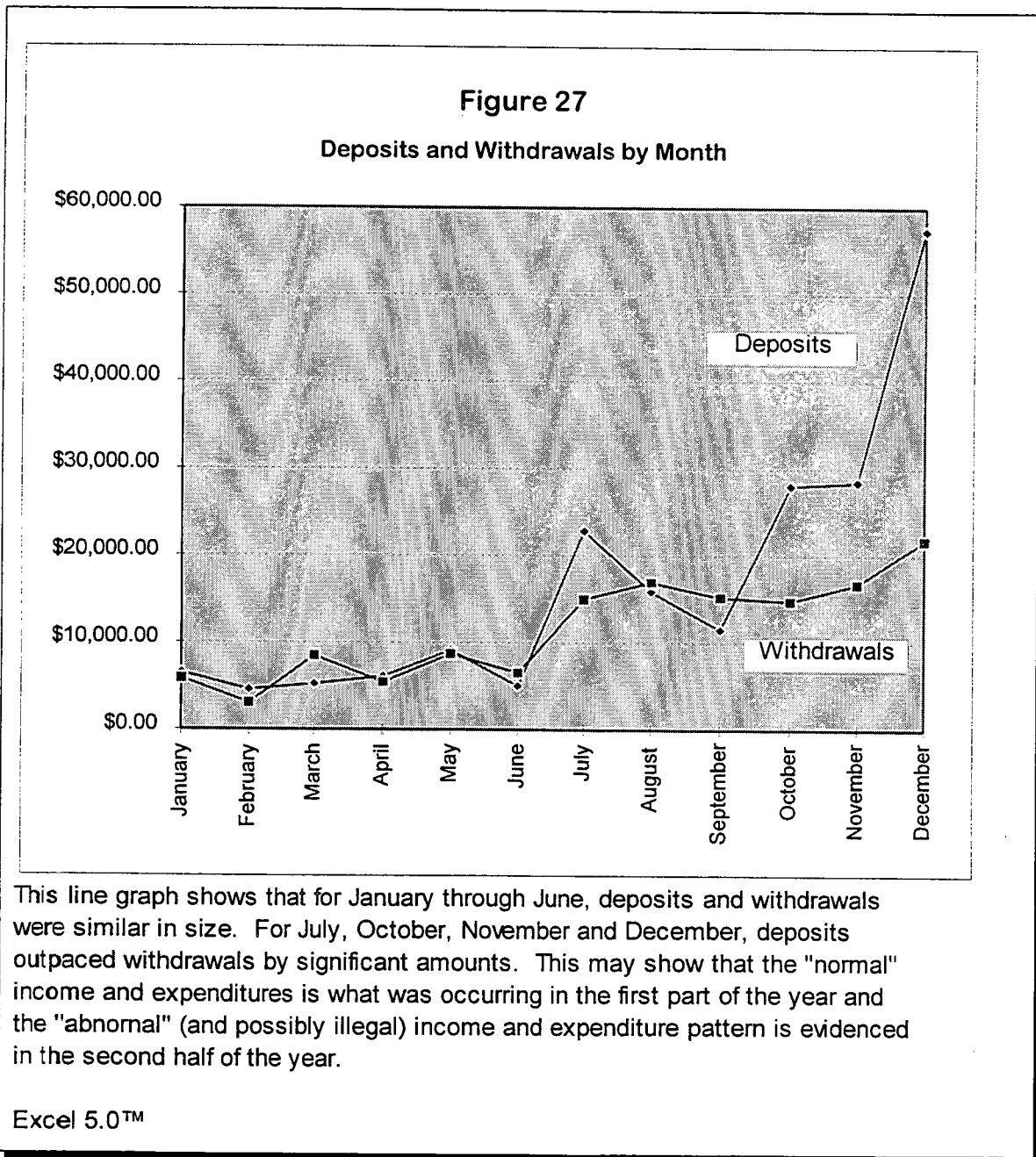
Year: 1994

<i>Month</i>	<i># DEPS</i>	<i>DEP Total</i>	<i># W/D</i>	<i>W/D Total</i>	<i>End BAL</i>
Start BAL					\$1,256.93
January	3	\$6,573.00	4	\$5,921.37	\$1,908.56
February	5	\$4,591.01	3	\$2,986.96	\$3,512.61
March	6	\$5,199.00	6	\$8,412.22	\$299.39
April	4	\$6,115.40	5	\$5,514.69	\$900.10
May	3	\$9,147.80	6	\$8,720.65	\$1,327.25
June	5	\$5,000.00	2	\$6,575.00	(\$247.75)
July	4	\$22,854.23	7	\$14,935.21	\$7,671.27
August	6	\$15,893.26	3	\$16,985.25	\$6,579.28
September	5	\$11,593.35	4	\$15,221.54	\$2,951.09
October	4	\$27,935.12	6	\$14,735.43	\$16,150.78
November	3	\$28,469.35	3	\$16,643.74	\$27,976.39
December	5	\$57,454.64	6	\$21,636.35	\$63,794.68
TOTALS:	53	\$200,826.16	55	\$138,288.41	

This table shows the number of deposits and withdrawals along with the dollar amounts deposited and withdrawn during the year 1994. Various inferences could be drawn from this data. For example, March is the month with the greatest combined number of deposits and withdrawals (12), while November has the least (6). During 3 months (January, April, and May), withdrawals were within \$1,000 of deposits. In October - December, deposits outpaced withdrawals in an increasing manner. Due to increased income shown and retained, the fund-generating activity appears to have had more monetary success as the year progresses.

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The components of the analysis are driven by its goal: e.g., is this to be a financial overview, a concentration on specific types of financial activity, or a concentration on a series of known or suspected transactions? If it is to be an overview, then summary statements may suffice. If it concentrates on specific types of financial activity, e.g., the purchases of real estate, then only transactions relating to those purchases need to be analyzed. If it is believed that drug profits are being sent out of the country through wire transfers of a particular company, then both the sources of the monies into the account and the destination of monies flowing out in large dollar amounts must be reviewed.



In general, a bank record analysis can include summary statements, frequency distributions, and identification of income and payment patterns. The first two will be dealt with in this section, and the last in the section that follows.

Summary statements provide an overview of the activity in the bank account(s). Nossen and Norvelle begin their check analysis with a "Bank Statement Activity Summary Schedule" which includes a statement ending date, a beginning balance, the total of deposits and transfers in, the total of checks and other withdrawals, and the ending balance. They suggest this be done by month with annual totals (1993, pp. 49-50). Quarterly totals may also be used, or totals for another time frame which coincides with the duration of the criminal activity. An example of an annual summary format is seen in Figure 25. A more comprehensive format which breaks the activity down by month is shown in Figure 26. This breakdown allows the analyst to see fluctuations in deposits and withdrawals over the period which may indicate patterns or trends. This activity can also be pictured in a line graph, as seen in Figure 27.

Based on these figures, preliminary observations can be made. The yearly totals in Figure 25 show unusual activity in the account of XYZ Corporation. The beginning and ending balances are very disparate. Monthly totals give specifics of the disparity. Activity in the first six months is minimal in dollar amount compared to the last six months. This could raise a question about XYZ Corporation's business activity. Is it a "shell" corporation without actual income? Is it a small business which does not warrant the fiscal activity of the second half-year?

In the average bank record analysis, summaries are accompanied by frequency distributions. Frequency distributions are arrived at by counting all the records, using one of the columns or fields in the records. For example, using the "transaction type" field, we could count all the transactions, count all the wire transfers made, and total them. Or, one could see how many checks were made by day or month.

Normally, a bank record analysis will include at least the following frequency distributions:

- the records sorted by date.
- the records sorted by payee.
- the records sorted by deposit source.

Each of these are looked at in detail below.

Sorting Records by Date

In a computerized database, the records sorted by date could look similar to those shown in Figure 28. There, the data columns are rearranged to have date first, then amount (with an optional break established by day, month, or year to give subtotals). The records can be selected by transaction type; thus, all deposits could be totaled separately and all checks could be totaled separately.

Printing the records out by date can show a number of things about the bank account under investigation:

1. The check-writing habits of the person in charge of the account:
 - a. Are checks written on the 1st and 15th (or 15th and 30th) only or are bills paid as they come in (checks written spread out over the month)?
 - b. Are checks used to pay for incidental expenses like groceries, dry cleaning, department-store shopping, and trips to the liquor store? If not, are cash withdrawals made by check or ATM

machine to cover these expenses? (If neither, is there another checking account held by this individual?)

c. Are there any patterns of checks written by date or by day of week?

Figure 28

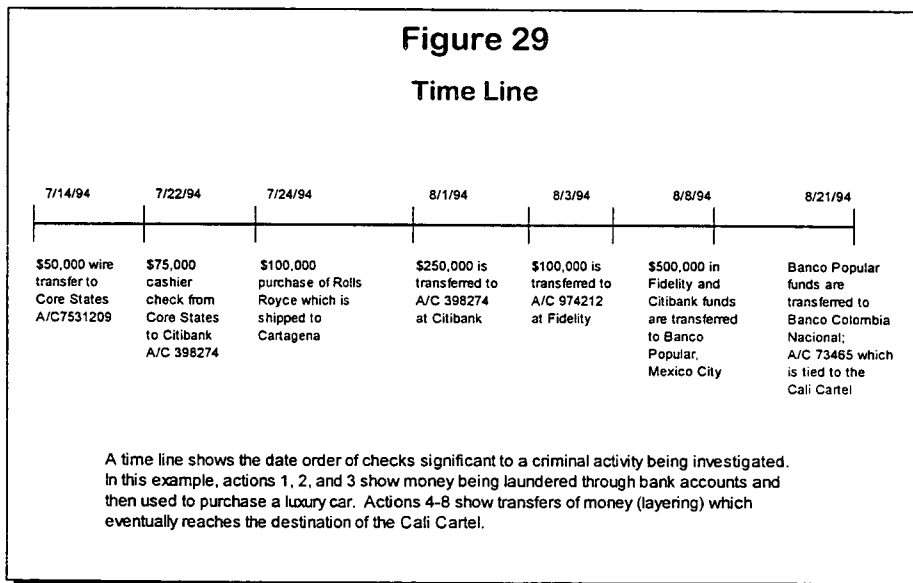
Database Records Sorted by Date

BANK RECORD ANALYSIS SORTED BY DATE
WITH TOTALS PER DATE

DATEW	CKNO	PAYEE	AMTW	SIGNR	ENDRSR	ENTITY	ACNOFR	BNKFR	MEMO	DEPTOBNK	DEPTOACTNO	DATED	DEPAMT	COMMENTS	LOCTN
										COREST	3421-875	7/14/95	\$6,000.00	CASH	PHILA
7/2/95	1347	JONES, C	\$25.00	BT	JONES	TAYLOR	3421-875	COREST	PIANO SUSAN	COREST		7/3/95		CASHED	
	1345	BELLATLANTIC	\$45.67	BT	BELL	TAYLOR	3421-875	COREST	JUNE BILL	MIDLAND	9876543				
7/3/95	1348	EATON VANCE 9632 TAYLOR	\$3,000.00	BT		TAYLOR	3421-875	COREST	INVEST	UNITED	198374				
					BT	BEAR'S TAVERN	532176	COREST	MIDLAND	COREST	3421-875	7/3/95	\$621.68	ATM	TRENTON
7/5/95	1350	CHASE MORTG	\$752.45	BT		TAYLOR	3421-875	COREST	JULY MORTG	CHASE	97547231				
7/7/95	1351	DR MORGAN	\$65.00	BT	MORGAN	TAYLOR	3421-875	COREST	SUSAN	SOVRGN					
7/8/95		PATHMARK	\$54.89	BT			3421-875	COREST						PURCH	LAWRENCE
7/15/95	1843	VISA	\$500.00	BT		TAYLOR	3421-875	COREST		COREST					
7/16/95		BANCO DE PLAIA	\$9,000.00			TAYLOR	3421-875	COREST			548712			#676761	COSTA RICA
7/17/95			\$500.00			TAYLOR	3421-875	COREST						W/D	PHILA
7/18/95	1682	COMCAST	\$52.76	BT		TAYLOR	3421-875	COREST		NATIONAL					
Total:			\$13,995.77										\$6,621.68		

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2. Is there a change in the routine of check paying before, during, and/or after the time period of the alleged criminal activity?



3. Are there times when the individual or company has been in financial difficulties--months or weeks when the balance of the account has been low?
4. Have there been time periods when there were checks written in an unusual manner--either much less than normal or much more than normal--either by their frequency or by their amounts?
5. Has there been an increasing (or decreasing) frequency in low balances or checks returned for non-sufficient funds over the period?

Fluctuations in the target's income and expenditure levels may be depicted in a bar graph. Checks which are key to proving the case can be highlighted in their date order by the use of a timeline as appears in Figure 29.

Sorting Records by Payee

Data base records sorted by payee and printed out would look similar to those shown in Figure 30. In this report, the payee column is first, with the amount second, so that the totals will be made by payee. Dates follow, usually in ascending order, so the analyst can easily extract the date span of the payments, as well as the number of payments made. This report includes information on the endorser, the account, and bank deposited to.¹¹ Again, both deposits and withdrawals are totaled.

Figure 30

Sorted by Payee

BANK RECORDS SORTED BY PAYEE

PAYEE	AMTW	DATEW	CKNO	SIGNR	ENDRSR	ENT'Y	ACNOFR	BNKFR	TRTYP	MEMO	DEPTOBNK	DEPTOACTNO	DATED	DEPAMT
	\$500.00	7/17/95				TAYLOR	3421-875	COREST	ATM		COREST	3421-875	7/14/95	\$6,000.00
BANCO DE PLAYA	\$9,000.00	7/16/95				TAYLOR	3421-875	COREST	WIR			548712		
BELL ATLANTIC	\$45.67	7/2/95	1345	BT	BELL	TAYLOR	3421-875	COREST	CK	JUNE BILL	MIDLAND	9876543		
CHASE MORTG	\$752.45	7/5/95	1350	BT		TAYLOR	3421-875	COREST	CK	JULY MORTG	CHASE	97547231		
COMCAST	\$52.76	7/18/95	1682	BT		TAYLOR	3421-875	COREST	CK		NATIONAL			
DR MORGAN	\$65.00	7/7/95	1351	BT	MORGAN	TAYLOR	3421-875	COREST	CK	SUSAN	SOVRGN			
EATON VANCE	\$3,000.00	7/3/95	1348	BT		TAYLOR	3421-875	COREST	CK	INVEST	UNITED	198374		
JONES, C	\$25.00	7/2/95	1347	BT	JONES	TAYLOR	3421-875	COREST	CK	PIANO SUSAN	COREST		7/3/95	
PATHMARK	\$54.89	7/8/95		BT			3421-875	COREST	ATM					
TAYLOR		7/3/95	9632		BT	BEAR'S TAVERN	532176	MIDLAND	DEP		COREST	3421-875	7/3/95	\$621.68
VISA	\$500.00	7/15/95	1843	BT		TAYLOR	3421-875	COREST	CK		COREST			
Total:	\$13,995.77													\$6,621.68

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From the records sorted by payee, the analyst can develop a "primary payee" listing. A primary payee would be an entity to which/whom either larger than average payments had been made or more

¹¹ A working formula to use could be "n" x 2+1 = primary payee, where "n" equals the mean average of number of payments made and or dollars of payments made. Thus, a primary payee would be greater than double the average number.

frequent payments were seen. Thus, the entities which received the highest dollar amounts from the account would be noted, along with the entities with numerous payments from the account. A primary payee list could be similar to that shown in Figure 31.

Figure 31
Primary Payee List

<u>Payee</u>	<u>No. Pymnts</u>	<u>Date Span</u>	<u>Total</u>
Chase Mortgage	12	1/1-12/3/94	\$11,664
SuperFresh	56	1/3-12/30/94	\$7,805
Chemical Bank	12	1/6-12/5/94	\$3,542
Cash	37	1/2-12/31/94	\$4,330
Mastercard	12	1/3-12/5/94	\$2,400
American Express	12	1/2-12/3/94	\$985
Totals:	141		\$30,726

The primary payee list is usually less than a dozen payees. This "short list" generally accounts for more than half of all account activity (in dollars). The above listing shows activity not out of the ordinary for a personal account, with monthly mortgage, car loan, and credit card expenditures along with slightly more than weekly food shopping and cash withdrawals occurring every 10 days.

Records sorted by payee would also indicate unusual payments made--either by amount or by frequency. If, for example, a single payment were made for \$5,000 in a set of records where no other payment was above \$1,000, then the analyst would want more information on that payment and its payee. Alternately, if someone were paid a set amount every Friday, then an ongoing business relationship might be inferred.

It is by reviewing the records by payee that the analyst gets a sense of what types of activity the person is involved in--based on how the person spends his money.

In a corporate account, expenses may be seen to split into business and non-business related. (A listing of "typical" business expenses are seen in Section III.) Some of the non-business expenses which have been uncovered in business accounts include the payment for or purchases of:

- | | |
|--------------------------|----------------------------------------|
| jewelry | catering services |
| opera subscriptions | horseback riding lessons |
| condominium fees | airplane tickets |
| nursing home expenses | food |
| summer camp fees | wedding gifts |
| horses and supplies | boat dockage fees |
| clothing | car lease payments |
| cars | flower arrangements |
| furs | mortgage |
| country club fees | private school fees |
| personal credit cards | pet care fees |
| personal travel expenses | "consulting" fees to romantic partners |

Figure 32
BANK ACCOUNT RECORDS SORTED BY TYPE OF EXPENSE

A/C # 3421-875

PAYEE	DATE	CKNO	LOANS	UTILITIES	MEDICAL	FOOD	HOUSING	INVEST	CASH	MISC	COMMENT
BELL ATLANTIC	7/2/95	1345		(\$45.67)							JUNE BLL
JONES, C	7/2/95	1347								(\$25.00)	PIANO SUS
EATON VANCE	7/3/95	1348						(\$400.00)			INVEST
CHASE MORTG	7/5/95	1350					(\$973.24)				JULY MTG
DR MORGAN	7/7/95	1351		(\$65.00)							SUSAN
	7/8/95					(\$54.89)					ATM
	7/18/95								\$500.00		
			\$0	(\$45.67)	(\$65.00)	(\$54.89)	(\$973.24)	(\$400.00)	(\$500.00)	(\$25.00)	
TOTAL:										(\$2,063.80)	

This shows the expenditures by type. In order to do this in a data base, the analyst would have to insert an additional column that "labeled" the expenditures by type. Then, they could be sorted and totalled by type of expenditure.

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Similarly, if a personal account does not have typical expenses such as the cost of shelter, clothing, utilities, cash, or phone bills, it is almost certain that a business is paying for these personal items (Barson, 1986, p.37).

An alternate way of reporting expenditures by payee from an account is to list them by category, such as "utilities," "clothing," and "supplies." The amounts spent for these types of items can then be totaled. It should be cautioned, however, that these amounts may not represent accurate totals for items such as clothing, travel, or supplies, since these items might also be placed on charge cards which then are paid in the aggregate. An example of this type of printout is seen in Figure 32.

Sorting Records by Source From

The sources and amounts of deposits made into the account are important to analyze. A separate computer report, choosing only those records with "3421-875" as deposited to account number--DEPTTOACTNO--would yield these records. They could be then sorted and reported out as shown in Figure 33.

