TRACING MONEY FLOWS THROUGH FINANCIAL INSTITUTIONS

Charles H. Morley

February 1989
Dear Colleague:

Illicit drug traffic continues to flourish in every part of the country. The cash received by the traffickers is often converted to assets that can be used by drug dealers in ways that suit their individual tastes. Since 1983, federal authorities have increased their attack on those assets through both criminal and civil forfeiture proceedings with remarkable success. The recent passage and use of state asset forfeiture laws offers an excellent means for state and local jurisdictions to emulate the federal success.

The Bureau of Justice Assistance (BJA), in the Office of Justice Programs, has funded a nationally focused technical assistance and training program to help state and local jurisdictions facilitate broader use of state laws. BJA selected the Police Executive Research Forum to develop and administer this program because of its history of involvement in practical, problem-oriented research to improve police operations and the forum's central role in developing training materials for use by police agencies and chief executives.

As part of this project, the Forum has contracted with experts in the area of asset forfeiture and financial investigations to prepare a series of short manuals dealing with different concerns in the area of asset forfeiture. We hope these manuals help meet the rapidly unfolding needs of the law enforcement community as more and more agencies apply their own forfeiture laws and strive to learn from the successes and problems of their peers.

I welcome hearing your comments about this program. We have structured this project so that most requests for information or assistance can be handled through the Forum staff in Washington, D.C., by calling 202/466-6420.

Sincerely yours,

Charles P. Smith
Director
Bureau of Justice Assistance

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The Assistant Attorney General, Office of Justice Programs, coordinates the activities of the following programs offices and bureaus: the Bureau of Justice Statistics, National Institute of Justice, Bureau of Justice Assistance, Office of Juvenile Justice and Delinquency Prevention, and the Office for Victims of Crime. Points of view or opinions in this document are those of the authors and do not necessarily represent the official position or policies of this Agency.
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Tracing Money Flows Through Financial Institutions

Law enforcement agencies have been waging a continuous battle against narcotics traffickers for years, with admittedly mixed results. For every leader arrested, two stand up to replace them. Even arresting the entire upper echelon of a drug organization may have little effect. As long as the organization's assets remain in place, others can easily step up and rebuild.

The passage of key federal criminal statutes has changed the nature of drug investigations. Those statutes include the Racketeer Influenced and Corrupt Organizations Act, Continuing Criminal Enterprise Statute, and the Money Laundering Control Act of 1986. Each is significantly strengthened by the inclusion of civil and criminal forfeiture provisions, which enable enforcement agencies to seize assets of drug organizations and other criminal enterprises.

Those laws, often cloned at the state level, allow law enforcement officials to uproot drug organizations. Without assets, criminal organizations cannot continue, no matter how many people are waiting in the wings to replace the arrested leaders. Such organizations cannot purchase their narcotics, bribe officials, pay their troops, nor enjoy the fruits of their illegal enterprise. Without assets, the organization must be rebuilt from the ground up.

Bank records are probably the single most important source of leads to assets that can be seized under the aforementioned laws. Thus, the more you know about tracing transactions through banks, the better you can use those laws in your investigations.

This paper discusses records that are available from banks and explains methods of tracing transactions into banks, through banks, and out of banks—whether through account transactions, loans, securities, bank checks, wires, or cash. The
process is simple: follow the paper to its ultimate source and to its ultimate disposition. The trail can lead to assets, witnesses, and other principals.

**Obtaining Bank Records**

Bankers have become an important source of information to law enforcement, especially in recent years. To cultivate them as white-collar sources makes sense. Anything that can be done to facilitate their compliance with your search request will benefit you as well.

Bank records can be obtained in most jurisdictions by civil discovery (in the case of civil forfeiture procedures), civil summons, court subpoena, grand jury subpoena, search warrant, or other similar legal process.

The cost of obtaining bank records can be very high. Most banks will not give police agencies free access to their files but will charge the agency a fee for search-and-retrieval time and for reproduction costs. However, most cases do not require an in-depth analysis of all bank records. Therefore, the proper selection of records to be retrieved is a function of case requirements and the case agent's workload balanced against the cost and time involved in retrieval.

Drafting a legal request to include every possible item you may eventually want the bank to retrieve is generally a good idea (Exhibit 1). As a matter of public relations, you should work closely with the bank to develop a step-by-step process of retrieval.

**Types of Banking Transactions**

Banking transactions can be divided into two types for our purposes. The first involves transactions that flow through accounts—that is, account transactions. They include account deposits, account withdrawals, and debit and credit memos (memo entries).
The second type of transaction is the nonaccount transaction. Loans fall into this category, as does the purchase or sale of securities (including certificates of deposit, stocks, bonds, and Treasury bills). The purchase or negotiation of bank checks is also a nonaccount transaction, as are cashier’s checks, money orders, traveler’s checks, and cash transactions (the exchanging of cash for cash and the cashing of third-party checks). Wire transfers and entries into a safe deposit box are also nonaccount transactions.