Figure 33

BANKACCOUNT DEPOSITS

Sorted by Company/Account From

ENTITY	DEPTOACTNO	PAYEE	ACNOFR	BNKFR	TRTYP	MEMO	DEPTBANK	ENORSR	CKNO	DATED	DEPAMT	COMMENTS	LOCTN	TIM
	3421-875						COREST			7/14/95	6000	CASH	PHILA	17:52
BEAR'S TAVERN	3421-875	TAYLOR	532176	MIDLAND	DEP		COREST	BT	9632	7/3/95	621.68	ATM	TRENTON	15:35

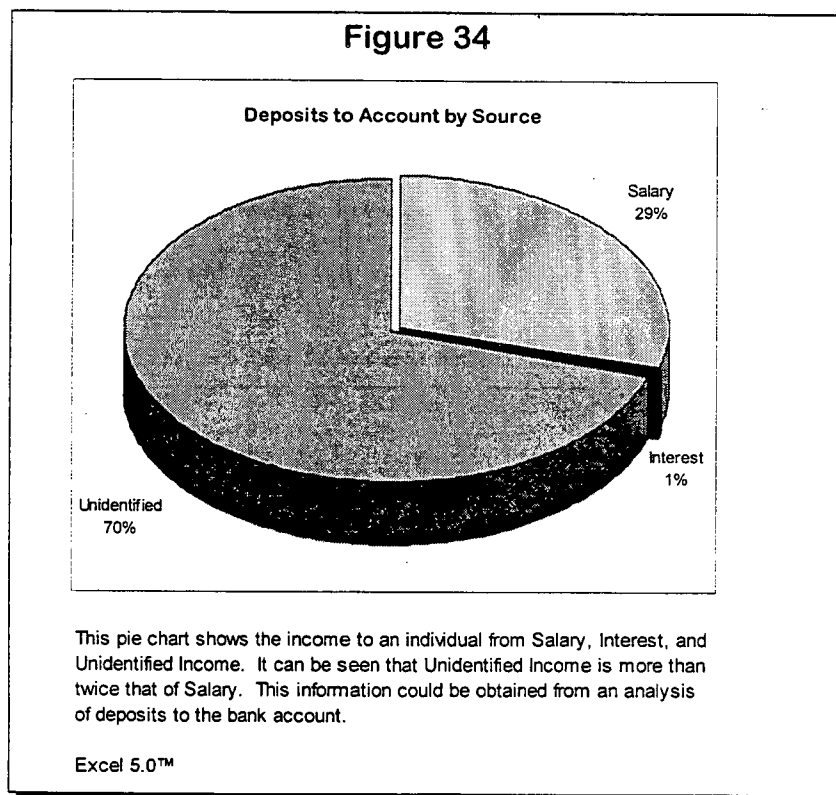
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This report allows for totalling, by source, the amounts received. It then shows the account number from (this is not used as the first column, since one company may have several accounts), date (from which you can get a date span of the transactions), the account number deposited to, and payee, etc.

The sources of the deposits are critical because they identify “normal and usual” sources, such as paychecks, tax refund checks, or travel reimbursement checks, and they can show “unusual” sources which may need to be explained. They also provide the evidence for the monies going into individual or corporate accounts, documenting the paper trail. This is critical to the proof needs of the investigation.

An example of why this trail is needed is seen when Company A receives \$1 million in fraudulent profits along with \$500,000 in “legitimate” profits (total \$1.5 million). The president of the company (who is actually a “silent partner”) receives a salary of \$200,000 from the company. Can he be prosecuted for fraud? Are his profits from the fraudulent \$1 million or the legitimate \$500,000 of the income? If 66 percent of the money came from fraud, could the investigator assume that 66 percent of the president’s salary came from fraud? Obviously, the defense would argue otherwise. It is up to the prosecutor to show who profited from the crime and how.

If desired, deposits can be broken down into categories for the source of the income, such as “paychecks,” “interest,” or “unidentified source.” This can be depicted in a pie chart if a graphic is needed for a briefing or for court. An example of a source pie chart is seen in Figure 34.



Other Views of Records

There are a number of other sorts and reports of records that can be done as the situation warrants. These smaller sorts provide the specific totals and facts needed to complete larger looks at the financial records.

Figure 35

Deposit Sources by Month

Month	Salary	Unknown
January	\$3,542.48	\$2,000.00
February	\$3,542.48	\$2,500.00
March	\$3,543.74	\$2,000.00
April	\$3,543.74	\$4,000.00
May	\$3,543.74	\$4,800.00
June	\$3,542.74	\$52,000.00
July	\$3,542.72	\$9,000.00
August	\$3,542.72	\$2,000.00
September	\$3,542.72	\$5,000.00
October	\$3,544.30	\$3,600.00
November	\$3,544.30	\$3,200.00
December	\$3,544.30	\$50,000.00
TOTALS:	\$42,519.98	\$140,100.00

Viewing these deposits by source and month, it is seen that the individual had an income of between \$2,000 and \$9,000 per month from sources other than salary. In addition, there appears to be two lump-sum sources of income occurring in June and December.

Excel 5.0.™

Figure 36

Primary Payees by Month

Month	RT Exports	Casa Canta	Emilio's
January	\$50,000.00	\$0.00	\$0.00
February	\$75,000.00	\$0.00	\$0.00
March	\$5,000.00	\$80,000.00	\$0.00
April	\$0.00	\$75,000.00	\$0.00
May	\$0.00	\$105,000.00	\$0.00
June	\$0.00	\$134,000.00	\$0.00
July	\$0.00	\$110,000.00	\$10,000.00
August	\$0.00	\$50,000.00	\$95,000.00
September	\$0.00	\$0.00	\$142,000.00
October	\$0.00	\$0.00	\$150,000.00
November	\$0.00	\$0.00	\$173,000.00
December	\$0.00	\$0.00	\$184,000.00
TOTALS:	\$130,000.00	\$554,000.00	\$754,000.00

In this example, large payments are made to three entities during the year—RT Exports, Casa Canta and Emilio's. By comparing them by month, it is seen that the payments increase throughout the year while changing from RT to Casa to Emilio's. There does not seem to be any concurrent payments to these three; thus they may represent a shifting source or destination for the same type of activity.

Excel 5.0™

For example, by choosing the Transaction Type column (field) and selecting "WIR," the investigator could get a listing of the wire transfers in and out of the account. These could be arranged by date or account number to or from to get totals. These might show some pattern of activity either by date or by payee/source. A similar look could be taken at debit/credit memos or ATM transactions.

Matrices can be constructed showing comparisons between two different pieces of data. For example, sources of deposits can be compared by month if there seem to be changes occurring (Figure 35). Likewise, showing primary payees by month could indicate the end of payments to one entity concurrent to the beginning of payments to another (Figure 36).

Where multiple accounts are being viewed, the distribution of deposits and withdrawals to these accounts may be important. If cash withdrawals are made, their occurrence, by month, may be placed in a table. It is always worthwhile to look at the data from every possible perspective to ensure that no data have been ignored. The next section discusses multiple account analysis in more detail.

H. Analyzing Flow Among Multiple Accounts

Due to the complexity of modern criminal financial investigation, it is virtually impossible to work a case that does not require the analysis of more than one bank account. Multiple bank accounts are subpoenaed when:

- (a) There are several individuals suspected of interrelated criminal activity.
- (b) There are multiple bank accounts held by the individual or company being investigated.
- (c) Both a company and related individuals are suspected of illegal activity.

In (a), the analysis of individual bank accounts may yield:

- How much profit was made by each coconspirator.
- If there were transfers of funds among coconspirators.
- If one or more of the coconspirators were more involved in the conspiracy than the others (their "take" might be higher or they might show "up front" expenses).
- The financial health of the individuals.

In (b), the accounts might show:

- Where the profits went.
- Transfers among accounts.
- The possible presence of other accounts (by the absence of "routine" payments).
- Special purpose accounts used by the company or individual (payroll, investment, etc.).
- The presence of other related or non-related criminal activity (e.g., a manager who "skims" profits while his partner is focused on their joint price-fixing scam).

By looking at (c), the following may be seen:

- Salary, commissions, bonuses, reimbursements, and other payments by the company to the individual.

- The disposition of those checks by the individual (into which accounts they were placed or where they were cashed).
- Any "loans" from the individual to the company and vice-versa (which may prove the legality of "loan pay backs" by the company).

In some instances, the multiple accounts may be for the same business or individual. In this case, it is important to note transfers between the accounts and to not tally the same money twice when totalling income or outgo.

Multiple accounts may indicate "special purpose" accounts. In a business, one account may be earmarked as a payroll account or a tax account. An account may be established to receive a particular type of income (investment income, rents, royalties) and to disburse costs against that income. Individuals may keep a "household account" or an "education account."

Savings account or money market accounts may be used to augment regular checking accounts. Businesses with widespread locations might establish local bank accounts that then wire transfer received funds to the headquarters bank.

In numerous instances, flows between accounts are innocent. In others, it can be part of a pattern of fraud, money laundering, embezzlement, or other illegal activities.

The flows among accounts can be seen through the entries in a computerized data base. Having fields which represent both outflow and income allow the analyst to see, in one record, the money move from one account to another (Figure 37).

Figure 37

Database With Flows Among Multiple Accounts

FRCOM										
DEFCO	ACNOFR	BNKFR	PAYEE	DEPTOAC	DEPTOBNK	ENDSR	CKNO	DATDP	DEPAMT	TRTYP
	876543	FIDELITY	GHICO	210987	RIGGS	BAKER	1073	2/5/95	\$5,000.00	DEP
GHICO	876543	FIDELITY	UVWCO	543210	BONY	SILLS	1678	8/30/95	\$25,000.00	DEP
	876543	FIDELITY	NOPCO	098765	MIDLANTIC	DAVIS	2331	11/12/95	\$30,000.00	DEP
	210987	RIGGS	JKLCO	654321	SOVEREIGN	COHEN	5731	10/1/95	\$13,000.00	DEP
JKLCO	210987	RIGGS	RSTCO	432109	FIRST UNION	JONES	2187	5/10/95	\$15,000.00	DEP
	210987	RIGGS	DEFCO	876543	FIDELITY	AMES	732	1/3/95	\$10,000.00	DEP
	654321	SOVEREIGN	NOPCO	098765	MIDLANTIC	DAVIS	902	4/11/95	\$7,000.00	DEP
NOPCO	098765	MIDLANTIC	GHICO	210987	RIGGS	BAKER	397	6/1/95	\$17,000.00	DEP
	098765	MIDLANTIC	RSTCO	432109	FIRST UNION	JONES	2113	7/11/95	\$4,000.00	DEP
Total:									\$126,000.00	

But even in a computer data base, this flow can still be confusing. When this is so, it is best to clarify the situation as much as possible. One way to do this is to use the auditing technique called "tying"--comparing the records in the varied accounts and looking for their matching record in another

account.

For example, if ABC Company employed Hugh Thomas, paychecks would presumably be generated. If the analyst had both ABC's and Thomas' bank records, he or she would see the check generated at ABC with Thomas as payee and would see the check cashed or deposited in Thomas' records shortly after. Thus, we know that Thomas got the check and deposited it into an identified account. Likewise, if Hugh was conspiring with Harry Steed and needed to pay Harry for his services, a cash withdrawal from Hugh's account might be seen followed by the same amount of cash being deposited into Harry's account on that day or the day after.

When a paycheck cannot be "tied" to a deposit into a known bank account, then the possibility exists that all of the target's bank accounts have not been identified.¹² Another possibility is that the check has been "split" (partly cashed and partly deposited), in which case the deposit is treated as cash and no deposit item may have been placed on microfiche.

Figure 38

Commodity Flow Matrix

TO:	FROM:				TOTALS TO:
	DEF CO. #876543	GHI CO. #210987	JKL CO. #654321	NOP CO. #098765	
DEF CO. #876543		\$10,000 1/3/95			\$10,000 1
GHI CO. #210987	\$5,000 2/5/95			\$17,000 6/1/95	\$22,000 2
JKL CO. #654321		\$13,000 10/1/95			\$13,000 1
NOP CO. #098765	\$30,000 11/12/95		\$7,000 4/11/95		\$37,000 2
RST CO. #432109		\$15,000 5/10/95		\$4,000 7/11/95	\$19,000 2
UVW CO. #543210	\$25,000 8/30/95				\$25,000 1
TOTALS FROM	\$60,000 3	38,000 3	\$7,000 1	\$21,000 2	

The commodity flow matrix is an interim product which allows the analyst to show the movement of monies among accounts. The number of transactions as well as the totals of the transactions are shown in the "Totals To" and "Totals From" cells. The dates of the transaction are significant in that they show the order of the transfers and allow the analyst to determine what the "final" amounts were in each account emanating from the transactions. This is used to make a commodity flow chart, seen in Figure 40.

¹² When a bank is asked for "any and all accounts of an individual," they may miss certain joint accounts (husband/wife). For example, a wife may have an account with only her name on it, but her husband may be signatory on that account. The husband's checks can be deposited into the account and he can write checks on the account. In a business setting, the possibility also exists that a secretary or other staff person may have an account that is used by the target.

If funds flow back and forth between accounts on varying dates and in varying amounts, a commodity flow matrix can be used to help understand the flow (Figure 38). A commodity flow matrix is square to allow for two directions of flow to be incorporated. It is an interim product which is used as a basis for drawing a commodity flow chart.

III. PATTERNS, UNUSUAL ACTIVITY, AND INDICATORS

The previous section on analyzing the varied factors in bank records showed the methods used to uncover patterns, unusual activity, and indicators. This section focuses on them in more detail.

A. Patterns of Payments from Personal and Corporate Accounts

Because both individuals and businesses have routine expenses that are paid by check, patterns often appear in bank records. Recognizing what is a usual pattern and what is not may provide assistance to the investigation.

If an individual's bank account is analyzed, some of the following routine and usual payments might be present. Their usual frequency is also noted:

- Mortgage or rent (monthly).
- Car payment (monthly).
- Insurance payments (life, auto, home, health - monthly).
- Food (may be paid by ATM card, check, or cash - weekly).
- Gasoline credit card payments (monthly).
- General credit cards (VISA, MasterCard, American Express - monthly).
- Utilities (gas, electric, telephone, water, cable TV - monthly).
- Day care (weekly or monthly).
- Medical and dental bills (as incurred or monthly payments "on account").
- Donations to church or synagogue (weekly).
- Cash (varying frequency); if individual pays for food by check or ATM and gasoline by credit card, cash amounts should be smaller.
- Personal loan repayments (monthly).
- Cleaning service (weekly or biweekly).
- Child support and/or alimony (monthly).

Hidden ownership of real estate can be discovered through additional payments for utilities, telephone, property tax, homeowner's insurance, etc. Retail charges out of town may reflect travel by target (Morley, 1989, p. 47).

Personal bank records in the 1990s may include the use of Automated Teller Machines (ATM) banking for deposits, withdrawals, and purchases. ATM information on the personal account statement represents these transactions and patterns of ATM transactions might also be noticed. In addition, the location information on the ATM transaction might provide travel pattern information.

If a business's bank records were analyzed, some of the following types of routine and usual payments might be present. Their frequency is also noted:

- Rent on office (monthly).
- Utilities (electric, telephone - monthly).
- Equipment rental (photocopy machine, etc. - monthly).
- Payroll (weekly, biweekly, or monthly).
- Taxes (state, local, and federal); wage; FICA; and sales tax - (by pay period, monthly, or quarterly).
- Supplies (paper, envelopes, stamps, forms, etc. - monthly).
- Licensing fees (annually).
- Equipment maintenance (computers, etc. - monthly).
- Organizational fees (Chamber of Commerce, professional organizations).
- Cleaning service (weekly or monthly).
- Payments to suppliers (weekly or monthly).
- Business loan repayment (monthly).
- Insurance (yearly, semiannually, or monthly).
- Business credit card (monthly).
- Vehicle leases (monthly).

Not only do patterns in payees emerge, but also patterns by date. While many individual bills or business expenses are paid monthly, some are prepaid or paid late (double or triple payment on the same date) due to the ebb and flow of cash. Some businesses pay bills at the last possible time (e.g., on the third notice which says the electricity will be cut off in 24 hours if it's not paid), extending their "credit" with the payee to the limit.

Different types of businesses and corporations would have different patterns of expenditures to varied payees. By reviewing several months of payments in the account under investigation, a "normal payment" picture emerges for that account. Payments can then be compared to that norm to identify unusual payments. For example, if the monthly payment for the business credit card is \$500 and a month shows a \$3,000 payment, that would be unusual.

It is important to note the amounts paid, as well as the payees. If, for example, a business has larger phone or utility bills than would be warranted, the payments may be for more than one account (including a personal account) (Barson, 1986, p. 88). Also, if there are business payments for an expense which cannot be incurred by that business (e.g., fuel oil purchased by a business which exists in an office suite in a high-rise), these may indicate business payment of personal expenses (Barson, 1986, p. 95).

B. Income Patterns in Personal and Corporate Accounts

The deposits made into a bank account can also be reviewed to determine their pattern and any deviations in that pattern.

The average person has income from one primary source: an employer. These deposits can be made directly ("direct deposit") by the employer, can be made by check to the employee, or can be deposited as currency. Pay periods can be weekly, biweekly, semimonthly, or monthly.

What differentiates paycheck income from other income is that it is often in an odd amount (i.e., \$752.34), is very regular in its deposit, and is for the same amount each time.¹³

¹³ Changes in the rate of pay and withholding can affect this sameness, but the new rate, once established, is easily discernible as it continues on thereafter at that odd-cents amount and is most often not too far different from

Once the general rate of pay is established through paycheck deposits, this can be used to estimate or extrapolate an estimated annual earned income for a net worth, source and applications of funds, or deposit method analysis which are used to determine the potential presence of illegal income. Once the frequency of paycheck deposits is established, you can infer that certain checks were cashed or deposited elsewhere by applying normal deposit date patterns to times when no deposit is shown.

Other deposits to personal account might include:

- Refunds from insurance companies for health care benefits.
- Business travel expense reimbursement.
- Tax overpayment refund (in March-May period, generally).
- Retroactive lump sum pay increases.
- Loan proceeds (personal loan).
- Proceeds from the sale of stocks or bonds.

Income payments to a personal account that might be considered unusual would include:

- Large sums from otherwise unknown sources (e.g., not employers).
- Cash deposits of large amounts.¹⁴
- Wire transfers of large sums from foreign banks.

Corporate accounts have usual deposits from sources depending upon the business activity in which the company is engaged. Some types of deposit sources follow:

- Cash receipts (retail establishment).
- Customer checks.
- Loan proceeds.
- Interest/investment proceeds.
- Refunds from vendors.
- Fees from related companies (e.g., "consulting fees" from a profit-making-related company).

Unusual income to a business account would include large, even amounts of deposits in a retail business where receipts are normally received in small, uneven amounts.

Morley notes: "look for at least two transactions of \$10,000 or more on the same day; large deposits in round numbers; and repeated deposits of the same amounts, especially when they are deposited with noticeable regularity. Also look for patterns in the timing of the transactions, such as deposits that occur shortly after an observed narcotics transaction (or other criminal activity)" (Morley, 1989, p. 19).

The timing of payments made shortly after large cash or otherwise anonymous deposits might suggest that the account is being used as a pass-through (layer) in a money-laundering or hidden-ownership scheme.

Patterns of skimming or embezzlement could also be evident. If a cash business routinely deposited its receipts and they were shown in even \$100s, then the "change" might be going into someone's pocket.

the original rate.

¹⁴ Banks allow people to "cash" their paychecks and take a portion in currency, depositing the rest. This deposit is listed on the deposit slip as "cash" and no deposit item or cash-in ticket may be generated.

The patterns seen in individual and corporate bank records may evolve into a trend of what is occurring in the financial life of that person or company.

If, for example, the occurrence of bills paid late increases and the number of checks returned for non-sufficient funds increases, then there is indication that the finances are deteriorating. Bankruptcy could be in the future. The analyst, however, might be able to assemble the proofs that will show that the bankruptcy occurred because of the diversion of business funds for personal use. This could make the bankruptcy intentional (i.e., fraudulent), rather than accidental.

Likewise, the analysis of bank and business records over a particular time period, in which a business engaged in activities which it might characterize as "poor bookkeeping" or "unfortunate business habits" (which others might characterize as fraudulent business practices), will show if the "errors" were made over a lengthy period of time and could or could not be construed as intentionally ongoing.

C. Unusual Bank Account Activity

The next step in bank account analysis is reviewing the deposits and payments for unusual activity. After the patterns of the account have been established, a comparison of pattern activity to non-pattern activity can be made.

Unusual or infrequent activity can be important in a bank account analysis. If the target deposits his or her paycheck once to a different account, the analyst is now aware of that account. If one check is used to pay a condominium fee in Florida, a new asset may be identified.

While the "unusual" aspects of a deposit or check must be taken in the context of a particular account, there are some general guidelines for what might be considered unusual in a personal bank account. Unusual deposits might include:

- Deposits from an unknown source.
- Deposits from a non-relative and not work- or investment-related.
- Deposits of large cash amounts.
- Non-paycheck deposits of a recurring nature.
- Checks being deposited as cash.
- Deposits in large, even dollar amounts (e.g., \$1,100 or \$3,000) that recur.

Unusual withdrawals might include:

- Withdrawals of large cash amounts.
- Checks with "payee" not filled in.
- Checks in large amounts (\$1,000 and over) and/or recurring to individuals.
- Checks to spouse.
- Checks cashed in foreign countries.
- Checks later cashed in commercial check-cashing establishments.
- Cashier's checks purchased frequently.

Loan Payments

The repayment pattern of loans through bank accounts may be indicative of varied illegal activities. For example, if there is no record of the loan proceeds going into the subject's bank account, this may indicate an undisclosed asset or a payoff to someone other than the target. If the loan repayment is long overdue or the repayment is open-ended, it may show collusion between the bank and the subject. Other unusual activities relating to loans are:

- Loan above individual's ability to repay (may indicate hidden income).
- Unusual repayments - lump sums or odd amounts.
- Consistently late payments.
- Loan is in an odd amount.
- Payments on loan not from subject's account (Morley, 1989, p. 34).

D. Indicators Shown Through Bank Records Analysis

The analysis of bank records can provide a wealth of indicators that particular types of activity are occurring. These indicators are reflections of the illegal activity and/or the steps that are being taken to mask the activity or its results. Here are some reasons for illegal activity and the indicators they may produce.

Financial Difficulties

Some people turn to crime because of financial difficulties. The result may be arson for profit, insurance fraud, armed robbery, and even, murder. If a business is having financial difficulties, the following may be seen:

- Decreasing revenues.
- Increased production costs.
- Costly lease or rental agreements.
- Double payments of bills.
- Numerous bank accounts.
- Low or overdraft bank balances.
- Large or frequent currency transactions.
- Personal expenses paid with corporate funds.
- Bounced checks.
- Loans to/from officers/employees.
- Payment of bills by cashier's check, certified check, or money order.
- Delinquent or late tax deposits (Douglas, *et al.*, 1992, pp. 327-328).

If a person is having financial difficulties, the following may be apparent:

- A large number of overdue bills.
- Having a negative cash flow while maintaining a luxurious standard of living.
- Bounced checks.
- Payment of bills by cashier's check, certified check, or money order.
- Costly lease or rental agreements (Douglas, *et al.*, 1992, p. 182).

Fraud Within a Business

There are certain indicators of fraud that can be seen within bank records of a corporation. They include:

- Large or frequent currency transactions.
- Payments to fictitious companies or persons.
- Frequent cashing of checks received.
- Frequent use of cashier's checks.
- Large company loans to employees and other persons.
- Personal expenses paid with corporate funds.
- Payee names on checks left blank and inserted at later date.
- Double payments on billings.
- An individual negotiating checks made payable to a corporation.
- Second or third-party endorsements on corporate checks.
- Excessive use of exchange checks or clearing accounts (IRS, 1993, pp. 172-173).

Illegal Income

Indicators of illegal income into bank accounts include:

- Accounts with high balances in comparison to known salary.
- Accounts receiving large cash deposits.
- Accounts receiving deposits in round numbers.
- Accounts with repetitive, unknown, source deposits.
- Accounts with deposits from cashier's checks.
- Accounts receiving large deposits in bank and/or postal money orders.

The timing of these deposits may be tied to varied illegal activities, including bribes or kickbacks.

Straw Person or Straw Company Account Indicators

- Historical data shows one level of activity which suddenly increases.
- Money enters account in large and/or even sums.
- The timing of the amounts entering the account begins and ends suddenly.
- The source of the money could be a business but is not generally indicated as payroll.
- The money may leave the account a few days after entering it.
- The money often leaves in checks to cash or to the signatory or as ATM withdrawals.
- The straw account holder is often biologically related to the target or may be a friend or acquaintance.
- The income to the straw party is not reported for tax purposes.
- The account balances at the end of the month may be similar to balances before the infusions of cash.
- The straw party may retain a portion of the money in payment for the service.
- The duration of this activity in a particular account may be for a few months only.
- The cash taken from the account may be given back to the target or passed on to someone else on behalf of the target.

Money Laundering

Money laundering is the concealment of the source and/or destination of money which has usually been gained through illegal activities (Title 31 U.S.C. §5324). This concealment is usually done through financial transactions in traditional or nontraditional monetary institutions.

Some potential indicators of money laundering through bank accounts are:

- An individual or corporate account showing virtually no normal business-related activities but is used as a temporary repository for funds.
- A customer who maintains a large number of accounts not commensurate with the type of business being conducted and/or who engages in a large number of fund transfers between these accounts.
- A customer who wires funds to, from, or through narcotics sources or transit countries or countries with bank secrecy laws known to facilitate money laundering (President's Commission on Organized Crime, 1984, p. 54).

For a more in-depth representation of money-laundering typologies and indicators, see Appendix F.

Skimming

Skimming is taking profits "off the top" in a business, that is, taken from gross income (often cash income) before expenses, taxes, etc., are paid.

When profits are being skimmed from a business, a trail may be left for the discerning analyst or investigator. Skimming investigations generally require an analysis of corporate records but some indicators may show through a bank account analysis.

Skimming occurs most often in cash-based businesses where portions of gross profits may not be deposited into the corporate bank account. These businesses include:

- Bars
- Restaurants (including "fast food" outlets)
- Dry cleaners
- Convenience stores
- Car washes
- "Mom and Pop" stores (small retail)
- Liquor stores
- Beauty shops/Barber shops
- Parking lots

Indicators of potential skimming may be seen in a bank account if, for example, there is a significant decrease in the amount of cash deposited by the company. If a pizza shop deposited \$3,000 cash per week for two years, but its weekly deposit suddenly dropped to \$1,500 cash and continued at that level, then the additional cash may be being skimmed. If the skimming were being done throughout the life of the business, then gross receipts or sales tax records might be reviewed to see if all profits were, in fact, banked.

Another possible action that could hide skimming would be a change in the method of paying

vendors. If the business used to pay vendors in cash, but began payments by check, yet a corresponding increase in the amounts of its cash deposits was not seen, then this could indicate that the cash is being diverted.

Skimming can also occur in noncash businesses. This leaves a paper trail but is often unseen unless a serious audit of the company's finances are done.

One common form of skimming would be writing checks to "cash" on the corporate account. It is not unusual to see this method in small companies. Checks can be written from a few hundred dollars up to several thousand with no explanation on their face.

In other instances, the person responsible for the accounting function may use debit memos to move funds from corporate to personal accounts. Some of these may be explained on their face (e.g., "consulting" or "loan pay back") assuming that documentation of the justification will not be required in an audit.

Misappropriation of Funds

One of the most common activities seen in reviewing the bank records of a company, particularly a small one, is misappropriation of funds. This ranges from minor amounts to tens of thousands of dollars per year. While this aspect of the criminal activity known to be occurring may not be fully prosecuted, it can be used as leverage against a target to encourage him to plead guilty and become a cooperating witness.

A common form of misappropriation is having the company pay credit card bills for non-business expenses. While some credit card expenditures are legitimate for business (e.g., entertainment, business travel, corporate promotional materials, office supplies), others (e.g., clothing, jewelry, travel for relatives) are not.

Check Kiting

Check kiting is using the amount of time between when a check is written and when it is presented for payment to defraud a financial institution or vendor.

Some indicators of check kiting occurring in a bank account include:

- an account opened with a check from an out-of-area bank.
- a large number of checks written shortly after an account opens.
- numerous transfers among multiple accounts.
- bank account opened and closed in a short period of time with significant activity while open.

For a more detailed look at check kiting, see Appendix E - written by Sandra J. Putnam.

IV. BEYOND THE COLUMNS

Bank record analysis is more than columns of financial data. Throughout this guide, an attempt has been made to provide more than the figures by adding in tables, charts, summaries, conclusions, patterns,

and indicators as a way to make the investigator and analyst aware of the possibilities in doing and presenting bank analysis.

This section provides additional suggestions for going beyond the columns.

A. Charting from Bank Record Analysis

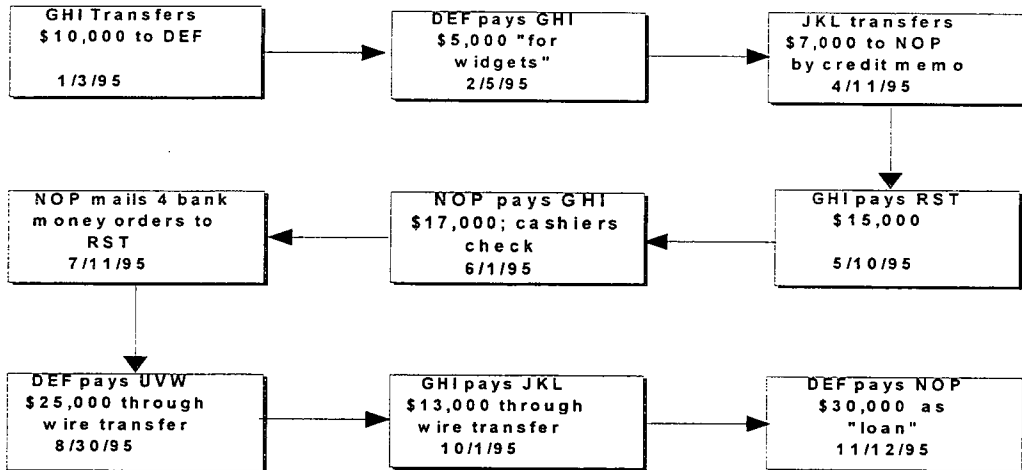
The most common product of a bank record analysis is a table which summarizes the financial activity which occurred. This summary is usually blown-up on foam board and taken into grand jury or court and may look similar to Figure 39. While summarizing the financial data in a succinct manner is important to the investigation, this level of presentation is limited in scope to the "bottom line."

Bank records provide data for a number of other types of visual products, in addition to financial summaries. Earlier in this guide, table, line-graph, matrix, timeline, and pie-chart examples have been seen. Financial activity can also be depicted in flow charts and link charts.

Flow charts include three distinct formats: event flow, activity flow, and commodity flow. Event flow charting organizes the material in a chronological manner; thus, the information on accounts opening and key transactions can be relayed in an event flow chart. An example of an event flow chart is seen in Figure 40. The characteristics of an event flow chart include having symbols connected by arrows showing the direction of the flow. Inside each symbol is a brief description of the event that occurred, along with its date and, if appropriate, time. These symbols and arrows follow in chronological order. Flow charts are particularly effective in showing the specific events leading up to, or comprising, the crime.

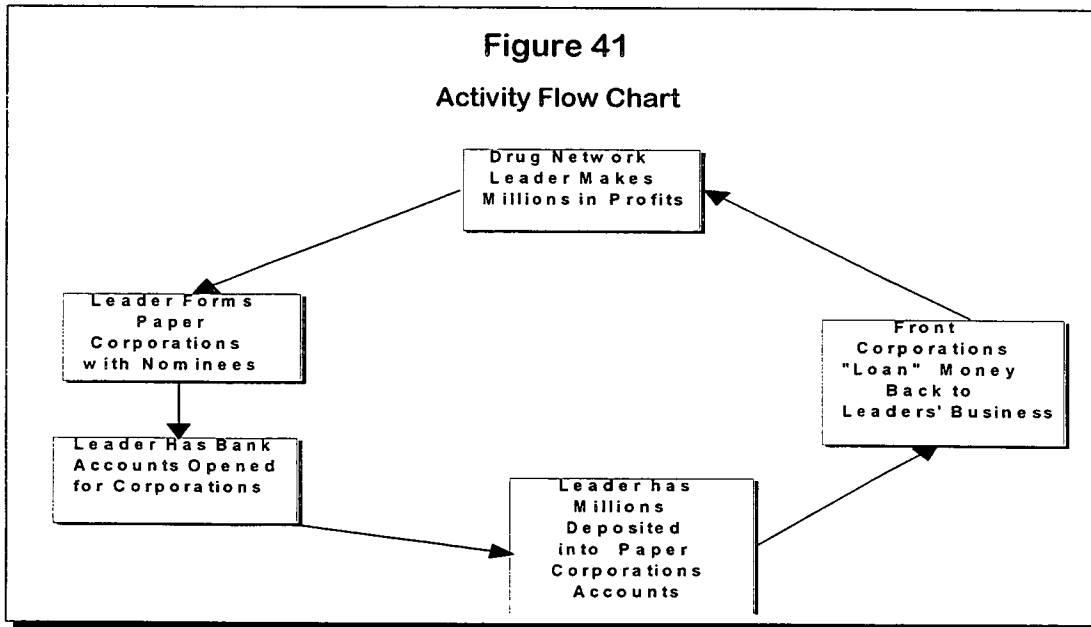
Figure 39	
Courtroom Financial Summary	
ABC Corporation	
25 Main Street	
Coltsville, PA	
1992 - 1994	
Reported Income:	\$1,485,972.00
Reported Expenses:	\$1,415,572.00
Net Profit:	<u>\$70,400.00</u>
Taxes Paid:	\$23,400.00
Receipted Income:	\$3,702,951.00
Receipted Expenses:	\$1,190,337.00
Net Profit:	<u>\$2,512,614.00</u>
Taxes Due:	\$837,536.00
(Taxes Paid)	\$23,400.00
Taxes Past Due:	\$814,136.00

Figure 40
Event Flow Chart



The event flow chart summarizes the activities of the companies in chronological order. The chronology tells us that these transfers occurred once a month in 9 out of 11 months. They also show the activity as occurring between the 31st and the 12th of these months.

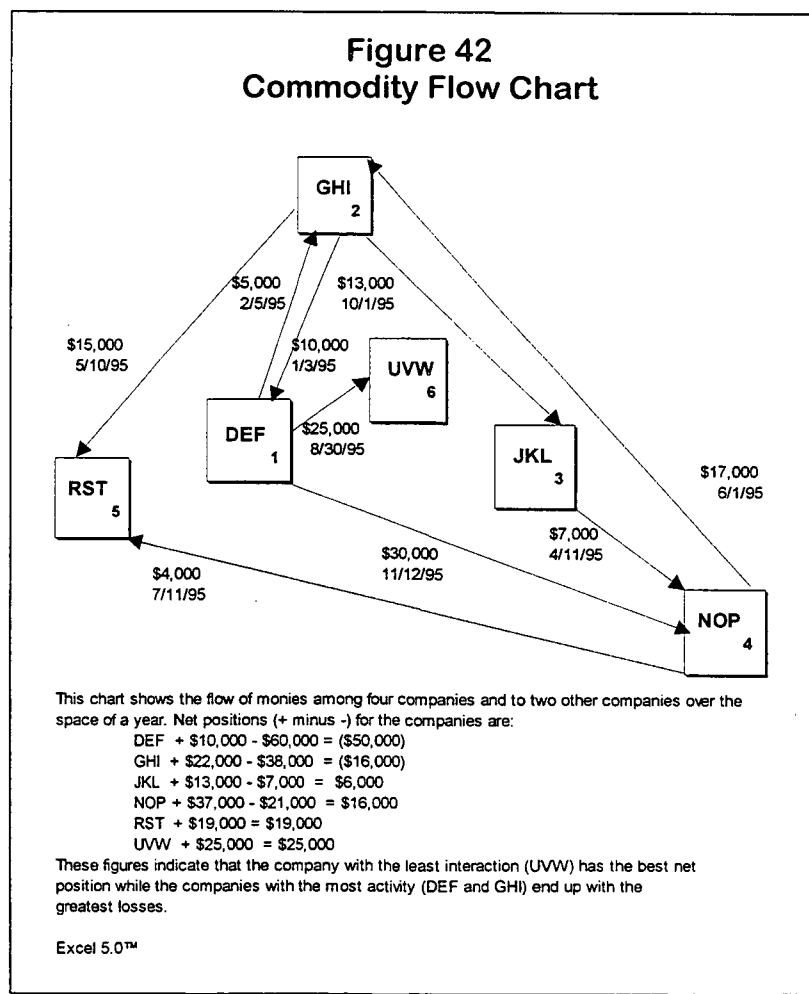
Figure 41
Activity Flow Chart



Activity flow charting also focuses on events in their chronological order but with one major difference: in activity flow charts, no details are given. Names, dates, locations, and amounts are missing. This is because the purpose of the activity flow chart is to show a generic version of what