Flow of Transactions Through Banks

Tracing transactions through a bank is like any other asset-tracing procedure—you search for the ultimate source of the funds coming into the bank and you search for the ultimate disposition of funds leaving the bank. Both ends of the transaction can lead to hidden sources of income, hidden assets, previously unknown witnesses, and other principals.

To understand the nature of account transactions, one must understand how transactions flow through a bank through deposits, withdrawals, and memo entries (Exhibit 2a & 2b). The transaction begins at a transaction entry point. This may be a teller, a memo entry from another department, or input from the cash services department.

The teller serves as the transaction entry point when, for example, he or she receives a deposit through the mail, from an automatic teller machine, or directly from a bank customer. The cash services department handles deposits for larger cash customers, such as department stores and grocery stores.

From the entry point, transactions go to the proof depart-
Exhibit 2b
Types of Banking Transactions and Records Maintained

I. Account transactions
A. Deposits
1. Teller tape
2. Deposit ticket
3. Item deposited
4. Cash in ticket
5. Credit memo
B. Withdrawals
1. Teller tape
2. Check
3. Cash out ticket
4. Debit memo

II. Non-account transactions
A. Loans
1. Loan application
2. Loan ledger
3. Correspondence file
4. Loan Disbursement Documents
   a. Teller tape
   b. Bank check
   c. Credit memo
5. Loan repayment documents
   a. Teller tape
   b. Copies of checks
   c. Cash in tickets
   d. Debit memos
B. Securities—CDs, Stocks, Bonds, etc.
1. Bank copy of security (delivered)
2. Security held in safe keeping
3. Payment instrument
   a. Teller tape
   b. Copy of check
   c. Cash in ticket
   d. Debit memo
4. Disbursement instrument
   a. Teller tape
   b. Bank check
   c. Credit memo
C. Bank Checks—Cashier's Checks,
   Treasurer's Checks, Money Orders,
   Traveller's Checks
1. Copy of bank check
2. Copy of application
3. Purchase document
   a. Teller tape
   b. Copy of check used
   c. Cash in ticket
   d. Debit memo
4. Redemption document
   a. Teller tape
   b. New bank check issued
   c. Credit memo
   d. Cash out ticket
D. Wire Transfers
1. Application for wire
2. Federal Reserve wire memo
3. Swift message memo
4. Funds out documentation
   a. Teller tape
   b. Copy of check used
   c. Cash in ticket
   d. Debit memo
5. Funds in documentation
   a. Teller tape
   b. Bank check
   c. Credit memo
E. Safety Deposit Box
1. Signature card/contract
2. Entry Record

Exhibit 3
Negotiated Check

Marking on face of check by drawee bank

ABA Transit Number

Front

Depositor; bank of deposit

P.E.C. means prior endorsement guaranteed; additional endorsements as transit item

Endorsement of receiving Federal Reserve Bank at the time check forwarded to drawee bank

Back

Proof machine notation, including date of deposit

ment. Here each item is encoded with a discreet number so it can be located in the bank's records system (Exhibit 3). In addition, the MICR number (that series of computerized numbers which appear at the bottom of checks) is encoded at this point. That number will be read by high speed computer readers during the clearing process (Exhibit 4).

Each item is then microfilmed. Items that enter the bank together are generally filmed together in the order of their receipt. The items are entered into the bank's computer system at this point.

All items are then batched by high speed machines to facilitate further processing. Items are generally batched in four (or
more) categories: "on-us" items, clearinghouse items, transit items, and special items. *On-us* items are all those that can be cleared totally within the bank. *Clearinghouse items* are those which must clear through other local banks and are thus cleared through a local clearinghouse. *Transit items* are those which must be sent outside the bank’s area for clearing. They are sent through correspondent banks and Federal Reserve banks. For our purposes, *special items* consist of cashier’s checks, debit and credit memos, certificates of deposit, loan transactions, wire transfers, etc. They require special handling by the bank.

Items requiring further handling, such as transit items and special items, are sent to the appropriate department for final processing.

The last step in transaction processing occurs in the bookkeeping department, into which all items eventually flow. There, they are filed in a manner that allows quick retrieval. The bookkeeping department, which often contains an error resolution unit, maintains those files and searches them for other departments.