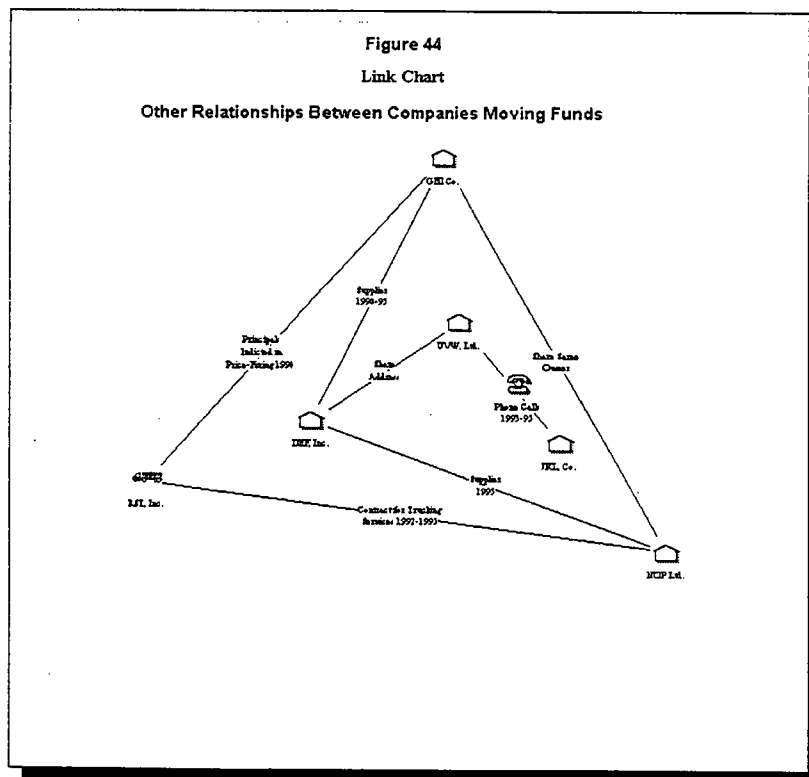
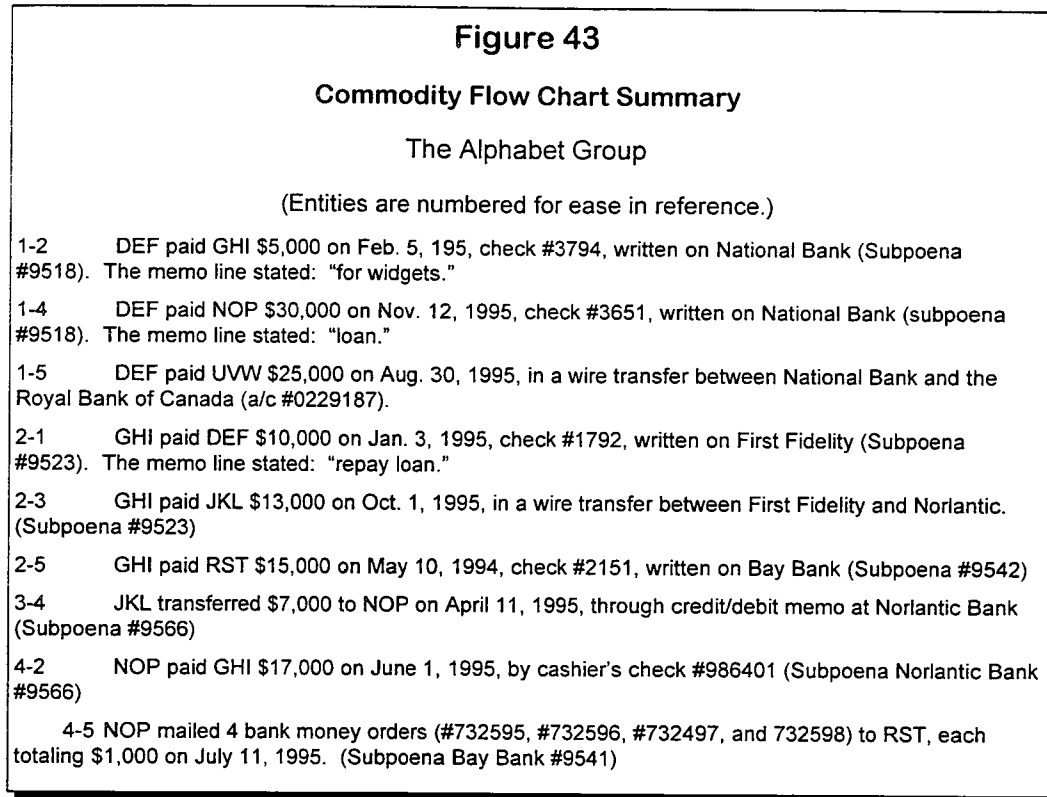
happened. It can depict a modus operandi, or “typical” way the crime occurs, but not the specifics of a particular instance. Thus, the activity flow chart may be an effective way to show a “scheme” that is played-out again and again, or a modus operandi, but not what Jim Doe did to Bob White on January 17. An activity flow chart which relates to a financial analysis is seen in Figure 41.

If multiple bank accounts or other financial accounts are involved in the analysis, then a commodity flow chart can be done. This chart shows the flow of money or monetary instruments through various financial institutions and individuals. Its use is imperative in a money-laundering investigation. It can help investigators, attorneys, judges, and jurors understand the flow of funds through the various accounts. A commodity flow chart example is seen in Figure 42. When a commodity flow chart is presented to management, it is a good idea to present a summary of each connection pictured in the chart as well. This gives the attorney or other person reading it a brief overview of the specifics of the flow. An example of a commodity flow chart summary (relating to Figure 42) is seen in Figure 43.



Link charting provides a view of the relationships between individuals and entities. Symbols are connected by lines which reflect the association between them. A link chart is somewhat similar to a commodity flow chart, but where the commodity flow shows the specifics of the association (how much money went from one to another on what dates), the link chart simply shows that there has been a connection between the two. Moreover, a link chart can include any relevant connections among the

people and entities--telephone calls, co-indictments, business partnerships--and is not limited to flow data. Accordingly, there may be many more connections shown on a link chart. A summary similar to that done for the commodity flow chart would also be effective in supporting a link chart. An example of a link chart is seen in Figure 44.



Charting can be done in any graphics or drawing program. These charts were prepared in Excel 5.0™, which has a freeform charting function, with the exception of Figures 44 and 46 which were done in the Analyst's Notebook™.

B. Summarizing Data from a Bank Record Analysis

It is said that in order to explain something simply, one must understand it well. This is often the case in bank record analysis. The activities occurring within the mass of bank records may be very complex, but must be able to be summarized and charted simply for ease in understanding.

Traditionally, financial information has been presented in tables, with no summations or conclusions being drawn. The figures, it was thought, speak for themselves. The difficulty is that for some people, figures do not speak. The analyst then becomes the translator to tell the reader/viewer what the figures say in words (or pictures).

Several tables in this guide are accompanied by summary statements, including Figures 24, 29, 31, 34, 35, 36, 38, and 42. These statements are iterations of what is seen in the figures--some might call them deductive conclusions.

Summarizing the data in financial analysis requires the analyst, at one level immersed in the data, to step back and take a longer view of what has occurred. This is a critical skill of analysts, and the transition from one view to the other is not always easy.

C. Drawing Conclusions from Bank Records

Drawing inferences from bank record analysis may be easier than drawing them from other, more descriptive, analytical methods because there are so many direct, or deductive, inferences that can be drawn on which one can then base more expansive, or inductive, inferences. Those inductive inferences draw the meaning from the dollars and cents and dates of the financial activities and totals. For example, a deductive conclusion drawn from Figure 42 could be that there are associations between GHI, RST, DEF, and NOP. That is shown clearly on the chart. An inductive inference based on the same figure could be that GHI, RST, DEF, and NOP are involved in illegal activities and have been involved in antitrust violations. That is not shown clearly on the chart, but might be inferred from it.

The conclusions to be drawn from a set of bank records relate to the activity under investigation and the records themselves. If, for example, a company is being investigated for theft and subsequent "laundering" of funds, then the conclusions drawn would state what amounts of funds were stolen and laundered (deductive) and what indicators of laundering were noted as present (inductive). The current location of those funds (if known; deductive) and the viability of reclaiming "x" quantity of money should also be noted (inductive).

In another scenario, bank records may have been reviewed to determine the level of expenditures of the owner in comparison to a known taxable income figure. The conclusions could then state the direct inference--e.g., "The target had expenditures in excess of \$236,000 in 1994, although his reported income to the IRS was \$41,400"--and indicate that the person appeared to be living beyond his or her means (inductive inference).

Another set of records could show that the company's income (amount) was outpaced by its outgo

(amount), in the total of (amount); coupled with checks in the amount of "x" written to or on behalf of the principal in the company. The company's bankruptcy could then appear to have been caused by the amounts diverted by the principal.

Financial conclusions are not always clear-cut. Multiple eventualities may be present (e.g., "either cash from receipts was not deposited into the company's bank account (possibly skimming) or receipts are at a level which does not support the continuation of the business"). More often than not, final conclusions cannot be drawn from bank account analysis alone; more records must be obtained and reviewed.

D. Making Recommendations from the Analysis of Bank Records

Analysis, as a function, includes the derivation of meaning from data. Armed with that meaning, appropriate and helpful recommendations to further the investigation or prosecution can be made. Several types of recommendations are shown here.

Records Checks

The first step beyond the bank information is to find out additional data about the company or individual and the companies and individuals from whom they receive or to whom they give money. Today, those checks are simplified because of organizations like the National White Collar Crime Center and FinCEN, which provide centralized records checking capabilities through a number of on-line data bases. The National White Collar Crime Center is located in Richmond, VA, and can be reached by calling 1-800-221-4424. Membership is open to all law enforcement agencies which pursue white collar crime investigation and prosecution. FinCEN is contacted through state agencies which serve as conduits for information. The names of contact points in your state can be received by calling FinCEN at 1-703-905-3777.

Records Requests

Because investigative analysis is generally done from incomplete and insufficient information as part of the investigative process, the recommendations resulting from a bank analysis may include a request for more records. If the purpose of the analysis was to determine who got the profits and how they were used, then additional bank records may be needed to trace the flow of illegal profits to their end use. This flow could go through numerous accounts--local, in other states, or even foreign countries--and the trail may only be uncovered one account at a time. Therefore, requesting and receiving all the records may take months or years.

Another standard recommendation would be to obtain the business records from a company for which bank records had been analyzed. As was mentioned earlier, a comparison of bank record information to corporate journals, receipts, and/or expenditures may uncover proof of embezzlement, skimming, or money laundering. Additionally, if corporate bank records have been reviewed, the personal bank records of the principals may be requested. It is important to identify and analyze the records of all those who significantly profited from the crime(s).

Handwriting Exemplars

If monetary instruments show some indication of possible forgery or will be used to show a person's

illegal activities, then handwriting exemplars should be requested. These will allow the signatory (or endorser) of a check or signature card to be positively identified, which may be critical to the case.

Investigative Operations/Surveillances/Undercover Operations

A recommendation to surveil a business may be a logical recommendation following the analysis of bank records for a business which has possible illegal funds in its bank accounts. For example, if a pizza shop is reporting \$10,000 worth of business per week, but only three customers are seen going in and buying a pizza over the span of a week, then additional proof of money laundering may be gathered. Are large cash deposits into the account preceded by a visit from an individual to the shop or by one of the shop's employees to another location?

Likewise, if an individual shows large and regular cash deposits to a bank account, in addition to modest paychecks, then a surveillance of that individual might show what activity was leading to the acquisition of the cash being deposited.

Additional Interviews

In the corporate setting, a recommendation might be to get statements from bookkeepers, accountants, or chief financial officers of the organization suspected of illegal banking activities. These persons often have intimate knowledge of the financial practices of the corporation and may be able to tell you not only where the money is hidden or how, but who directed them to hide it, thus giving you the link to the individual actually profiting and knowledgeable about the illegal funds. Alternately, statements from vendors might provide information about the payment history and other financial ability of the business under investigation.

One service analysts can provide to investigators and attorneys is to devise a list of specific questions about the financial documents that can be used during their interviews of targets or other witnesses.

Targeting

Through the review of bank and business records, it may become clear that one or more individuals were key to the criminal activity. These were the persons who wrote the checks, cashed the checks, authorized the wire transfers, or took the money and invested it for personal gain. Sometimes, these are people who were suspected of being central to the crime; sometimes, they are not. Targeting recommendations, based on the facts of the case and the analysis, should be made.

Large-scale financial crime is often committed using the advice and support of facilitators--accountants, bankers, and lawyers--who know how to skirt the laws to maximize profits and minimize tax consequences. When these activities violate the law, the facilitators may become targets of criminal investigation.

Other individuals may also have been identified who are not central to the criminal activity but have knowledge of it. Those individuals might be identified, along with the proof of their lesser crimes, so that they might be encouraged to testify against the key crime figures.

Establishment of a Joint Task Force

If the activity under investigation is multi-county or multi-state, then a joint task force might be established. For example, if a group of individuals were involved in bank card fraud over several states, then working cooperatively with the counterpart agencies in those states would be beneficial.

Referral to Other Agency

If types of activity which are beyond the investigative or prosecutorial scope of your agency have been uncovered by the analysis, then the recommendation might be made to refer the case (or a portion of it) to another agency. Joint investigations might also be worked with civil and criminal enforcement authorities providing a two-pronged attack.

Cessation of Investigation

If the information uncovered is incomplete, appears to be inaccurate, and is unable to be clearly reconstructed, a recommendation might be made to not investigate or prosecute the case further. This can save agency resources and taxpayer dollars so they can be used toward a potentially more fruitful investigation.

An analysis without conclusions and recommendations is incomplete. It is the analyst's job to make recommendations and the management's job to decide which ones should be acted upon.

V. BUSINESS RECORD ANALYSIS

While bank record analysis can show the financial transactions which have occurred through a business' bank account, there are critical records within the business that may either corroborate or refute those financial transactions. For example, a check with the notation, "repay loan" may reflect a documented contract or could be a justification to cover a large illegal payment to an associate.

The types of business records that may be available for review (in addition to bank records) are journals, ledgers, accounts payable, accounts receivable, loan papers, employment/consulting contracts, sales receipts, sales tax records, wage tax records, inventories, corporate credit-card bills, vendor billings, corporate filings, and legal papers. These business records can usually be obtained through search warrants or subpoenas. Stolker suggests that a financial search warrant can include "books, records, receipts, notes, ledgers, . . . bank statements and records, money order and cashier's check receipts, passbooks, bank checks . . . receipts and invoices for all expenditures . . . financial statements . . . contracts . . ." (1989, pp. 32-34).

Although each business has its particular type of records (such as customer account statements at a brokerage house or insurance billings in a doctor's office), general records can be discussed here. General business records can show signs of skimming, embezzlement, money laundering, tax evasion and misappropriation of funds. These illegal activities surface when the records are reviewed and compared to the financial records and to each other.

In one example of such a comparison, the Federal Bureau of Investigation reviewed the business records of a jewelry store in Los Angeles, CA. Their analysis uncovered a money-laundering network

being hidden by the store. The suspects received cash and noted on bills of lading the number of packages, the weights of the packages, and the dollar value. In one instance, the store claimed that it had sold 24K gold to a gold refiner for \$693,000 and \$341,000. The Bureau noted that cash sales that high would be very unusual in a legitimate business and this, tied to other facts, made them conclude that the actions were part of a money-laundering scheme (Beasley, 1993, p. 6).

In general, these records are analyzed by type and then compared to each other and compared to industry/corporate standards where available. Conclusions and recommendations are then made based on that review.

A. Computerized Business Records

In today's computerized environment, many businesses have computerized records. These can be simple and in shelf-software packages, such as Lotus™, Excel™, Quicken™, or Mind Your Own Business™, or they can be in software designed for their type of business, or they can be in customized software designed for them.

Documentation written about what to do or not do relating to seizing and manipulating computerized evidence has been slow in developing. Some organizations do offer classes in computer forensics. The National White Collar Crime Center is one source; the Financial Fraud Institute at the Federal Law Enforcement Training Center is another.

If the records seized are computerized, or are provided on electronic media, this may allow the analyst to review and collate them without being involved in converting manual records to computerized ones. Numerous software programs allow for importing and exporting files; thus, once the data are in the computer, they may be usable to create a number of different products.

Just as with bank records, database or spreadsheet programs can be used to support analysis of the facts and figures. The design of this would reflect the particular records being analyzed or compared.

For example, the records of a video store that is being investigated might reveal the following information:

- Numbers of video rentals per month (by category, i.e., children's, regular, premium, adults, games).
- Price per video rental (by category).
- Other merchandise sold (i.e., snacks, trading cards, used/new videos, cards, gifts, etc.).
- Average income per merchandise category by month..
- Other income (i.e., interest supplier refunds, promotional sales, etc.).
- Total bank deposits for month.
- Payroll costs (salaries, taxes, benefits).
- Physical plant (store, rent, utilities, cleaning service, security, etc.).
- Insurance paid.
- Advertising costs.
- Total to suppliers by category.
- Sales tax records.
- Income tax records.

These types of records would be compared and tied to each other so that any discrepancies or inconsistencies among them could be seen. These inconsistencies would then be reviewed to see if they fit a pattern of fraudulent or illegal activity.

B. Computing Business Profits

For example, in Maryland, law enforcement officials were interested in pursuing companies dealing in video gambling. However, they wanted to prosecute the distributors of these machines rather than the tavern owners involved at the retail end. Working together with MAGLOCLLEN, several Maryland agencies were able to analyze the financial records and see that the distributors were significantly underreporting their income and thus avoiding millions of dollars of taxes. The State then successfully prosecuted these companies resulting in the potential return of over \$3 million to the State (Cook and Peterson, 1987, p. 40).

In that instance, a roughly-drawn industry standard was created based on a sampling of the records of 25-30 similar companies in the geographic area. This served two purposes: (1) to help law enforcement focus on the most egregious offenders among them and (2) to see what "typical" profits, based on the number and types of video machines owned by the company, might be.

Another example of figuring what a business could or should make was forwarded by Fleet Bank at a June 1996 IALEIA conference on money laundering. For a car wash, the number of cars serviced, the cost, and the time were computed to get potential income as shown:

1 car	5 minutes	=	\$10
12 cars	1 hour	=	\$120
288 cars	24 hours	=	\$2,2880
2,016 cars	7 days	=	\$20,160
104,832 cars	365 days	=	\$1,048,320 ¹⁵

(Meade, 1996, p. 6)

Using this example, with the possible income at around \$1 million, if this car wash's sales tax records showed gross profits of \$520,000, then profits may be hidden. Conversely, if it showed profits of \$2 million, then money from outside sources might be being run through the bank account (i.e., possible money-laundering activity).

This type of approach could be used by counting instances of service (in a barber shop or tanning salon) or by supplies used (in a bar or restaurant, for example). To look at a pizza shop's potential profits, the number of pizza boxes used could be counted. A surveillance could also count customers.

Identifying a similar legitimate business and looking at its profit levels could also be done for comparison. Or, industry associations might provide "average profit amounts" for businesses in various geographic locations.

Looking at actual sales slips and comparing ("tying") them to bank deposits is the most specific form

¹⁵ Of course, most car wash establishments do not run 365 days a year, 24 hours a day, so modifications in the formula to reflect actual hours and days of operation would be necessary. In an 8-5, six days a week setting, the annual total from the example would only be \$336,960.

of business profit analysis in a retail establishment dealing primarily with cash. Few people would go to the trouble of fictionalizing thousands of sales receipts. In retail businesses with fewer transactions (e.g., with high-priced merchandise, such as diamonds or furs), it would be less time-consuming to falsify or alter receipts.

In typical retail establishment, receipts are in three forms: cash, checks, and credit-card transactions. Checks are listed separately on the deposit ticket, while cash is shown in a specific box on the slip. Some credit-card transactions are now done electronically while others are done manually at the point of sale and then batched together with a credit-card deposit slip. The checks and credit-card slips can easily be “tied” back to sales receipts.

In that situation, the cash is easiest to divert and a comparison of cash received to cash deposited can be done. If the cash deposited is less than the cash received, then one of four possible scenarios may be present:

1. Cash is being paid to suppliers in return for goods or services.
2. Cash is being exchanged for checks to employees (they are “cashing” their paychecks through the company).
3. Cash is being placed into a petty cash fund for future use.
4. Cash is being “skimmed” or taken out of the profits and pocketed by an employee or owner.