**Requesting Bank Records**

The first step to take, even before drafting any subpoenas, is to determine the existence of checking or savings accounts, loan accounts, investment accounts, and safe deposit boxes. Always ask the bank to check for both open and closed accounts. In most cases, one can obtain this information by interviewing a bank official. However, some banks will not voluntarily assist you in determining whether your subject has an account. They will require a subpoena stating the exact name of the account, etc. Fortunately those banks are few, and bank employees with this attitude can sometimes be overruled by their superiors.

**Ask for Signature Cards and Account Statements**

Once you have received account and other information, you can request several items simultaneously. Ask for the signature cards of all accounts, account statements, loan records, and safe deposit records. Those records are requested first for several reasons. They are generally easily retrievable by the bank. This means you get the information quickly and with little initial cost to your agency. Second, you must analyze the account statements before you can request the detailed information concerning checks, deposits, and memo entries.

Signature cards not only reveal who owns the account but also can serve as handwriting exemplars (Exhibit 5). In addition, they often refer to corporate board resolutions, partnership agreements, or other business agreements on file at the bank. Those resolutions can provide leads to other witnesses, principals, or co-conspirators.

Before requesting account statements, determine what time period you need to cover. Be certain to request enough statements so that a complete history is compiled. The cost of obtaining account statements is generally negligible, as is the bank’s time to procure them. So ask for all the statements that might be relevant, within reason. Remember, banks must retain records for periods specified by law. If the bank states that
it does not possess the records, check with your counsel for possible noncompliance with banking regulations.

Examine Statements to Facilitate Further Requests

Analyze all statement entries (Exhibits 6a, 6b, and 6c) to help narrow your requests for records. Most cases do not require pulling all bank records pertaining to the subject. A careful analysis of statements can help determine which items to request next. For example, interaccount transfers can often be identified from statements and thus eliminated from further detailed follow-up.
If you are searching for a specific deposit known to have occurred, account statements may reveal the amount(s) and date(s).

In the absence of known deposits, one can look for large deposits or various patterns in the deposits noted on the statements. In general, look for larger deposits, particularly if your subject is part of a large narcotics organization. If a case involves a small-scale trafficker, you may want to request smaller deposits or even all deposits. In addition, be alert for business deposits that appear to be out of the ordinary, such as large, even amounts deposited in an account of a retail business where receipts are normally received in small, uneven amounts.

Among the deposit patterns to look for on statements are 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. Those patterns not only suggest criminal activity but also may provide probable cause for search or arrest warrants or for civil seizure of assets.

You may also choose to trace money by checking the accounts for deposits over a certain amount, such as all transactions over $5,000 or all those made in even hundreds over $1,000.

Finally, you could search according to the type of deposit transaction, such as by focusing on all currency transactions and/or all large or unusual memo entries. The latter may indicate wire transfers, loans, certificates of deposit, investments, or other hidden assets.

How Many Records Should be Requested?

Determining how much material to request can be difficult. It depends on the bank. If the bank can retrieve the documents easily, obtain more than you think you will need. If, on the other hand, the bank will have difficulty obtaining the items, select carefully. Remember, you can always get more from the bank. Your workload and public relations with the bank will help you decide how much to request and when to request it.

Note that some accounts may dictate a 100-percent search. That would be called for if the account is obviously a laundering account or if it is a hidden account.
Ask for Front and Back

Request both the front and back of each document selected, including deposit tickets, memo entries, and canceled checks. You need both the front and back to get endorsements, encoded numbers, and bank stamps. Remember, almost all document locator encoding is on the back of each item (Exhibits).

Requesting a Back-up Search

If the bank tells you there is no microfilm, or the requested item cannot be found or read on the film, consider requesting a back-up search. For example, some banks film all statement items just before they are sent out. This, in effect, is a second set of film for the items, the first being shot when the items come through the proof department. This second set is an excellent source of back-up data if the item cannot be found on the proof film.

The teller’s tape and proof envelope are also good back up material. They are coded with numbers representing every transaction. Those numbers indicate the type of transaction—deposit, withdrawal, exchange—and the amount. In addition, the bank’s computer reports may give the required details concerning a lost transaction, though these generally contain only numbers.

Always ask the bank about other types of back-up systems they may have. But this is an expensive proposition and must be chosen carefully. The back-up items may not give you the type of information needed. For instance, payee names, names of depositors, and endorsements will probably not be revealed. Always discuss this choice carefully with a knowledgeable bank officer who can tell you exactly what you are getting for your time and money.

Analyzing Deposit Documents

Once the requested deposit-related items arrive, analyze the deposit tickets (Exhibit 7) and memo entries (Exhibit 8a and 8b). Most deposit tickets and memo entries will not have much useful information on them, so the next step is to obtain the items deposited and the items represented by the memo entries.

Requesting copies of the fronts and backs of items deposited and credit memos will reveal the actual source of the deposits. Note that the items deposited are not the deposit slips. The items deposited are copies of the actual checks and other docu-
ments that are listed on the deposit ticket.

Requesting the bank to make a careful search of the proof microfilm when cash deposits are found is important. A good idea is to have the bank examine at least the two items before and the two items after the cash transaction. This kind of search will help reveal cash splits. Those might include a large cash deposit that is split among several accounts, or cash withdrawals from several accounts which make up one deposit in the account being searched.

Most currency transactions over $10,000 require that a currency transaction report (CTR) be filed by the bank in accordance with the Bank Secrecy Act (Exhibit 9). The Bank Secrecy
Act and related money-laundering issues are beyond the scope of this paper, but you should at least be aware of some of the information contained in CTRs, such as the names and addresses of the persons involved in the transaction and the social security numbers of the person conducting the transaction. Banks are required to file these reports; willful failure to file constitutes a felony. U.S. Customs Service headquarters maintains a data base of CTRs filed.

Other deposit items can be broken down into two types: on-us items and clearinghouse items. Both should be traced to their ultimate use or source within or outside the bank.

The first step is to request the ultimate use or source of on-us items deposited. Those are such items as loan proceeds, certificates of deposit or other securities negotiated, wire transfers in, bank checks deposited, and checks from other accounts at the bank.

If the deposit is the proceeds from a loan, obtain and analyze the loan file. How to do this is covered later; what it may uncover is discussed here.

Tracing loan proceeds to their ultimate use source may reveal hidden assets. This could be real estate either purchased with the loan or used to secure the loan; other assets purchased with, or used as collateral for, the loan; or bank or securities accounts.

The discovery of a loan could also lead to other witnesses, principals, or co-conspirators. They might be co-signers of the loan, others making loan payments, or actual owners of the securities serving as collateral. Credit file leads can also be found in the loan file.

The important point to remember is to follow-up when loans are discovered. For example, tracing securities (used as collateral for, or purchased with the proceeds of, the loan) to their ultimate source may reveal that the funds used to purchase them came from other hidden assets. The point is, do not just stop with the security. Go back to the security file and find the origin of the funds used to purchase it. Keep tracing until you reach the final source.

If the deposit came from a wire transfer, trace the wire to the originating bank to see where the funds for the wire originated. Again, this search could lead to other accounts, other witnesses, principals, coconspirators, or offshore transactions.

Bank checks deposited, such as cashier's checks and money orders, could be an indication of "smurfing" operations (structured currency transactions), particularly if large numbers of even-amount cashier's checks appear on a regular basis. Even occasional bank checks should be traced to their ultimate source, for bank checks are a favorite means of hiding the source and disposition of illegally gotten gains.

Cashier's checks often lead to other hidden accounts. They can lead to the discovery of hidden assets, for such checks are often used to distribute the proceeds of loans, the sale of securities, real estate closing proceeds, and similar items. Those checks can also lead to other witnesses, principals, or co-conspirators who purchased or endorsed the check deposited into the subject's account.

On-us third-party checks deposited in the account in question may indicate their purpose on their face, and thus require no further follow-up. In such instances, the payment may be from a known source within the bank or it may have sufficient identifying information on it to allow you to locate and interview the witness regarding the purpose of the payment.

Other on-us checks deposited should be traced through the bank to their ultimate source. This may require a subpoena to open up yet another account to investigate. Once that account is opened, the investigative process begins again.

Another source of deposits is clearinghouse items. For our purposes, we will include both local clearinghouse and out of town transit items in this category. Since clearinghouse items will probably require legal process to trace them through third-party banks, carefully weigh which ones are worth pursuing. Some clearinghouse items will have sufficient identification to permit you to find and interview a witness—generally a cheaper and quicker method than trying to run the item through another bank.

Whether an item is an on-us item or a clearinghouse item can be determined by looking at the bank name on the check
(is the name the same as that of the bank at which the deposit was made?), or by looking at the bank endorsements on the back of the item. If the item has a different bank’s endorsement or a Federal Reserve bank endorsement, it is a clearinghouse item (Exhibit 3).

Many bank endorsements include the bank’s transit number (Exhibit 3, 10a, 10b, and 10c). Those will help you locate the third-party bank, particularly if the rest of the bank endorsement is illegible.

Tracing clearinghouse items consists of taking the item in question to the third-party bank with appropriate legal process to allow you to track the item to its ultimate source.
Tracing Withdrawals/Disbursements

While tracing deposited items to locate the ultimate source of funds entering the subject's bank account, you can trace the other end—the check withdrawals and other disbursements—at the same time.

Investigating disbursements is the same, in reverse, as the technique just discussed. In fact, it consists of fewer steps, for you can normally go right from the check endorsement or payee to the ultimate disposition. Again, disbursements are of two types, on-us items and clearinghouse items.