In instances one, two, and three, business journal records should reflect the transactions.

If the cash deposited is greater than the cash received, then either an exchange of checks for cash is being done (i.e., the owner brings in cash to have on hand to make change for customer purchases and then writes a check to him or herself for the money) or cash from another source (legal or illegal) is being commingled in this account.

If the checks deposited are less than the checks received, then these may be being diverted to another account (business or personal) or may be being cashed (and the money taken) through a bank or non-bank financial institution. While some states have laws against cashing corporate checks at check-cashing establishments, this still occurs in many places.

Another method of ascertaining what income a business can generate is through analysis of its inventory. For example, at an electronics store, merchandise is bought at wholesale price and sold at retail. By reviewing inventory records and knowing the usual “markup” involved (how much more than cost the item is sold for), the analyst can estimate how much the establishment made in a month or a quarter or a year. The estimate can then be compared to reported income or to bank deposits. This becomes complex when items are “bundled” (put together for a combined price generally lower than normal retail for all items separately) or are put into a “value added” situation (where something which was not purchased for a set price is included in the package to increase its value at more than retail). Obviously, discounts and sales on merchandise can lower the profits recovered from them.

In situations where “services” are also sold, “typical” costs associated with services may be compiled. An auto dealership, for example, sells parts for autos but also “sells” the installation of those parts (in the form of “labor” on repair costs). Those labor prices are determined by the dealer, not by the cost of the part being fixed or replaced.¹⁶

¹⁶ Car dealerships are a financially complex retail establishment and have been cited as one of the business most

Marshall Morris also comments that inventory can be compared to accounts payable for inconsistencies which might denote fraud (1997, p. 1). Moreover, he says that there tends to be a pattern in the percentage of cash sales versus credit in businesses. If there is suddenly a deviation in this percentage, then skimming could be indicated (Morris, 1997, p. 2).

C. "Funny" Business as Business

It should be remembered that even if the business being operated involves an illegal product, records are often kept. They may be password protected or in code or even encrypted, but they are kept. Few people will try to keep in their heads numerous transactions.

In one example of this, a warehouse thought to be a drug storage facility was found to contain currency packed into boxes and suitcases, awaiting transportation to a laundering facility. Analysis of records found at the site revealed documentation of 114 exchanges over a three-month period, which totaled over \$44 million (Beasley, 1993, p. 3). Further documents seized showed references to "units" involving transactions for \$13,500 to \$14,000--the known price for a kilo of cocaine. Informal accounting records are typical of drug distribution networks (Beasley, 1993, p. 4).

D. Common Check Memos

The four most common notations on bank checks from businesses that the author has seen which may be used to cloak illegal payments to individuals were "commission," "consulting," "loan," and "payback loan." These types of payments are usually in large, even dollar amounts and are for at least thousands, and perhaps tens of thousands, of dollars.

Commissions are generally paid to non-salaried sales representatives. If legitimate, these payments will be reflected in the company's journals and are reported to taxing authorities. Typically, persons receiving commission payments have these tallied in a 1099 (U.S. IRS form).

Consulting payments may also be reflected on a form 1099 and should be corroborated by some type of written contract.

Loans and loan paybacks should also be tied to some written agreement that shows a contractual obligation to repay. In some small companies, employees may be given advances on salary without legal papers being drawn. These are generally for \$100 - \$500 and can be checked against payroll records. Once again, payments masquerading as loans would generally be for thousands of dollars.

Officers in a small company may contribute startup costs to that company in the form of a loan (interest or noninterest bearing) that may be repaid as the company becomes profitable. A comparison of the company's early income to later payments to these officers could support (or refute) this claim.

Pseudo-loans can occur in the hundreds of thousands or even millions. These are generally company-to-company and may be the result of funds laundered through offshore accounts and companies. In these instances, corroborating paperwork may be produced by the company. However, likely to be used to launder money. It is the combination of prices and types of payments that make it complex. While new car prices are often dictated by the manufacturer and include a generally established profit margin for the dealer, used car pricing has a much larger profit margin, which is established by the dealer. And, people may pay thousands of dollars in cash toward or for a vehicle. Payments for parts and service may also be substantial and in cash.

actual "repayment" of the loan may not occur. Or, the investigator may have to look into the offshore company involved in the loan to see if it is closely linked to the company receiving the loan.

E. Other Activity Records

Other types of activity which can be proven or disproven by business records are skimming, embezzlement and misappropriation of funds. A company may retain more information on check stubs and cash journals, for example, on the transaction that has been viewed through bank records. While the "memo" line of a check may be blank, the check stub offers several lines for notation that may provide valuable information. A business journal shows both income and expenditures and may offer explanations for both.

Unexplained bank transactions may also become clearer through a review of the business journal. Transfers from corporate accounts to other accounts with no ownership of accounts shown in bank records may show on whose behalf the transfers were made. Similarly, credit card, auto lease and phone payments can be attributed to their beneficiaries through reviewing business journals, credit card and phone bills, and leasing agreements. It is not unusual for companies which engage in illegal activity to carry these questionable practices into their business records. Non-business expenses charged to company credit cards, payments of rent on personal residences by the business and other misappropriations of company funds may be seen.

F. The Use of Small Businesses to Launder Money

According to Murphy, there are three primary ways in which small businesses are used to launder funds:

- Overstating reported income to disguise the infusion of illegal cash.
- Overstating reported expenses.
- Depositing cash and writing checks in excess of both reported revenues and expenses (Murphy, 1989, pp. 13-16).

If income were overstated, then bank deposits might be "padded" with these extra, illegal dollars to bring credence to the contention that the money was income from the business. If this were done in an ongoing business, then the previous level of bank deposits could be compared to the level while laundering. If the business was designed to launder money from its inception, then the profits deposited would need to be compared to possible profits generated out of a business of its type, location, etc., to determine the likelihood of those amounts being deposited actually being generated as income.

Overstating reported expenses is a way of taking those moneys illegally infused and explaining their departure from the books and resultant non-reporting in the net-income figure of the company. These "expenses" can include the payment of nonexistent employees, paying fees to fictitious consultants, or paying for goods and services that it never received (Murphy, 1989, p. 14). The U.S. Department of State has noted that:

"The practice of over/undervaluing invoices of international shipments as a means of laundering money is an ever-increasing threat to international trade in many countries" (1995, p. 77).

The third laundering method--deposits and checks in excess of reported revenues and expenses--is the most common form of money laundering. In this technique, launderers take in money and send it out independent of the revenues/expenses of the business, but the money shows up as entering and leaving the business bank accounts (Murphy, 1989, p. 15). It is often unexplained on the monetary instruments and may be of large denomination; thus, large, unexplained transactions into and out of bank accounts may indicate money laundering.

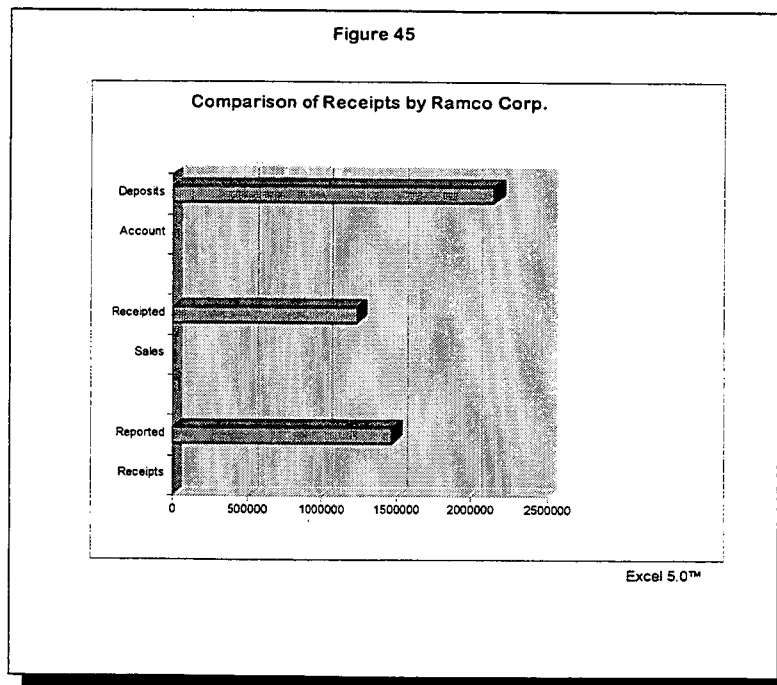
Canadian chartered accountants were recently warned about money laundering in business accounts and told to look for, among other items:

- cash purchase of securities.
- purchases of goods below their market value.
- creation of subsidiaries in countries where it seems unnecessary to invest.
- excessive commissions (*CA Magazine*, September 1996).

The U.S. Department of State developed a listing of industries vulnerable to money laundering, including currency exchange houses, the securities industry, the insurance industry, real estate firms, gold and jewelry dealers, casino operations, travel industry, and the luxury goods industry (U.S. Department of State, 1995, p. 101). The types of businesses that are commonly used to launder funds include many cash businesses such as restaurants and bars, convenience stores, electronic wholesalers and retailers, dry cleaners, car washes, liquor stores, parking lots, and beauty/barber shops.

G. Products of Business Record Analysis

Business record analysis combines accounting, auditing and analytic skills, and products. The comparison of business records can be presented in a financial summary; one of which is seen in Figure 38 in the previous section. This shows money earned versus money reported and taxes owed versus taxes paid. In most business record analysis, comparisons of this nature can be used.



Similarly, pie charts and bar charts can show the amounts graphically. Timelines, event flows, and commodity flow charts all have their uses. An example of a bar chart showing a comparison of business record totals is seen in Figure 45.

H. Conclusions from Business Record Analysis

The information received through an analysis of business records can corroborate or refute the original hypothesis or theory of the investigation. The bank records may give the investigation direction and can be used as evidence, but the business records show intent. An example of this can be seen in bankruptcy fraud. While the defendant may plead a bad season of business as the reason for the corporate bankruptcy, the business records can reflect years of profits being siphoned off for personal use that undermined its solvency.

The business records can allow the investigator or analyst to have more strongly based conclusions and recommendations. While the bank records subpoenaed may show little business activity within a corporation, the possibility of other bank accounts that may show those payments always exists. However, if the business records are not reflective of an active business, then the conclusions become more probable.

The conclusions from a bank record analysis often lead to recommendations to review business records. The recommendations after that review may include:

- Re-interview accounting/payroll personnel; question about inconsistencies in records and if the management was aware of these inconsistencies (or upon whose orders the inconsistent records were kept).
- Re-interview business principals relative to inconsistencies.
- Interview suppliers (if false invoicing is suspected).
- Interview customers (if false billing is suspected).
- Contact state or federal taxing authority to access tax records (if possible).
- Subpoena personal bank records.

VI. FUTURE DEVELOPMENTS

Bankers are preparing for a plastic and electronic future. In 1995, there were 310 million credit cards (MasterCard, VISA, Discover) in circulation, along with 30 million charge cards (American Express Green, etc.), 20 million debit cards and "countless" ATM bank cards (Bouza, 1995, p. 17). In 1997, debit cards were being distributed at a rate of 1.3 million per month, with about half of U.S. households having a debit card (Morrow, 1997, B1). Even with these vast numbers, less than 20 percent of the total dollar value of U.S. transactions are completed using some form of cards, leaving a "market opportunity" of more than \$4 trillion annually (Oehlkers, 1995, p. 3).

Smart cards--wallet-sized, plastic cards with a microchip that keeps track of the charges debited

against a credit limit--are slated to become the credit card of the future (McCloud, 1995, p. 4). Smart cards are now being widely used for prepaid telephone service. Security concerns are high in this area. Safeguards are being considered against their misuse including limiting their maximum value or only allowing their use within closed systems (de Borchgrave, 1996).

Additionally, electronic transfers of funds will be the norm. Home banking via a telephone with a screen (perhaps similar to the current ATM screen) will be popular (McCloud, 1995, p. 5; Bird, 1995, p. 7). One study projects that by the year 2000, telephone banking will account for about 32 percent of all transactions (Neckopulos, 1995, p. 28).

Increased ease in banking and shopping by some form of ATM/debit/smart card will impact on the analysis of bank records; indeed, it already has. ATM deposits, withdrawals, and purchases now appear on bank statements, making them longer and more complex. The number of checks being written is dropping as people use ATM or debit cards to buy groceries, gasoline, and other items.

As electronic banking grows, so too will electronic records making. The regulations issued under the Electronic Funds Transfer Act (15 U.S.C. §1693) and 12 C.F.R. 205 require records to be retained and accessible. Records that are now maintained on microfiche may be stored on tape or on CD-ROM in the future. Some banks are now moving toward CD-ROM as a storage medium. Records generated by machine will probably be more easily read (and scanned) than today's checks and deposit slips. Electronic banking may generate more records which may make it easier to analyze the financial activity of an individual or business. Some banks and computer-software companies are working together to develop methods of storing and capturing financial data so its analysis will be eased. One proposal includes providing check items on CD-ROM in a format that will allow users to "zoom-in" on the specifics of the checks, thus making the various printings and encodings more decipherable.

This provides opportunities for cooperation and mutual assistance between banks and law enforcement. If a banking staff member will be able to access a giant data base and ask it to print out (or copy to a floppy disk) all account information on Joe Criminal, then the records would be available to law enforcement in days. If the data were provided in an electronic format to law enforcement, weeks (or months) of data entry/scanning would be avoided.

The advent of multi-state banking also provides an opportunity for cooperation between law enforcement and the banking community. The use of interstate subpoenas could be eliminated in cases where the banks had branches in the state which requested the records. This, too, could save bank time and investigative time.

Another action which should ease the availability of data is the widespread adoption of suspicious transaction reporting in the U.S. and among the countries involved in the Financial Action Task Force. The fact remains, however, that the banks must be relied upon to generate these reports and without their compliance, most suspicious transactions will continue to go unreported and unnoticed until considerably after the fact.

An effective bank record analysis function by law enforcement presupposes adequate training and technological support for that function. This has not always been so in the past. Police Executive Research Forum (PERF) researchers noted that more time and resources must be devoted to financial investigation if it is to meet the needs of asset forfeiture (Karchmer, 1992, p. 17).

The Criminal Intelligence Service Ontario commented that "a constant complaint is that there is a lack of resources and training to pursue proceeds of crime cases. Education presents a promising long-term solution" (Todorovski, 1994, p. 2).

Financial investigation must be supported by the development of comprehensive courses on investigative and analytic techniques that will serve the investigator and analysts of today and tomorrow. Since this monograph's original release, two courses have been developed, by the author and by the National White Collar Crime Center, which begin to meet this need. Additional courses and wider availability of existing courses should be encouraged.

Appendix A

Sample Bank Record Analysis

Edmund Birch d/b/a/ Woodcrafts, Ltd.
1043 Broad Street
New York, NY 10001

Woodcrafts, Ltd. is an import-export dealership owned and operated by Edmund Birch. It has come under suspicion as a money laundering conduit. Business and personal bank records for the business were subpoenaed from Citibank for the period of January 1995 through June 1995. These records are summarized below.

Bank Account Activity Summary

Woodcrafts, Ltd. and Edmund Birch
#04966306; #1023759
Citibank, N.A.

Period of January 1, 1995 - June 30, 1995

	<u>Woodcrafts</u>		<u>E. Birch</u>	
	# 04966306		# 1023759	
	<u>No.</u>	<u>Totals</u>	<u>No.</u>	<u>Totals</u>
Beginning Balance		\$12,987.48		\$1,307.29
Deposits	270	\$5,672,981.03	32	\$81,547.53
Withdrawals	194	\$5,550,000.00	89	\$73,952.06
Ending Balance:		\$135,968.51		\$9,002.76

There are large amounts of money going through the Woodcrafts, Ltd. account. The ending balance in the company account is over ten times the beginning balance, while the personal account balance is over six times the beginning.

Primary Payees

There were 7 primary payees from the Woodcrafts account and 5 primary payees from the Birch account. One payee--SLT Finance Co.--was on both lists. The lists follow.

Woodcrafts, Ltd. Primary Payees

<u>Name</u>	<u># PYMTS</u>	<u>Date Span</u>	<u>Amount</u>
Morris Realty	6	1/2/-6/1/95	\$ 18,000
Remarque Inc.	6	1/5-6/25/95	846,000
Corazon Ltd.	4	2/20-5/25/95	1,210,000
SLT Finance Co.	3	1/25-5/11/95	825,000
Cash	24	1/1-6/28/95	1,050,000
E. Birch	12	1/2-6/15/95	72,000
Qualicraft	6	1/15-6/15	930,000
		Total:	\$4,951,000

Woodcrafts' primary payees account for \$4,951,000 of the \$5,550,000 withdrawn during the period, or 89%.

Edmund Birch Primary Payees

<u>Name</u>	<u># PYMTS</u>	<u>Date Span</u>	<u>Amount</u>
Chase Mortgage	6	1/15-6/15	\$ 22,035
VISA	6	1/3-6/4/95	6,000
SLT Finance Co.	1	1/11/95	25,000
Liberty Travel	2	1/10 & 3/4/95	7,500
Lexus Leasing	6	1/5-6/5/95	4,800
		Total:	\$ 65,338

Birch's primary payees account for \$65,338 of the \$73,952 spent during the period, or 88 %.

Deposits to Accounts

Edmund Birch had three sources of deposits to his account: Woodcrafts (\$72,000), cash (\$9,000), and interest (\$547).

When the cash deposited by Birch (\$9,000) into his account is compared to the cash taken from the Woodcrafts account (\$1,050,000), it is seen that this deposit amount is negligible. A question would arise as to where the remainder of the cash withdrawn went.

Woodcrafts had four main sources of deposits:

SLT Finance Company	\$3,500,000
Cash	\$1,345,000
Standard Stores Consolidated	\$327,981
Talmark Stores	\$500,000

The amount of cash and the loan combined total \$4,845,000, or the bulk of the monies deposited.

Wire Transfers

A significant part of the outflow from this account occurred through wire transfer. All payments to Remarque, Inc. and Corazon, Ltd. were in the form of wire transfer. The payments to Remarque were wired to the Royal Bank, British Virgin Islands, account #87623110. The funds to Corazon were wired to the Banco Nacional de Panama, account #9741032. In total, \$2,556,000 in funds were wired to these offshore bank accounts.

Cashier's or Certified Checks

The payments to Qualicraft (\$930,000) were done by certified check.