The first step is to review the checks for "cash" stamps and endorsements (Exhibit 11). Ask the banker to explain the cash-stamp and endorsement system. As previously noted, requesting a careful search of the proof microfilm for all cashed checks is important, including checks payable not only to cash but also to third parties and subsequently cashed.
As with cash deposits, an analysis of both sides of the cash item on the microfilm may reveal what the cashed item was used for. The item could have been redeposited into one or more hidden accounts. On the other hand, it might have been used to purchase nonaccount items such as hidden certificates of deposit or securities.

Cashier's checks might have been purchased. If those are discovered, they should be traced, since tracing cashier's checks may reveal additional undisclosed assets. In addition, the money may have been used to make payments on loans used to purchase undisclosed assets, such as houses, yachts, and airplanes. Again, remember to look for compliance with the reporting requirements for transactions over $10,000 under the Bank Secrecy Act.

An analysis of canceled checks may identify checks which require no further bank follow-up because either the payee is obvious or the purpose of check is obvious.

Trace the ultimate disposition of all on-us checks (payable to bank, cash, or third parties and negotiated at the bank). First, request evidence of the check's deposit to another account within the bank (trace for leads as noted above). Once such evidence is obtained, review the third-party's account statement and the deposit ticket containing the item deposited. In addition, review the other items deposited with the check. Look for leads to other witnesses and/or for questionable transactions that need further follow-up.

Trace all payments to nonaccount items for leads. Trace loan payments through the loan records, and trace the purchases of securities and certificates of deposit to their ultimate disposition. It is important to determine what happened to the proceeds of the securities and certificates of deposit when they were ultimately negotiated. In addition, wire transfers out should be followed through the wire transfer department, as discussed later.

Bank checks purchased with checks from the account should be traced through the bank's records to determine where they were ultimately negotiated. If you find that cashier's checks were deposited into someone else's account, you may have to open that account to understand fully the purpose of the payment.

Finally, determine whether to pursue clearinghouse items. Obviously, tracing transactions via third-party bank endorsements is another step which takes time. But if the payee or the purpose of the check is not obvious, or if the payee is hostile, you have no choice but to initiate the trace.

Searching Nonaccount Records

Nonaccount transactions can also provide you with a significant amount of investigative information.

Loans

If the subject has opened or closed loans with the bank or has ever applied for loans there, fully document the transaction. Request all loan documents since they are usually very easy for the bank to retrieve, so cost and time are not factors in requisitioning them. Those records should be requested when you initially ask for the account ledgers.

Loan documents usually maintained by a bank consist of the loan ledger, the loan application, and the loan correspondence files.

The loan ledger details the loan and the payments made on it. The loan application is usually a financial statement full of leads to other assets (Exhibit 12). In fact, some banks require an application plus a full set of financial statements as well as the prior year's federal income tax return. Loan correspondence files contain letters and internal memoranda regarding the loan. In addition, the loan file may also contain notes, real or chattel mortgages, assignments, and corporate resolutions.

The first step in an analysis of loan documents is to review the loan ledger entries. This analysis will help determine which follow-up records to request, if any. For instance, a normal business operating loan with regular repayments from the business bank account may require no follow-up. On the other hand, unusual loans should be traced from beginning to end.
Exhibit 12

First National Bank

NAME
BUSINESS NAME
BUSINESS ADDRESS
RESIDENCE ADDRESS

POSITION OR OCCUPATION
PHONE
PHONE

The following is submitted for the purpose of auditing, establishing, and maintaining credit with you in behalf of the undersigned or persons, firms or corporations on whose behalf the undersigned may either directly or indirectly, execute, a guaranty or bond. The undersigned warrants that the financial statement is true and correct and that you may consider this statement as continuing to be true and correct until a written notice of a change is given to you by the undersigned.

PLEASE DO NOT LEAVE ANY QUESTIONS UNANSWERED. USE "NO" OR "NONE" WHERE NECESSARY.

DATE

SCHEDULE A - U.S. GOVERNMENTS AND MARKETABLE SECURITIES

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<thead>
<tr>
<th>No. of Shares or</th>
<th>Description</th>
<th>In Name Of</th>
<th>Total Market Value</th>
<th>Source of Value</th>
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<td>Face Value (Dollars)</td>
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SCHEDULE B - NON-MARKETABLE SECURITIES

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<th>Percent of Ownership</th>
<th>Description</th>
<th>Date of Loan or Proceeds</th>
<th>Book Value</th>
<th>Financial Statement</th>
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SCHEDULE C - PARTIAL INTERESTS IN REAL ESTATE EQUITIES

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<th>Location of Property</th>
<th>% of Ownership</th>
<th>Type</th>
<th>N. of Shares</th>
<th>Par Value</th>
<th>Market Value</th>
<th>Source of Value</th>
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SCHEDULE D - REAL ESTATE OWNED

<table>
<thead>
<tr>
<th>Description of Property and Improvements</th>
<th>Date Acquired</th>
<th>Title to Property</th>
<th>Cost</th>
<th>Market Value</th>
<th>Mortgage</th>
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SCHEDULE E - LIFE INSURANCE CARRIED, INC. IN. S. I. AND GROUP INSURANCE

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<th>Face Amount</th>
<th>Name of Company</th>
<th>Beneficiary</th>
<th>Cash Surrender Value</th>
<th>Loans</th>
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<tbody>
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SCHEDULE F - NAMES OF BANKS OR FINANCE COMPANIES WHERE CREDIT HAS BEEN OBTAINED

<table>
<thead>
<tr>
<th>Name and Address</th>
<th>Original Date</th>
<th>High Credit</th>
<th>Own Capital</th>
<th>Second or Guarantee</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The undersigned certify that both sides hereof and the information inserted therein has been carefully read and is true, correct and complete.

SIGNATURE

DATE SIGNED

(COMPANY USE ADDITIONAL SCHEDULES WHEN NECESSARY)
Unusual loans would include those involving no record of loan proceeds going to the subject's bank account. As this is contrary to normal banking practice, you may find that the funds went to another account or were used to purchase an undisclosed asset.

Loans in odd amounts may also be unusual. Whether the amount is truly odd depends upon the subject's business. That must be considered when deciding whether to trace the loan.

The loan records may also indicate when a bank is in collusion with the subject. When the records show that a loan repayment is long overdue or the loan has an extended rollover, collusion between the borrower and the bank may exist. Likewise, loans made or maintained in violation of bank policy may also indicate a "special" arrangement between the two that you should know about.

A loan that appears to be way above the individual's ability to repay also suggests collusion, although this particular circumstance may instead be indicative of a hidden financial statement showing the subject's net worth to be much higher than that on the filed financial statement.

Loans that show unusual repayments should also be traced. Lump sum repayments and odd-amount repayments are generally considered unusual. Payments that are consistently late or otherwise against bank policy should also raise suspicions, as should payments that did not come from the subject's bank account.

In all those cases, you are looking for leads to other people or to other assets. For example, loan proceeds may have been deposited in hidden accounts, or those accounts may be used to make loan payments. Loans are frequently secured by hidden assets or may be co-signed by previously unknown associates. Alternatively, your subject may have taken out the loan for someone else. Tracing the ultimate disposition of the loan proceeds and the ultimate source of the loan repayments will uncover those leads.

The possibilities of the final disposition of the loan are similar to those discussed with respect to tracing account transactions. The disposition may be within or outside of the bank.

Within the bank, the money may have been deposited into your subject's account, which would be the normal disposition, or into someone else's account. It may have been used to purchase a certificate of deposit or security through the bank's brokerage department. In some cases, one loan will be used to replace another in a rollover loan situation.

If the loan proceeds were sent out of the bank, you might be able to trace their path within the bank; before tracing them to their ultimate disposition, consider the cost/benefit of taking that step. The trace may not be worth the effort.

In tracing the funds within the bank, you may find that they were sent to the wire transfer department for transfer out of the bank. However, more commonly the proceeds are sent out of the bank via a bank check that the subject negotiates elsewhere. This check could be traced within the bank to determine the name and location of the bank where it was cashed.

Also trace the ultimate source of loan repayments. Again, it could be from within the bank. If so, repayment normally would come from the subject's account, but it could come from an undisclosed negotiated certificate of deposit or security.

In addition, repayments could come from a third party's account in the bank, which may mean that the loan really belongs to the third party and not the subject. For instance, what is the significance of the loan being in your subject's name, the proceeds being used to buy a luxury car the subject is known to drive, and the repayments coming from a third party's account? Obviously all these factors can become critical when trying to determine whether you have found an asset that can be seized. If the repayments come from outside the bank, you need to decide whether follow-up is justified.

In your review of the loan files, thoroughly examine all other loan documents, such as credit applications, financial statements, internal memoranda, letters, etc. Those can often lead to other witnesses or assets not previously uncovered. The figures on the financial statement or credit application can also be invaluable if you are using an indirect method of proof as part of your case against the subject.
Certificates of Deposit and Securities

Assume you are examining a subject's bank records and you see a check written for the purchase of a certificate of deposit (Exhibit 13). Later you find another check used to purchase a security through the bank's discount brokerage department. First have the bank retrieve the certificate of deposit and securities files. Then obtain whatever additional records needed to trace the ultimate source of funds used to buy the certificates of deposit and securities. Likewise trace the ultimate disposition of the funds disbursed when those instruments were finally negotiated. You should also look in the file to see if those items were pledged for loans which may have been obtained to purchase yet other assets.