Unusual Payments

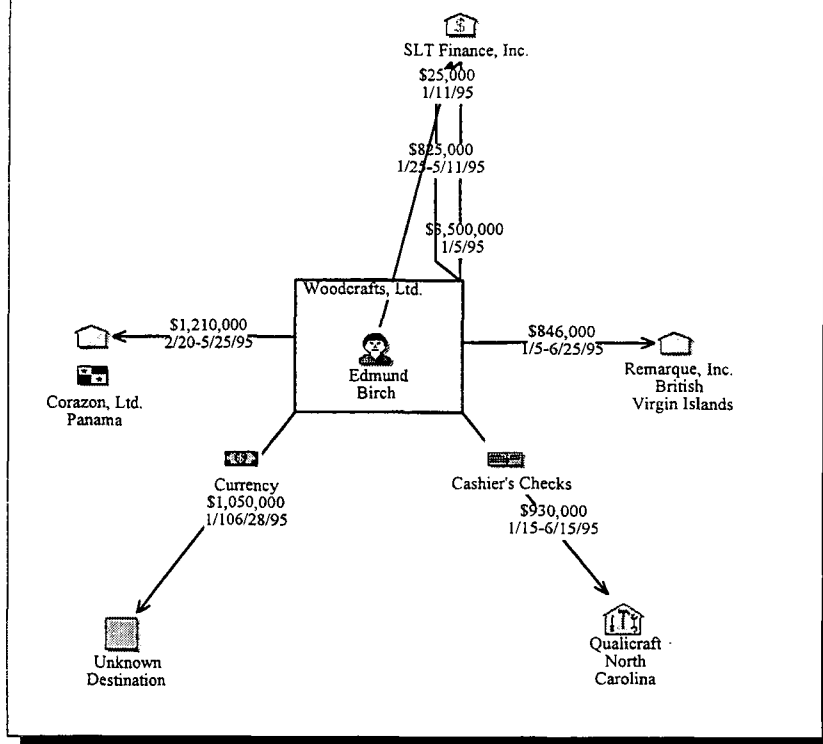
Due to their destination and method of transfer, the payments to Remarque, Inc. and Corazon may be suspect. Also, the cash withdrawals from Woodcrafts of \$1,050,000 may be questionable. The bank was asked about this activity, but said that Mr. Birch was exempt from filing Currency Transaction Reports due to the nature and size of his business.

The monies to and from SLT Finance are also somewhat unusual. The \$3,500,000 from SLT appears to be a loan. The payments back, totalling \$850,000, are rather high as a repayment schedule. Also, it should be noted that the proceeds of this "loan" appear to be the monies which are transferred offshore.

Money Flow

The flow of funds to Woodcrafts and Birch, along with payments to primary payees, is depicted in the attached commodity flow chart (Figure 46).

Figure 46
Flow of Woodcrafts, Ltd. Monies



Conclusions

It is possible that the Woodcrafts, Ltd. business account is being used to launder funds through methods including false loans and pay backs, payments to fictitious vendors, and the movement of cash.

It should be remembered that these figures were for six months only; thus, there could be in excess of \$10 million being laundered per year by this conduit.

Recommendations

1. Contact National White Collar Crime Center to have all applicable data bases searched for information on:
 - a. SLT Finance Company.
 - b. Corazon Ltd.
 - c. Remarque Inc.
 - d. Woodcrafts, Ltd.
2. Obtain any records pertaining to a loan from SLT to Woodcrafts.

3. Subpoena the bank accounts of Corazon and Remarque in Panama and the British Virgin Islands, respectively.
4. Determine the existence of contracts between Woodcrafts and Qualicraft.
5. Surveil Birch to determine the possible source of the cash deposited into the Woodcrafts account and its possible destination when leaving the account.
6. Identify Woodcrafts' package delivery service and obtain records of service to determine if cash withdrawals may be occurring on dates when packages are being sent to foreign addresses.

Appendix B

Bank Account Analysis Glossary

Account - any account with a bank, including checking, time, interest, or savings accounts

ATM - automatic teller machine (cash machine) which allows customer to access funds, deposit funds, or transfer funds in bank accounts

Bank record analysis - the compilation, review, and analysis of records obtained from a bank to determine the flow of currency in and out of an account to determine its potential connection to criminal activity (Peterson, 1994, p. 270)

Business record analysis - the analysis of financial and other records of a company, including bank records, for the purpose of uncovering illegal activities or profits

Cashier's Check - a check drawn by a bank on its own funds and issued by an authorized officer of the bank (IRS, 1993, p. 357)

Cash In Ticket - slip produced to accompany a cash deposit to a bank

Cash-like Instruments - money orders, travelers checks, bank drafts, cashiers checks

Certificates of Deposit - bank paper of varying denominations which can be purchased by individuals that has withdrawal restrictions on it and pays a higher rate of interest

Certified Check - a personal check where the bank guarantees there are sufficient funds on deposit to cover it

Check Cashier - a person engaged in a commercial service of providing cash in exchange for a check, minus a percentage or flat fee.

Check Spread - the manual or computerized schedule of checking account deposit and withdrawal information

Clearinghouse Items - those items which must clear through other local banks and are thus cleared through a local clearinghouse (Morley, 1989, p. 14)

CMIRs - Report of International Transportation of Currency or Monetary Instruments, required by the U.S. Department of the Treasury, Customs Service (Form 4790); is required to be filled out by persons transferring greater than \$10,000 in or out of the U.S.

Commodity Flow Chart - graphic depiction of the flow of goods, currency, or services from one person or entity to another (Peterson, 1994, p. 270)

Commodity Flow Matrix - a matrix which represents the flow of funds to and from bank accounts

Credit Memo - an entry which shows a credit to a bank account from interest, loan proceeds, wire transfer in, electronic deposit, or transfer in from another account (IRS, 1993, p. 100)

CTRs - Currency Transaction Report required by the U.S. Department of the Treasury, Customs Service (Form 4789)

Data base - Usually a computerized set of files, called "records," broken down into columns, or "fields," which allow the analyst to retrieve and manipulate the data for analysis (Peterson, 1994, p. 271)

D/B/A - doing business as

Debit Memo - an entry which shows a debit to a bank account from a wire transfer out, check printing fees, transfer out of the account, electronic withdrawal, loan payment, or interest payment

Deposit Item - check or other monetary item deposited

Depository bank - bank to which an item is transferred for collection

Direct Deposit - the transfer of funds directly into a bank account without a deposit transaction by the account holder; usually done with paychecks

Drawer - person who writes check (see also maker)

Electronic Funds Transfer - a transaction with a financial institution by means of a computer, telephone, or other electronic instrument (IRS, 1993, p. 359)

Embezzlement - when one entrusted with money or property appropriates it for his or her own use and benefit (IRS, 1993, p. 359)

Endorser - person or company signing the check on the back; usually the person to whom the check has been issued. Companies may use stamps with their account number to endorse checks. Dual endorsements indicate the money went to a third party (alternate spelling "indorser").

Fact Pattern - a brief summary of the facts of the case and its current status (Peterson, 1994, p. 272)

Financial Action Task Force (FATF) - 26-nation organization created to address the problem of money laundering

Financial analysis - any one of several forms of analysis of financial records, including net worth analysis, bank record analysis, source and application of funds, and corporate (business) record analysis (Peterson, 1994, p. 272)

Float - the time which elapses between when a check is written and the time it is presented for payment to the bank on which it is written. This time used to be measured in days. With the advent of electronic banking, it can be hours

Forfeiture - a legal proceeding that the government initiates against the proceeds of an illegal activity (IRS, 1993, p. 361)

Frequency distribution - the determination of the number of times something has occurred; in bank record analysis, the number of checks written to an entity would be a frequency distribution

Funds transfer system - wire transfer network, automated clearinghouse, or other communication system of a clearinghouse . . . through which a payment order by a bank may be transmitted to the bank to which the order is addressed (12A:4A-105(e))

Geographic Targeting Order (GTO) - imposes stricter reporting and record keeping on specified financial service providers in a certain geographical area for a limited time period

Indorser - see endorser

Instrument - a piece of paper which represents money

Item - any instrument for the payment of money

Kitting - intentionally writing and submitting for payment checks in excess of the amount available in the account

Know Your Customer - a bank program which encourages banks to know the true identity of customers requesting bank services and be aware of any unusual transaction or disproportionate activity in relation to the customer's business (Small, 1996, p. 2)

Layering - a series of financial transactions used in money laundering that resemble legitimate financial transactions (FinCEN, July 1992, p. 3)

Maker - the person who writes and signs the check

MICR numbers (Magnetic Ink Character Recognition) - the computerized numbers on the front bottom of a check which show the bank's number, the account number (both preprinted on personalized checks) and a control number, and the amount (printed when the check is cashed or deposited)

Minimization - to reduce the request for bank records as much as possible; this may entail reducing the time span requested or the amounts of the checks (e.g., all checks over \$499)

Money laundering - the process of converting quantities of cash--generally currency that has been tainted in some way--to a form that can be used more conveniently in commerce and ideally conceals the origin of converted funds (Karchmer, 1985, p. 39)

Money Order - a negotiable instrument that serves as a substitute for a check (IRS, 1993, p. 364)

Money Remitter - any person, licensed or not, who accepts currency or funds denominated in currency and transmits the currency or funds, or the value of the currency or funds, by any means through a financial agency or institution, a Federal Reserve Bank or other facility of the Board of Governors of the Federal Reserve System, or an electronic funds transfer network (31 C.F.R. Part 103.11 [5])

Money Service Business - any business that is required to file reports under U.S.C. 5313 and that provides check cashing, currency exchange, or money transmitting or remittance services, or issues or redeems money orders, traveler's checks or other similar instruments (U.S.C. 5330[d][1])

Negotiate - transfer an instrument

Net Worth Analysis - the analysis of several years of expenditures and reported income to determine the possible presence of illegal income. Compares assets and liabilities to determine net worth, then compares the net worth figure over 2-3 years to arrive at conclusionary figure of possible illegal income.

NSF - Non-Sufficient Funds (check returned); check may be redeposited

Offshore accounts - bank accounts opened in countries outside the United States, sometimes in an effort to evade taxes or other reporting requirements

On-us Items - items that can be cleared totally within the bank (Morley, 1989, p. 14); both the account the item is drawn upon and the account to which it is going are in the same bank

Parking - the placement of funds into a bank account for the purpose of money laundering or obscuring its source or destination

Payable Through Accounts - demand deposit accounts maintained at financial institutions by foreign banks or corporations. Customers have signatory authority for the account as sub-account holders and can thus do international business easily without an account in their names.

Payor bank - bank by which an item is payable as drawn

Postal Money Order - a money order purchased with cash at a post office; the maximum amount is \$700

Safe Deposit Box - a secure storage facility for valuables which the bank rents to customers; logs are kept of safe deposit box entries and may be of use to the investigation when compared to dates and times when the individual under investigation was known to receive illegal funds

Scheduling - putting bank account information into an accounting format

Signatory - person who signs check on behalf of issuing individual or company; some companies and entities require more than one signature

Skimming - removing profits from a business covertly and not declaring them as part of taxable profits

Smurf - an individual involved in structured financial transactions, usually as a courier making cash deposits which avoid CTR reporting requirements (FinCEN, 1992, p. 40)

Source & Application of Funds Analysis - a form of financial analysis which tallies income by its source and outgo by its use to arrive at a total expenditure, minus reported income figure which may be illegal income; uses a different computation method than Net Worth Analysis, but arrives at the same conclusionary figure

Special items - items requiring special handling in the bank, e.g., cashier's checks, debit and credit memos, certificates of deposit, loan transactions, wire transfers, etc. (Morley, 1989, p. 14)

Split deposit - a check which is partially cashed and partially deposited; when subpoenaed, banks do not

provide a copy of the check as a deposit item because it was "cashed"

Stored Value - funds or monetary value represented in digital electronics format and stored or capable of storage on electronic media in such a way to be retrievable and transferable electronically (31 C.F.R. Part 103.11 (6)(vv))

Structuring - a person or persons conducting one or more transactions in currency, at one or more financial institutions on one or more days, to evade Currency Transaction Reporting requirements (31 CFR 103.11[n]) (Semsky and Taylor, 1995, p. 19)

Tax Havens - offshore countries which have bank secrecy laws that assist persons in avoiding taxes on monies

Telephone Transfer - an internal transfer or wire transfer of funds which is directed via telephone

Transit Items - items which must be sent outside the bank's area for clearing; they are sent through correspondent banks and Federal Reserve banks (Morley, 1989, p. 14)

Wire Transfer - an electronic transfer of funds between financial institutions

Appendix C

Some Sources of Financial Information

CDB Infotek provides on-line databases that can be used to obtain background information on businesses, people, and public records. 1-800-427-3747

County Clerks and Licensing Offices hold information on businesses seeking liquor licenses, professional licenses, businesses that require periodic inspections (bars, restaurants, etc.) and business operating under assumed names or "doing business as."

Database Technologies, Inc. (DBT OnLine) data on corporations and businesses, personal demographics assets, past and present addresses, etc. 1-800-279-7710.

Deluxe ChexSystems provides information on over 11,000,000 individuals and companies which have had their accounts closed by financial institutions due to ATM machine fraud, check kiting, or writing checks on closed accounts. These records are maintained for five years.

Department of Justice Office of International Affairs prepares international requests for bank records. 202-514-0015

Dun & Bradstreet United States is an on-line directory of more than a million U.S. businesses with 10 or more employees. D&B information includes company name, address, telephone number, type of business, subsidiaries, total employees and total volume of sales. [Http://dnb.com](http://dnb.com)

Equifax gives credit and commercial information, including credit card processing and check authorization. Most recent address for an individual reported to a credit agency can be obtained through its Nationwide Consumer Reporting Agencies. National Address Changes is used to get a history (3-12 years) of address changes on an individual. [Http://www.equifax.com](http://www.equifax.com)

Federal Bureau of Investigation - Document Examination - 10th & Pennsylvania, NW, Washington, DC, or call 202-324-4493

Financial Crimes Enforcement Network (FinCEN) provides credit information, telephone subscription information, public record data, information from commercial data bases, and government financial data base information (Currency Transaction Reports, Suspicious Activity Reports, Currency or Monetary Instruments Reports). [Http://fincen.treas.gov.us](http://fincen.treas.gov.us)

Information America provides on-line databases that can be used to obtain background information on businesses, people, and public records. 1-800-777-8567

LEXIS-NEXIS includes a legal information service, data on property ownership and other information by state, corporate filings, company records, newspaper texts, secretary of state filings, court indices, etc. <http://psweb1.lexis-nexis.com/lbcc/about.html>

MetroNet provides a standard format for Electronic Directory Assistance nationwide, including household demographics. 1-800-456-6638

National Association of Securities Dealers provides information on current and former licensed securities representatives. <http://www.nasd.com>

National Fraud Information Center helps consumers report fraud. Incident reports are referred to the National Electronic Fraud Database and to a variety of federal and state law enforcement agencies. <http://www.fraud.org>

This listing culled from U.S. General Accounting Office *Investigator's Guide to Sources of Information*, April 1997.

Appendix D

California Financial Investigations Checklist

(Select from following investigative steps according to needs of cases and resources available.)

I. Law Enforcement/Financial/Tax Data Bases

- ✓ Currency Transaction Reports (CTR) regarding individuals or corporations
- ✓ Suspicious Transaction Reports (STR) regarding individuals or corporations
- ✓ Currency and Monetary Instrument Reports (CMIR) regarding individuals or corporations (Call U.S. customs or IRS-CID)
- ✓ Certificates of Non-Filing of Income Tax Return and Certificate of Due Diligent Search
- ✓ Commercial/Other financial data bases from FinCEN (Financial Crimes Enforcement Network)

II. Employment/Business Records

- ✓ Employment Develop Department (EDD) - Information concerning the target's employment
 - Certified copy of computer printout requested
 - Certified copy of due diligence search and absence of records requested
- ✓ Board of Equalization (Sale Tax) - Information concerning gross revenues of target business reported on quarterly sales tax returns, applications for sales permit, etc.
 - Certified copy of application for sales permit and quarterly sales tax returns requested
 - Certified copy of due diligence search and absence of records requested

III. Other Law Enforcement Resources

- ✓ U.S. Postal Service Mail Cover (List of return addresses and addresses on all mail or packages sent to the target's address)
- ✓ Form 8300 (Report of Trade or Business of Currency Received in a Transaction in Excess of \$10,000)
- ✓ Alcoholic Beverage Control (ABC) Files (Includes application which has bank account information on businesses licensed by ABC)

IV. Assets

✓ Real Property

- Computer search regarding real property ownership
- Computer search regarding real property of ownership of target's relatives/associates
- Search of any interest in real property of target for relatives/associates at county recorder's office
- Request escrow accompany to voluntarily (no search warrant/subpoena) turn over escrow records of target's real estate transactions
- County Assessor's Office--copy of payment instruments (e.g., checks used to pay real property taxes; ownership and valuation information)

✓ Vehicles/Boats

- California Department of Motor Vehicle's printout concerning registered owners/legal owners of vehicles/boats
- Registration history (includes title documents, sales prices, no lien purchase information (no loan), name of dealer (Certified copy requested)
- Copy of driver's license (Certified copy requested)
- No-lien purchase vehicle/boat data base (information concerning purchases of vehicles over \$30,000 and boats over \$20,000 without a loan) [California data base]
- Request records of car or boat purchases from dealership

✓ Bank Accounts/Records

- Voluntary Disclosure of Customer's Bank Records to Law Enforcement where bank has reason to suspect a money-laundering or currency transaction reporting violation (under California law)
- Voluntary Disclosure of Customer's Bank Records to Law Enforcement concerning suspected violation of any law

V. Other Public Records

- ✓ City Business License Information (application)--certified copy
- ✓ County Fictitious Business Name Statement--certified copy
- ✓ Superior Court (Family Court) Dissolution Files contain target's financial declaration--certified copy
- ✓ Civil Proceeding Court Files--certified copy
- ✓ Secretary of State - UCC-1 Creditor/Debtor information regarding security interests on personal property--certified copy
- ✓ Articles of Incorporation and Statements of Officers filed with Secretary of State--certified copy
- ✓ Limited Partnership Informaton--certified copy

VI. Consent Forms (Signed by target or party with authorized access to records)

- ✓ Authorization to release state and federal tax returns
- ✓ Authorization to release bank records
- ✓ Authorization to release escrow records

VII. Search Warrants

- ✓ Residence(s)
- ✓ Banks/Financial Institutions
- ✓ Target's stockbroker
- ✓ Target's insurance broker
- ✓ Target's accountant
- ✓ Credit bureau companies (e.g., TRW)

VIII. Financial Analysis

- ✓ Net Worth Analysis (compares target's net worth at beginning of criminal activity to net worth at end of activity to show accumulation of assets through criminal profits)
- OR
- ✓ Source and Application of Funds Analysis (sets forth target's income and expenditures over several years to show a substantial excess of expenditures over reported income)

Source: *Money Laundering and Financial Investigations Manual 1995*, by James Dutton, Gary Schons, and Marilyn Rao, State of California, Department of Justice. Addendum T-1.

Appendix E

Check Kiting

Sandra J. Putnam © 1997

Introduction

Check kiting is defined as:

“The wrongful practice of taking advantage of the float--the time that elapses between the deposit of a check in one bank and its collection at another. A method of drawing checks by which the drawer uses funds which are not his by drawing checks against deposits which have not yet cleared through the bank. “Kiting” consists of writing checks against a bank account where funds are insufficient to cover them, hoping that before they are presented, the necessary funds will be deposited.” (Black 1990, p. 871)

The actual kiting procedure refers to manipulations that utilize temporarily overstated bank balances to conceal a cash shortage, meet short-term cash needs, or even intentionally deceive the financial institution in order to steal the money. (Whittington, Pany, Meigs, and Meigs 1992). One important element must exist for the check kiting schemes: they require banks to pay on unfunded deposits. In other words, if a bank allows its customers to withdraw funds on deposits where a bank has not yet collected the cash, then kiting schemes are possible. When banks require deposited items to be held until they are cleared with no checks paid against them in advance of that clearance date, then check kiting cannot occur.