Bank Checks

Bank checks (Exhibits 14a, 14b, and 14c) can present difficult problems because, normally, they are extremely time consuming and expensive to locate, unless you know the date or number of the check. However, if you locate deposits of bank checks into your subject's account or discover that he or she has purchased a bank check with a check from his or her account, then finding those checks will not be difficult. The bank can locate them quickly by obtaining a microfilm copy of the check deposited or purchased. From that you can get the check register of the check deposited (Exhibit 14a). The register may tell you who purchased the check. If not, the bank will be able to determine that from its internal records. The bank can also obtain the microfilm copy of the check purchased from your subject's account. Endorsements on the back of the check will allow you to trace it to its ultimate disposition.

If, on the other hand, you know only that your subject has a habit of buying bank checks at the bank and the purchase was not made from any known bank account, retrieval of these items will be extremely difficult—for in most banks this retrieval requires a search of every bank check written. This could total thousands of checks a day. Despite this, discussing
your problem carefully with the appropriate bank official is always a good idea, since all banks differ in their treatment of bank checks. You may find a shortcut.

Another option is to interview employees at the branch levels to see if you can locate witnesses who can pinpoint the transactions more closely. If the subject goes to the same branch, officer, or teller, that person may be able to help you narrow the search. On the other hand, if the teller or officer is in collusion with your subject, that type of contact may do more harm than good.
Obviously, if you decide that bank checks are worth requesting, both the source of funds used to purchase the checks and the ultimate disposition of the checks should be traced.

**Currency Exchange**

Documenting pure currency exchanges is equally difficult. Unfortunately, the use of currency and the use of cashier’s checks are the two primary methods of laundering funds since these methods leave few paper trails to follow.

If you suspect that the subject is engaging in cash-for-cash transactions, the primary avenue of investigation will have to be the branch personnel where the transactions took place. Pure cash-for-cash transactions are normally very hard to document. They generally require a search of all teller tapes and proof film by date, and even that is not conclusive. That procedure is not only expensive and time consuming but may be futile as well. Nonetheless, such evidence can be useful to corroborate the testimony of a bank employee.

Some banks now require customers to make deposits and withdrawals rather than exchanges. This leaves a paper trail to follow.

Many banks now capture large cash transactions separately, which may make them easier to locate. You need to discuss the record-keeping system with appropriate bank personnel to determine the best approach to this problem.

If you isolate a date of a certain cash transaction, have the bank copy several transactions before and after the cash transaction you are interested in, as it may give you a trail to the source or disposition of the cash. Remember to check for compliance with the Bank Secrecy Act when you locate large currency transactions, particularly if they are over $10,000.

**Wire Transfers**

Once the bad guys think they have their money safely deposited in a bank, they tend to attempt to launder their funds by wire transfers to other banks in the U.S. or abroad (Exhibit 15). There is nothing mysterious about wire transfers. Like anything else, if you see a memo entry in the account indicating a wire transfer, the bank can generally easily retrieve the documents pertaining to the wire.

Those documents will identify who sent the wire and to which bank, along with the date and the amount. Regarding wire transfers sent to another bank within the United States, the sending bank’s documents will also generally indicate to which account at the receiving institution the money was credited. If the sending bank’s documents do not specify the account, the receiving institution knows that information. So it is a matter of taking the evidence to the receiving institution and documenting the ultimate disposition of the wire.
Wires sent offshore are another matter. Tracing them depends upon the country and the institution receiving the funds. A complete discussion of tracing funds laundered offshore is beyond the scope of this paper. Suffice it to say that you should get all the documents available pertaining to funds wired offshore and pursue the issue as appropriate. Do not give up just because the wire transfer went offshore.

If, on the other hand, you suspect that the subject moved funds by wire but you do not know from what source or when, then you are confronted with the same problem you had with bank checks. Hundreds of thousands of wires are sent every day. To isolate the ones sent by your subject can be very costly and time consuming.

Safe Deposit Boxes

Regarding documentation of safe deposit box ownership and entries, obtain the safe deposit box signature card, which also serves as a rental contract (Exhibit 16a), and the box entry record (Exhibit 16b).

The signature card indicates who owns the box, and the entry card can sometimes be combined with other evidence, such as a major narcotics sale on the same date, to prove a source of funds.
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6. Lessee will retain no keys which will open any leased box, and upon the surrender of said box, the keys thereto shall be returned immediately. Any expense incurred by the lessor in opening or replacing said box, or the doors enclosing the same, and in changing the lock, hereon contained by the loss of a key, or by fire, or by force to deliver the same, at the expense of the lessee, must be paid by the lessee. Lessee must notify lessor at once if a key is lost.

7. Lessee shall give the lessor a signature and that of his agent or deputy, if his agent or deputy shall be found. Said signature shall be conclusive evidence of the lessee's knowledge of and assent to the terms and conditions and this shall, without reservation, apply to all renewals and subsequent leases of boxes from the lessor to the lessee.

8. The liability of lessor in respect to properly deposited in said box or delivered to him by the lessee in the performance by employees and officers of lessor of their duties, and shall be limited to keeping the box in the vault where located at the time of the expiration of the lease or of his tenancy. Both the lessee and the lessee's agent or deputy shall be held responsible and liable for loss, damage or destruction of all property contained in said box, except when an officer or an employee of lessor is present.

9. All faults of conditions shall be reported in advance, and if such faults be not given up and such keys returned to lessor within 24 hours after the time of the expiration of the lease or of his tenancy, both the lessee and his agent or deputy shall be held responsible for the loss of such faults.

10. Lessee shall not sublet any part of said box, or permit the same to be used or occupied by any other person or persons.

11. Lessee shall not be liable for any injury caused by the fault of the vault doors or locks to operate.

12. Lessee shall not use said box, or permit the same to be used, for the deposit of any destructive or noxious substances or any property of an explosive or destructive nature.

13. This contract is personal to the lessee and shall not be assigned or transferred, and any assignment or transfer thereof shall immediately terminate the tenancy.

14. Lessee hereby acknowledges the receipt of two keys to said box and space.

15. Lessee shall be permitted to deliver any change of address of lessee to the address given by the lessor at the time of making this contract, which address shall be for the purpose of sending notices.

16. Lessee shall not deliver or ship any packages to any box held under this contract, nor shall any packages be delivered or shipped to any box held under this contract.

17. Lessee shall not deliver or ship any packages to any box held under this contract, nor shall any packages be delivered or shipped to any box held under this contract.

18. Lessee shall not deliver or ship any packages to any box held under this contract, nor shall any packages be delivered or shipped to any box held under this contract.
Summary and Conclusion

The techniques described in this paper can be used to trace anything that leaves a paper trail. For example, cases have been broken by detection of small, seemingly insignificant items in a bank account. Hidden real estate in another town has been discovered by small payments of utility bills, phone bills, retail charges out of town, taxes, or insurance. Hidden brokerage accounts, either in or out of town, have been discovered by detection of small payments of interest on a margin account paid from a known bank account.

Other bank accounts often surface from small items in a known bank account. A deposit to a hidden account may inadvertently clear a known account. Other interaccount transfers or wire transfers between accounts may occur. A third-party check may clear a hidden account. A credit application may list both accounts.

Thus, tracing financial records is much more than just a paper chase. The trace can quickly lead you to assets that can be seized using civil procedures, which are much quicker and easier than those associated with the criminal seizures most enforcement officers are used to.

Unlocking bank records provides the leverage to uncover hidden assets and previously unknown witnesses, principals, and coconspirators.

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About the Author

Charles Morley is President of the Morley Group, a financial investigations and law enforcement training group located in Arlington, Virginia. He is a former IRS Criminal Investigator and Chief Investigator for the United States Senate Permanent Subcommittee on Investigations.

Police Executive Research Forum

The Police Executive Research Forum is the only national meeting of chief executives of large city, county, and state police agencies. The Forum's purpose is to improve the delivery of effective crime control through several means:

- the exercise of strong national leadership;
- public debate of police and criminal justice issues;
- research and policy development; and
- the provision of vital management and leadership services to police agencies.

Forum members are selected on the basis of their commitment to the Forum's purpose and principles. The principles which guide the Police Executive Research Forum are that:

- Research, experimentation, and exchange of ideas through public discussion and debate are paths for development of a professional body of knowledge about policing;
- Substantial and purposeful academic study is a prerequisite for acquiring, understanding, and adding to the body of knowledge of professional police management;
- Maintenance of the highest standards of ethics and integrity is imperative in the improvement of policing;
- The police must, within the limits of the law, be responsible and accountable to citizens as the ultimate source of police authority; and
- The principles embodied in the Constitution are the foundation of policing.

Police Executive Research Forum
Darrel W. Stephens, Executive Director
Clifford L. Karchmer, Project Manager
John Stedman, Project Director
Wanda Bryant, Staff Attorney
Chris Leahy, Project Editor

RJA Asset Forfeiture Program
Police Executive Research Forum
2300 M Street, N.W., Suite 910
Washington, D.C. 20037