Check kiting schemes can be perpetrated using one bank and more than one account or among several banks and several different accounts. Many individuals maintain checking accounts with a number of banks and often find it necessary to transfer funds from one bank to another. This can be a legitimate transaction by the individual or a transaction conducted with the intent to deceive. When a check drawn on one bank is deposited in another, several days (called the “float period”) usually pass before the check clears the bank on which it is drawn. During this float period, the amount of the check is included in the balance on deposit at both banks. The length of this float period depends upon several factors: the location of the bank (local versus out-of-state, foreign, etc.) on which the check is drawn, holidays, specific banking procedures for a particular banking institution and the use of computer technology in the bank institution.

In this day of computer technology, the float can be one day for a check written on the same bank to which it is presented or five to ten working days for out-of-state and foreign checks. For checks deposited and drawn on local banks, the typical float period is three days.

Detection of Check Kiting

Check kiting is often detected after a bank has lost thousands of dollars and after the perpetrator has left the area. However, there are indicators which may allow earlier intervention into check-kiting schemes. Some indicators of check kiting are:

- Account closed quickly after just being opened.
- Accounts opened with large deposits of out-of-state checks.
- Three or more checks clearing in a short period of time with non-sufficient funds to cover them.
- Customer asking more than normal questions and/or displaying more than normal concern regarding bank regulations and processes of checking accounts.
- Large deposits with checks drawn only on one other person's account, as well as large checks written to the same person.

For example, most accounts used in check kiting are opened quickly and then closed two to four weeks later. During this period, the subject immediately uses counter checks or unnumbered checks to write numerous checks on the account. The more experienced person may have a web of accounts located in different areas of the state. This layering of an account creates a longer float period and is often more difficult for the investigator to track.

Auditors, investigators, and analysts can detect manipulations of this type by preparing a "Schedule of Bank Transfers" (Figure A) and a "Schedule of Deposits in Transit" (Figure B). By comparing the dates in the working papers, auditors can determine whether any manipulation of the cash balance has taken place.

Figure A

Sample Schedule of Bank Transfers

Bank originator: Last National Bank, Atlanta, GA **Account No.: 10010**
Dates: December 1-13, 1996

<u>Date</u>	<u>Transaction</u>	<u>Bank</u>	<u>Account No.</u>	<u>Location</u>	<u>Amount</u>
12/10/96	check w/drawal	First National	345678	New York, NY	\$10,000
12/10/96	cash transfer	Memorial	1234	Tulsa, OK	\$42,000
12/12/96	debit memo	Last National	1212	Athens, GA	\$15,000
12/13/96	debit memo	Last National	121322	Savannah, GA	\$15,000

Figure B

Sample Schedule of Deposits in Transit

<u>Date</u>	<u>Bank From</u>	<u>Account From</u>	<u>Bank From</u>	<u>Account To</u>	<u>Location</u>	<u>Amount</u>
12/10/96	Last National	10010	Memorial	1234	Tulsa, OK	\$42,000
12/12/96	Last National	10010	First National	345678	New York, NY	\$15,000
12/12/96	Memorial	1234	Last National	10010	Atlanta, GA	\$42,000
12/12/96	Last National	10010	Last National	1212	Athens, GA	\$15,000

The preparation of these types of schedules will often uncover discrepancies that are present. In Figure A, line 1 depicts a withdrawal made from account #345678 at First National in New York for the amount of \$10,000. In line 2 of Figure B, \$15,000 was deposited to account #345678 at First National in New York two days later, thus, possibly showing a kiting scheme. There also exists a pattern of transfers

in the amount of \$42,000 between Last National Bank and Memorial Bank. These transfers could be covering imaginary funds so checks can be written off the account. These schedules can uncover new leads to other banks and accounts as well as possible schemes being implemented to defraud the banks involved. The check-kiting web can become difficult to unfold the more accounts that are uncovered. These schedules should be prepared on a timely basis and their preparation should be unknown to the person and/or business owning the account(s). Remember that deposits in one account should always be withdrawals in another account on the same day. There should be no difference between the dates of deposits and the dates of withdrawals.

Uses of Check Kiting

Check kiting can be used in different ways to benefit a perpetrator. One use is to conceal a cash shortage in a business account. For example, an individual misappropriates \$10,000 from a general corporate checking account located at Bank "X." To conceal the shortage, the individual draws a check transferring \$10,000 from a checking account located at Bank "Y" to the general account at Bank "X." The individual deposits the transferred check in the general account on December 31, but records the transfer in the accounting records as occurring early in January. As of December 31, the shortage in the general account has been replaced. No reduction has yet been recorded in the checking account at Bank "Y" and no shortage is apparent (the float period).

A bank transfer schedule should disclose this type of kiting because the transfer deposit appears on the general account bank statement from Bank "X" in December, while the transaction was not yet recorded in the checking account of Bank "Y." This type of kiting can happen in any business, including sole proprietorships and corporations.

When this cash shortage is "replaced," there appears to be no \$10,000 loss in the general checking account at Bank "X." This could appear to interested investors that the business is performing well; and is sometimes referred by accountants as "cooking the books."

Kiting can also be used to meet short-term cash needs. This form can be used legitimately or criminally. Intentional check kiting can be used to purposely defraud a financial institution for personal gain. The criminally motivated individuals who design check-kiting schemes with the intent to deceive have definite perception and insight into the acts essential to commit the elements of the crime.

Individuals can use the float period to commit various illegal acts. For example, an individual does not have sufficient cash to meet the amount of the last check written out of the checking account at Bank "A." The individual might draw a check on the general account in Bank "B," deposit it into the checking account of Bank "A" which does not have a sufficient cash amount, and rely upon subsequent deposits being made to the general account in Bank "B" before the transfer check is presented for payment. However, banks attempt to detect this practice and may not allow the customer to draw against the deposit until the check has cleared the other account. In some deliberate schemes to defraud banks, this type of kiting has been used to create and conceal overdrafts of millions of dollars.

The Check Kiting Scheme

Check kiting usually involves checking accounts at several financial institutions. The customer writes checks on one account causing a potential overdraft in that account; however, prior to the overdraft occurring, the customer deposits checks from another account, which is being potentially overdrawn, into the first account. The switching of funds back and forth can create artificial balances and some of the

artificial funds can then be skimmed off by the customer.

The scenario below is an example of check kiting. In the example, assume each account was opened with a \$0 balance on January 2, 1997.

Step 1. January 3, 1997

Deposit \$10,000 to First National Bank drawn on Last National Bank
Deposit \$15,000 to Last National Bank drawn on First National Bank

<i>Tentative Balances:</i>		<i>Actual Balances:*</i>	
First National Bank	\$10,000	First National Bank	(\$ 5,000)
Last National Bank	<u>\$15,000</u>	Last National Bank	<u>\$ 5,000</u>
	\$25,000		\$ -0-

Difference: \$25,000 in Float

* Actual Balances are computed as follows:

First National Bank $\$0 + \$10,000 - \$15,000 = (\$5,000)$

Last National Bank $\$0 + \$15,000 - \$10,000 = \$5,000$

Step 2. January 4, 1997

Deposit \$13,000 to First National Bank drawn on Last National Bank
Deposit \$11,000 to Last National Bank drawn on First National Bank

<i>Tentative Balances:</i>		<i>Actual Balances:*</i>	
First National Bank	\$23,000	First National Bank	(\$ 3,000)
Last National Bank	<u>\$26,000</u>	Last National Bank	<u>\$ 3,000</u>
	\$49,000		\$ -0-

Difference: \$49,000 in float

* Actual Balances are computed as follows:

First National Bank $(\$5,000) + \$13,000 - \$11,000 = (\$3,000)$

Last National Bank $\$5,000 + \$11,000 - \$13,000 = \$3,000$

Step 3. January 5, 1997

Check paid for automobile \$8,000 at First National Bank

<i>Tentative Balances:</i>		<i>Actual Balances:*</i>	
First National Bank	\$15,000	First National Bank	(\$11,000)
Last National Bank	<u>\$26,000</u>	Last National Bank	<u>\$ 3,000</u>
	\$41,000		(\$ 8,000)

Difference: \$49,000 still in float (\$10,000 - \$15,000 + \$13,000 + \$11,000)

* Actual Balances are computed as follows:

First National Bank $(\$3,000) - \$8,000 = (\$11,000)$

Last National Bank = no change in balance

Step 4. January 6, 1997

Deposit of \$14,000 to First National Bank drawn on Last National Bank
Deposit of \$16,000 to Last National Bank drawn on First National Bank
Last National Bank check of \$10,000 clears
First National Bank check of \$15,000 clears

<i>Tentative Balances:</i>		<i>Actual Balances:*</i>	
First National Bank	\$14,000	First National Bank	(\$13,000)
Last National Bank	<u>\$32,000</u>	Last National Bank	<u>\$ 5,000</u>
	\$46,000		(\$ 8,000)

Difference: \$54,000 in float (\$13,000 + \$14,000 + \$11,000 + \$16,000)

* Actual Balances are computed as follows:

First National Bank (\$11,000) + \$14,000 - \$16,000 = (\$13,000)

Last National Bank \$3,000 + \$16,000 - \$14,000 = \$5,000

(U.S. Department of Justice 1992)

In the above scheme, the individual has the potential to defraud the bank of \$54,000 in a matter of days. The individual could go to the bank on January 6 and close the account and come out approximately \$46,000 wealthier. The float period between the banks is four days; in other words, the check for \$10,000 to First National was actually drawn on Last National four days after the initial deposit. At that point, the balance of the Last National Bank account is actually (\$10,000). Once the kiting cycle has begun, the amounts shown in the various bank accounts have no relationship to the actual cash on hand. In the banking industry, this check of \$10,000 will be returned to the First National Bank as a Non-Sufficient Funds (NSF) check. As each check starts to clear the banks, the scheme starts to unfold.

Conclusion

Always be patient unfolding a check-kiting scheme. These types of investigations are often done concurrent to the kiting. Use charts and graphs to depict the actual scheme or create your own spreadsheet to depict the scheme being perpetrated.

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Appendix F

Some Money-Laundering Typologies and Contexts

As investigative experience with money laundering has grown, so has the amount of information available on money-laundering methods and indicators. This appendix is a synopsis of some of the data available on money laundering that could assist law enforcement personnel in identifying and prosecuting money-laundering schemes.

According to Tanzi, experts assume that \$300 to \$500 billion U.S. dollars enter the international capital market each year (1996, iii). Other estimates show a more conservative \$85 billion per year available for laundering (Godson, Olson, and Shelley, 1997, p. 5).

Money laundering is the concealment of the source and/or destination of funds gained through illegal activities. Money laundering is generally done through four methods:

- currency smuggling.
- bank and corporate transactions.
- non-bank financial institution transactions.
- commodity acquisition.

Currency smuggling is used where the border to be crossed does not have rigorous luggage or shipment checks. Couriers can carry the currency, or it can be hidden in goods which are shipped. One bank official estimated that 80% of the illegal funds generated in the U.S. are smuggled overseas. Currency smuggling, however, is only the first step toward "cleaning" the money. Once moved, the cash must then be transferred either into the banking system or into the nontraditional banking system, or used to acquire goods (unless it is to be stockpiled for later use) or exchanged for higher denomination currency.

Bank and corporate transactions are used to legitimize the money and its movement by making them part of "routine" business transactions. Once these are completed successfully, the money is available for use. The step of getting the money into the banking system is considered the most difficult part of money laundering. The most common bank transactions used to evade currency reporting requirements are cash deposits and withdrawals, checks/money orders purchased and cashed, currency exchanges (small bits for large bills), and wire transfers (Semensky and Taylor, 1995, p. 4).

Money laundering through non-bank financial institutions (casinos, wire transmitters, or money-exchange businesses) allows for the movement of the money; but, only in the casinos is the money launderer provided with a potential for "legitimately" acquiring the money (claiming it was won through gambling). Also, in casinos, the money can be exchanged for a monetary instrument (such as a check). This effectively interrupts the trail of the money and makes tracing it more difficult. In 1994, over 600 commercial casinos were licensed in 10 of the United States with over \$350 billion in wagers occurring (FinCEN, 1996b, p. 1)

The commodities markets in the U.S. and Great Britain are known to have moved large sums of money on behalf of criminals (Bosworth-Davies and Saltmarsh, 1994, p. 66). Single premium insurance

policies are also used to launder because of their simplicity, acceptability, and negotiability (Bosworth-Davies and Saltmarsh, 1994, p. 70).

When funds to be laundered are used to purchase commodities such as diamonds or gold or luxury vehicles, these commodities can then be sold and the income from their sale represents the "laundered" funds. Diamonds, due to their size and weight, are a prime vehicle for money laundering. Land is sometimes purchased, but this has declined, possibly due to the inevitable trail that buying and selling land brings, as well as the complexity in selling it (in comparison to the other commodities above). Vehicles can be bought and exported to other countries where substantive profits can be made.

Another method of moving money is through free trade zones and import/export companies (Williams, 1997, p. 22). These are hard to identify as laundering because they appear as legitimate transactions between sellers and customers. This can involve goods being sold for less than their value to facilitate illegal funds being converted into legal funds.

Most importantly, launderers have a range of methods or techniques at their disposal that they can "mix and match" as needed (Williams, 1997, p. 24).

The forms that money laundering take can fluctuate from area to area, from year to year. When one avenue of laundering is cut off, others are taken. An example of this was the 1996 move in New York to limit wire transferring of funds to Colombia through a "geographic targeting order" (FinCEN, 1996, p. 1). This disallowed the wiring of over \$750 to locations in Colombia without the completion of a form showing the source of the funds and their intended recipient. This so reduced the funds being wired to Colombia (estimated at \$1.5 billion from the New York area) that the U.S. Treasury moved to expand the order to cover all wire transfers, effective in late 1997 or early 1998. It has been reported that currency smuggling rose significantly as a result of wire transmissions being limited (FinCEN, 1996, p. 2).¹⁷

International Money Laundering: Countries and Conditions

One of the difficulties of money-laundering regulation and enforcement is the fact that a number of countries do not have laws against it or have laws which only consider it money laundering if the funds were generated out of narcotics sales. Thus, if a trail leads to a country where money laundering is accepted, the likelihood of an effective prosecution is limited. According to the Financial Action Task Force, few non-FATF countries in Asia have anti-money laundering laws (FinCEN, 1997, p. 10).¹⁸ Savona further notes that "since criminal organizations operate at the international level, the fragmentation of legal arrangements represent a major impediment" to prevention efforts (1997, p. 7).

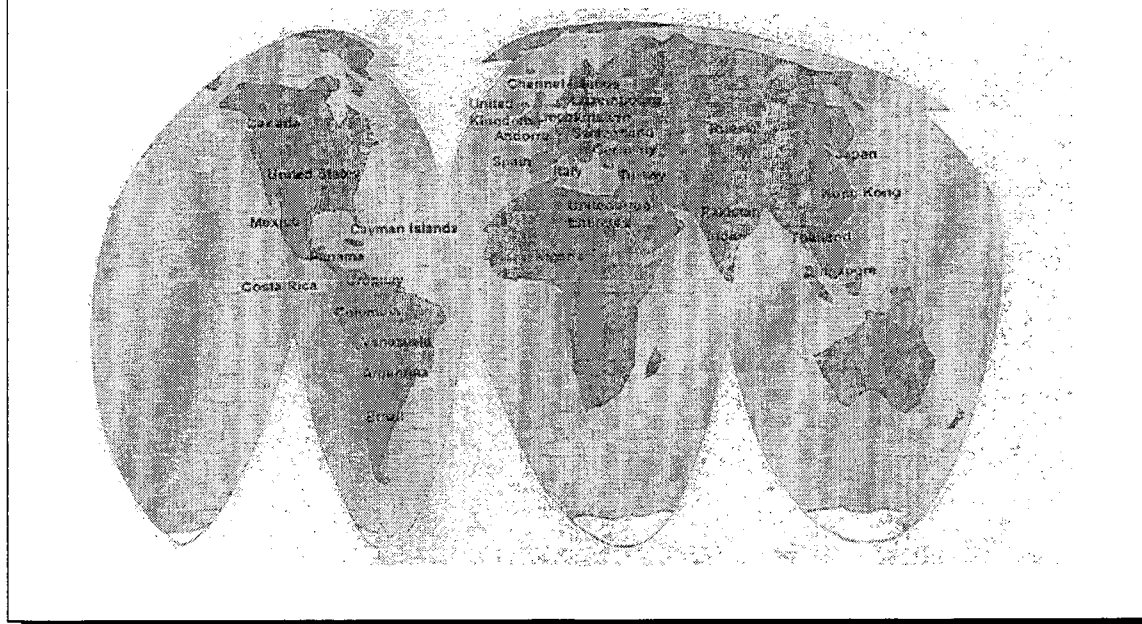
The map in Figure 47 shows the locations of some countries viewed by the U.S. Department of State as having significant money laundering occurring. Nineteen countries are considered "high risk" as money laundering countries. The high priority countries include: Aruba, Canada, Cayman Islands, Colombia, Germany, Hong Kong, Italy, Mexico, Netherlands, Netherlands Antilles, Nigeria, Panama, Russia, Singapore, Switzerland, Thailand, Turkey, United Kingdom, United States, and Venezuela.

¹⁷ Currency seizures from JFK Airport during the first half of the GTO period were nine times higher than during a similar period in 1995.

¹⁸ FATF members include Australia, Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxemburg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

Figure 47

Major Money-Laundering Countries



The Department of State also developed a listing of conditions in countries which aid money laundering:

1. Failure to criminalize money laundering from all serious crimes and/or limiting the offense to include a predicate of drug trafficking.
2. Rigid bank secrecy that cannot be penetrated for authorized law enforcement investigations.
3. Minimal or no identification requirements to conduct financial transactions and/or widespread use of anonymous, nominee, numbered, or trustee accounts.
4. No required disclosure of the beneficial owner of an account or the true beneficiary of a transaction.
5. Lack of effective monitoring of currency movements.
6. No recording requirements for large cash transactions.
7. No mandatory requirement for reporting suspicious transactions and/or pattern of inconsistent reporting under a voluntary system and/or lack of uniform guidelines from which to identify suspicious transactions.
8. Use of monetary instruments payable to bearers; well-established non-bank financial systems, especially where regulation and monitoring are lax.
9. Patterns of evasion of exchange controls by nominally legitimate businesses; ease of incorporation, especially where ownership can be held through nominees or bearer shares or where off-the-shelf corporations can be acquired.
10. Limited or weak bank regulatory controls, especially in countries where the monetary and/or bank supervisory authority is understaffed, under-skilled, or uncommitted.
11. Well-established offshore or tax-haven banking systems, especially countries where such banks and accounts can be readily established with minimal background investigations.

12. Extensive foreign banking operations, especially where there is significant wire-transfer activity, multiple branches of foreign banks, and/or limited audit authority over foreign-owned bank institutions.
13. Limited asset seizure or confiscation capability; limited narcotics and money-laundering enforcement and investigative capabilities.
14. Countries with free-trade zones where there is little government presence or other oversight authority.
15. Patterns of official corruption and/or a laissez faire attitude toward the business and banking communities.
16. Countries where the dollar is readily acceptable, particularly countries where banks and other financial institutions allow dollar deposits.
17. Well-established access to international bullion trading centers in New York, Istanbul, Zurich, Dubai, and Bombay.
18. Countries where there is a significant trade in or export of gems, particularly diamonds (U.S. Department of State, 1995, pp. 69-70).

Because of the volume of money to be laundered, there have been progressively sophisticated attempts to launder these assets internationally (Tanzi, 1996, p. 2). Many recent developments have caused a strong demand for foreign financial capital and particularly anonymous capital. They include:

- (a) the large-scale privatization of public enterprises in many countries.
- (b) the growth of stock markets in developing countries.
- (c) the growing diversification of financial instruments in the international financial market.
- (d) the growing share of international capital controlled through entities which report tax-haven countries as their legal place of residence.
- (e) the as yet not stringent regulatory controls in many countries and especially in economics in transition and in several developing countries.
- (f) the great need for foreign capital on the part of economics in transition and many developing countries (Tanzi, 1996, p. 4).

The net result is that often countries with strong financial needs will not examine too closely the genesis of the funds coming into their shores; nor will they establish tight controls over such money. Institutions in some offshore countries will advertise their banking laxity in international newspapers, offering "banks" for sale as well as the creation of offshore companies and bank accounts.

A notable difference in the money flow between legitimate and not-so-legitimate funds may be that legitimate funds are invested and used in areas with the highest possible return on their dollars, while illegitimate funds go where there is ease in recycling the money even when this requires accepting a lower rate of return (Tanzi, 1996, p. 6).

An interesting side-effect of money laundering is the role of U.S. dollars in it. The largest market for the drug trade has been in the U.S. and the sale of illegal drugs there is estimated to generate \$100 billion a year. Drug profits are moved out of the U.S., however, and sent to the countries of those who have invested in the drug trade, including those in drug source and processing countries, as well as those involved in transport and financing. The U.S. Federal Reserve estimates that at least \$200 billion U.S. are held outside of the United States. These dollars held abroad raise the rates of inflation in the countries where they are held and undermine the health of the local currency. This also creates the possibility of a negative impact on the world financial system if these dollars were ever redeemed in bulk (Tanzi, 1996,

p. 9).

Money Laundering Outside of the United States

According to Savona, "many banks in Eastern Europe do not differentiate between legitimate and illegitimate funds." Of special concern for European law enforcement agencies are also financial havens in the placement phase of the money laundering. (These include: the Channel Islands and the Isle of Man and Monaco where bank secrecy is the mainstay of the economy. Worth mentioning also are the overseas ex-colonies of EU countries such as the Caribbean British Territories, French West Indies departments, Macao or the Netherlands Antilles, and Aruba. [Savona, 1996, p. 14].) Other offshore countries such as Andora, Gibraltar, Liechtenstein, or Cyprus are preferred by money launderers because of geographical proximity (Savona, 1996, p. 15). Amir states that "Israel is considered a 'safe haven' for investing money because 'no questions' are asked in the banks regarding the source of the money" (1996, p. 33). Likewise, Pakistan does not recognize money laundering as a crime.

In Great Britain, it has been reported that financial institutions have historically been used to launder money and that some groups are using readily salable commodities such as electronics and tobacco products in deals with Eastern Bloc residents to effect money laundering (National Criminal Intelligence Service in Bosworth-Davies and Saltmarsh, 1994, p. 266).

In Russia, the Central Bank was selling banking licenses for \$100,000 U.S. dollars and 2,000 banks were licensed before the requirements changed (Savona, 1997, p. 20).

In the Caribbean, the Cayman Islands provide secrecy and the ability to accommodate financial transactions outside the regulation of the world's financial markets (Godson, Olson, and Shelley, 1997, p. 50). It is noted that even in the case of proven corruption charges, Cayman banks have refused to lift their secrecy. Bermuda, the Bahamas, and Barbados all offer specialized banking services and allow people to diversify their placement of funds (Godson, Olson, and Shelley, 1997, p. 51).

The Financial Action Task Force reports that large volumes of cash and other types of transfers continue to make their way from Eastern European countries into banks and financial institutions in other countries. The most common method of money laundering is where individuals open accounts at financial institutions and deposit large amounts of cash tied to interests in the former Soviet Union. The funds are then transferred out of the country. Offshore shell companies, traditional or other front companies, were used to receive the funds transfers and then transfer them elsewhere. Other common methods include false invoicing schemes, keeping a double set of books, and contract fraud (FinCEN, 1997, pp. 11-12).

Money Laundering Trends

The Financial Crimes Enforcement Network (FinCEN) released a report on money laundering, in February 1997, that included a listing of trends in money laundering, including:

1. Money launderers are moving away from the banking to the non-bank financial institution sector.
2. Cash smuggling and cash stockpiling are on the increase.
3. Money-laundering "cells" are limiting their accumulations of funds to \$300,000 - \$500,000, possibly to limit losses due to seizure by law enforcement or theft.

4. "Smurfing" is being used to avoid the notice higher-dollar transactions might bring.
5. Use of fronts to have accounts with beneficial ownership hidden.
6. Shell corporations are used as a tool to launder funds; often the company records are kept in offshore countries with secrecy provisions.
7. "Collection accounts" are widely used by ethnic groups from Africa or Asia--one large account in the home country fed by smaller accounts in the U.S.
8. Attempts by organized crime to infiltrate smaller banks and non-bank financial institutions has been seen.
9. The use of "payable through" accounts--demand deposit accounts maintained at financial institutions by foreign banks or corporations. The foreign bank funnels all the deposits and checks of its customers into one account. The foreign customers have signatory authority for the account as sub-account holders and can thus do international business easily without an account in their name.
10. Loan-back arrangements are used in conjunction with cash smuggling.
11. Telegraphic transfers remain a primary tool due to the speed of the transfer. Bank drafts, money orders, and cashier's checks are also common.
12. Bureaux de change, exchange offices, or casa de cambio pose an ever more significant money-laundering threat. They are used to buy or sell foreign currency, exchange financial instruments, and telegraph funds.
13. Remittance services transfer money bank-to-bank internationally and are used to launder funds.
14. Underground banking systems are also on the rise as money-laundering facilitators.
15. The use of single-premium insurance products is also noted as a money-laundering method.
16. There has been increasing reliance on professional money-laundering facilitators--lawyers, accountants, financial advisors, etc. These facilitators are primarily used to place or layer funds.
17. Use of real businesses to camouflage the illegitimate laundering of money, including false invoicing, commingling of legal and illegal moneys, the use of loan-back arrangements, and layers of transactions through offshore shell companies.
18. Casinos continue to be associated with money laundering since they provide a ready-made excuse for recently acquired wealth.
19. While substantial amounts of illegal proceeds are still invested in real estate, a trend away from such purchases is seen. Investments in gold and silver have been seen. (FATF, 1997, pp. 3-14).

Savona notes that "current Mafia trends seem to be directed toward . . . the development internationally of links with other groups . . . also offering them money-laundering services" (1997, p. 18). He also concurs that there is a trend toward professionals among money launderers (1997, p. 21).

Money Laundering in the Future

Williams notes that as much as expanding technology assists enforcement efforts, it assists the launderers even more (1997, p. 26).

Cyber-currency and smart cards may be used in the near future by money launderers, but the real opening may lie in the international banking relationships that cause transactions to be obscured while allowing a financial reach of thousands of miles.

Appendix G

American Banking Association Numbers

State, Territory and Dependency Numbers

50 New York	67 South Carolina	84 Louisiana
51 Connecticut	68 Virginia	85 Mississippi
52 Maine	69 West Virginia	86 Oklahoma
53 Massachusetts	70 Illinois	87 Tennessee
54 New Hampshire	71 Indiana	88 Texas
55 New Jersey	72 Iowa	89 Alaska
56 Ohio	73 Kentucky	90 California
57 Rhode Island	74 Michigan	91 Arizona
58 Vermont	75 Minnesota	92 Idaho
59 Hawaii	76 Nebraska	93 Montana
60 Pennsylvania	77 North Dakota	94 Nevada
61 Alabama	78 South Dakota	95 New Mexico
62 Delaware	79 Wisconsin	96 Oregon
63 Florida	80 Missouri	97 Utah
64 Georgia	81 Arkansas	98 Washington
65 Maryland	82 Colorado	99 Wyoming
66 North Carolina	83 Kansas	

101 Puerto Rico, Virgin Islands, Guam, Caroline Islands, Midway Island, American Samoa, Marshall Islands, Marina Islands

City Numbers - Numerical Order

1 New York	17 Minneapolis, MN	33 Des Moines, IA
2 Chicago	18 Kansas City, KS	34 Tacoma, WA
3 Philadelphia	19 Seattle, WA	35 Houston, TX
4 St. Louis	20 Indianapolis	36 St. Joseph, MN
5 Boston	21 Louisville, KY	37 Fort Worth, TX
6 Cleveland	22 St. Paul, MN	38 Savannah, GA
7 Baltimore	23 Denver, CO	39 Oklahoma City
8 Pittsburgh	24 Portland, OR	40 Wichita, KS
9 Detroit	25 Columbus, OH	41 Sioux City, IA
10 Buffalo	26 Memphis, TN	42 Pueblo, CO
11 San Francisco	27 Omaha, NE	43 Lincoln, NE
12 Milwaukee, WI	28 Spokane, WA	44 Topeka, KS
13 Cincinnati	29 Albany, NY	45 Dubuque, IA
14 New Orleans	30 San Antonio, TX	46 Galveston, TX
15 Washington, DC	31 Salt Lake City	47 Cedar Rapids, IA
16 Los Angeles	32 Dallas, TX	48 Waco, TX
	49 Muskogee, OK	

Source: Nossen and Norvelle, 1992, pp. 111-12.

Federal Reserve Banks and Branches

1. Federal Reserve Bank of Boston Head Office	$\frac{5-1}{110}$
2. Federal Reserve Bank of New York Head Office	$\frac{1-12}{210}$
Buffalo Branch	$\frac{10-2}{220}$
3. Federal Reserve Bank of Philadelphia Head Office	$\frac{3-4}{310}$
4. Federal Reserve Bank of Cleveland Head Office	$\frac{0-1}{410}$
Cincinnati Branch	$\frac{12-4}{420}$
Pittsburgh Branch	$\frac{8-30}{430}$
5. Federal Reserve Bank of Richmond Head Office	$\frac{68-3}{510}$
Baltimore Branch	$\frac{7-27}{520}$
Charlotte Branch	$\frac{66-2}{530}$
6. Federal Reserve Bank of Atlanta Head Office	$\frac{64-1}{610}$
Birmingham Branch	$\frac{61-1}{620}$
Jacksonville Branch	$\frac{63-1}{630}$
Nashville Branch	$\frac{87-1}{640}$
New Orleans Branch	$\frac{14-2}{650}$
7. Federal Reserve Bank of Chicago Head Office	$\frac{2-30}{710}$
Detroit Branch	$\frac{9-29}{720}$
8. Federal Reserve Bank St. Louis Head Office	$\frac{4-4}{810}$
Little Rock Branch	$\frac{81-1}{820}$
Louisville Branch	$\frac{21-5}{830}$

Memphis Branch	$\frac{26-3}{840}$	
9. Federal Reserve Bank of Minneapolis Head Office		$\frac{17-8}{910}$
Helena Branch	$\frac{93-26}{920}$	
10. Federal Reserve Bank of Kansas City Head Office		$\frac{18-4}{1010}$
Denver Branch	$\frac{23-19}{1020}$	
Oklahoma City Branch	$\frac{39-24}{1030}$	
Omaha Branch	$\frac{27-12}{1040}$	
11. Federal Reserve Bank of Dallas Head Office		$\frac{32-3}{1110}$
El Paso Branch	$\frac{88-1}{1120}$	
Houston Branch	$\frac{35-4}{1130}$	
San Antonio Branch	$\frac{30-72}{1140}$	
12. Federal Reserve Bank of San Francisco Head Office		$\frac{11-37}{1210}$
Los Angeles Branch	$\frac{16-16}{1220}$	
Portland Branch	$\frac{24-1}{1230}$	
Salt Lake City Branch	$\frac{31-31}{1240}$	
Seattle Branch	$\frac{19-1}{1250}$	

Appendix H

Banks' Checklist of Potential Abuse Indicators

from Richard A. Small, Special Counsel, Division of Banking Supervision and Regulation,
Federal Reserve System, "*Know Your Customer: Internal Compliance and Check Lists to
Identify Abuses*," presented at IALEIA Empire Chapter Money-Laundering Seminar,
June 17, 1996

Suspicious Conduct and Transactions at Teller Window

- Insufficient, false, or suspicious information provided by the customer.
- Cash deposits which are not consistent with the business activities of the customer.
- Purchase and/or deposit of monetary instruments which are not consistent with the business activities of the customer.
- Wire-transfer activity which is not consistent with the business activities of the customer.
- Structuring of transactions to evade record keeping and/or reporting requirements.
- Funds transfers to foreign countries.
- Customer reluctant to provide information requested for proper identification.
- Customer opens a number of accounts under one or more names and subsequently makes deposits of less than \$10,000 in cash in each of the accounts.
- Customer is reluctant to proceed with transaction after being informed that a CTR will be filed and withholds information necessary for the completion of that form.
- Customer makes frequent deposits or withdrawals of large amounts of currency for no apparent business reason or for a business that does not generally involve large amounts of cash.
- Customer exchanges large amounts of currency from small to large denomination bills.
- Customer makes frequent purchase of monetary instruments for cash in amounts less than \$10,000.
- Customers who enter the bank simultaneously and each conduct a large currency transaction under \$10,000 with a different teller.
- Customer who makes constant deposits of funds into an account and almost immediately requests wire transfers to another city or country and that activity is inconsistent with the customer's stated business.
- Customer receives wire transfers and immediately purchases monetary instruments for payment to another party.
- Traffic patterns of a customer change in the safe deposit box area possibly indicating the safekeeping of large amounts of cash.
- Customer discusses CTR filing requirements with the apparent intention of avoiding those requirements or makes threats to an employee to deter the filing of a CTR.
- Customer requests to be included on the institution's exempt list.

Money Laundering

- Increase in cash shipments that is not accompanied by a corresponding increase in the number of accounts.
- Cash on hand frequently exceeds limits established in security program and/or blanket-bond coverage.
- Large volume of wire transfers to and from offshore banks.
- Large volume of cashier's checks, money orders, or travelers' checks sold for cash.

- Account has a large number of small deposits and a small number of large checks with the balance of the account remaining relatively low and constant. Account has many of the same characteristics as an account used for check kiting.
- A large volume of deposits to several different accounts with frequent transfer of major portion of the balances to a single account at the same bank or at another bank.
- Loans to offshore companies.
- A large volume of cashier's checks or money orders deposited to an account where the nature of the account holder's business would not appear to justify such activity.
- Large volume of cash deposits from a business that is not normally cash intensive.
- Cash deposits to a correspondent bank account by any means other than through an armored carrier.
- Large turnover in large bills or excess of small bills from bank and demand for large bills by bank which would appear uncharacteristic for the bank.
- Cash shipments which appear large in comparison to the dollar volume of currency transactions filed.
- Dollar limits on the list of the bank customers exempt from currency-transaction-reporting requirements which appear unreasonably high considering the type and location of the business. No information is in the bank's files to support the limits set.
- Currency transactions reports, when filed, are often incorrect or lack important information.
- List of exempted customers appears unusually long.

Offshore Transactions

- Loans made on the strength of a borrower's financial statement reflects major investments in and income from businesses incorporated in bank secrecy haven countries.
- Loans to offshore companies.
- Loans secured by obligations to offshore banks.
- Transactions involving an offshore "shell" bank whose name may be very similar to the name of a major legitimate institution.
- Frequent wire transfers of funds to and from bank secrecy haven countries.
- Offers a multi-million dollar deposit at below-market rates from a confidential source to be sent from an offshore bank or somehow guaranteed by an offshore bank through a letter, telex, or other "official" communication.

Wire Transfers

- Indications of frequent overrides of established approval authority and other internal controls.
- Intentional circumvention of approval authority by splitting transactions.
- Wire transfers to and from bank secrecy haven countries.
- Frequent or large wire transfers for persons who have no account relationship with bank.
- In a linked financial situation, a borrower's request for immediate wire transfer of loan proceeds to one or more of the banks where the funds for the brokered deposits originated.
- Large or frequent wire transfers against uncollected funds.
- Wire transfers involving cash where the amount exceeds \$10,000.
- Inadequate control of password access.
- Customer complaints and/or frequent error conditions.

- Customer experiences increased wire activity with no previous regular wire activity.
- International transfers for accounts with no history of such transfers or where the stated business of the customer does not warrant such activity.
- Customer receives many small incoming wire transfers or deposits of checks and money orders and then requests outgoing wire transfers to another city or country.
- Non-accountholders receive incoming wire transfers under instructions to the bank to "Pay Upon Proper Identification" or to convert the funds to cashiers' checks and mail them to a non-accountholder.

Credit Cards and Electronic Funds Transfers

- Lack of separation of duties between the card-issuing function and issuance of personal identification number (PIN).
- Poor control of unissued cards and PINs.
- Poor control of returned mail.
- Customer complaints.
- Poor control of credit limit increases.
- Poor control of name and address changes.
- Frequent malfunction of payment authorization system.
- Unusual delays in the receipt of cards and PINs by the customers.
- Bank does not limit amount of cash that a customer can extract from an ATM in a given day.
- Evidence that customer credit-card purchases have been intentionally structured by a merchant to keep individual amounts below the "floor limit" to avoid the need for transaction approval.

Third-Party Obligations

- Incomplete documentation on guarantee.
- Loans secured by obligations of offshore banks.
- Lack of credit information on third-party obligor.
- Financial statements reflect concentrations of closely held companies or businesses that lack audited financial statements to support their value.

Linked Financing/Brokered Transactions

- Out-of-territory lending.
- Loan production used as a basis for officer bonuses.
- Evidence of unsolicited attempts to buy or recapitalize the bank where there is evidence of a request for large loans at or about the same time by persons previously unknown to the bank. Promise of large dollar deposits may also be involved.
- Promise of large dollar deposits in consideration for favorable treatment on loan requests. (Deposits are not pledged as collateral for the loans.)
- Brokered deposit transactions where the broker's fees are paid for from the proceeds of related loans.
- Anytime a bank seriously considers a loan request where the bank would have to obtain brokered deposits to be able to fund the loan.
- Solicitation by persons who purportedly have access to multi-millions of dollars, from a confidential

source, readily available for loans and/or deposits in U.S. financial institutions.

- Rates and terms quoted are usually more favorable than funds available through normal sources. A substantial fee may be requested in advance or the solicitor may suggest that the fee be paid at closing but demand compensation for expenses, often exceeding \$50,000.

Miscellaneous

- Indications of frequent overrides of internal controls or intentions, circumvention of bank policy.
- Unresolved exceptions or frequently recurring exceptions on exceptions report.
- Out-of-balance conditions.
- Purpose of loan is not recorded.
- Proceeds of loan are used for a purpose other than the purpose recorded.
- A review of check paid against uncollected funds indicates that the customer is offsetting checks with deposits of the same or similar amount and maintains a relatively constant account balance, usually small in relation to the amount of activity and size of the transactions.
- Borrower pays off a large loan suddenly, with no reasonable explanation as to the source of funds.
- Customer purchases certificates of deposit and uses them as loan collateral.
- Loan proceeds are unexpectedly channeled offshore.

About the Author

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