



Safeguarding America's Economic Security

Volume I: No. 3 • July 2004

Inside this Issue

Spotlight On Economic Vulnerabilities ... 2
Following the Money 3
Cornerstone Investigations Updates:
Selected Recent Cases 4
Cornerstone Outreach: Recent and
Upcoming Events 5

Cornerstone is U.S. Immigration and Customs Enforcement's (ICE) comprehensive economic security initiative.

Cornerstone works in partnership with the business community to exchange information on methods criminal and terrorist organizations use to earn, move and store their illicit funding.

The Cornerstone Report—formerly known as “Tripwire”—is a quarterly bulletin highlighting key issues related to economic security and fostering communications between ICE and private industry.



**U.S. Immigration
and Customs
Enforcement**

Toll-Free Tip Line:
1-866-DHS-2ICE

www.ice.gov

ICE Agents Reaching Out To The Financial Industry

Cornerstone, ICE's comprehensive economic security initiative, is a two-pronged approach to fighting financial crime and fraud.

The first of these prongs is our investigative approach, which seeks to identify and target the vast range of schemes that criminal and terrorist groups use to earn, move and store their illicit funding, from money laundering to intellectual property rights fraud.

The second prong is equally important—an aggressive outreach program to private industry to develop a two-way information-sharing partnership. Since ICE and the Department of Homeland Security (DHS) launched Cornerstone last year, our Cornerstone agents have conducted almost 400 industry visits nationwide to share information on the initiative.

Unfortunately, a recent article published in July 2004 in “American Banker Online,” a publication for the banking community, gave a mistaken impression of these outreach visits, suggesting that ICE investigators were dropping in at banks “unannounced” and with “no advance notice” to conduct investigations.

Nothing could be further from the truth.

Here's how the Cornerstone outreach program works. In each of ICE's 27 regional offices, we have assigned a specially trained Cornerstone agent who is responsible for outreach to the business community and developing public awareness of the program in his or her region.

As a part of this effort, these agents frequently meet with members of the banking community to discuss ICE's financial investigation programs and how ICE can provide information that may better secure their businesses and, in return, how ICE can gather information, tips and suggestions from the businesses.

Ultimately, we want to build an unprecedented working partnership with private industry to combat money laundering, bulk cash smuggling, commercial fraud and other threats to America's economic security.


ICE is a law enforcement agency, not a regulator. Thus, we do not conduct spot audits of bank records—so there is no reason for banks to prepare for “examinations” related to these visits.

The visits are designed simply to allow a forum through which ICE agents can share information on trends and patterns in fraud and financial crime and, when appropriate, receive information about these trends from the banking community on a strictly voluntary basis.

The goal is to share information about vulnerabilities in the nation's economic security and help private businesses detect such vulnerabilities in their own systems—vulnerabilities that might be open to exploitation by terrorists, money launderers, drug traffickers or other criminal organizations.

The Cornerstone initiative was developed to help ensure that banks and financial institutions are not victimized by criminal organizations. But the aforementioned article leads readers to believe that ICE is casting our spotlight on the banks, rather than the criminals.

That's not true. Cornerstone targets the perpetrators of financial crime—not the victims.

Readers who would like to learn more about how they can get involved should visit ICE online at www.ice.gov. ICE looks forward to working with the banking industry in the shared mission of protecting our financial and economic systems from exploitation by criminal and terrorist organizations. 



Spotlight On Economic Vulnerabilities

Industry Alert: Precious Commodities A Favored Tool For Money Launderers

Criminal organizations have a long history of using precious metals and gems—particularly diamonds and gold—as money laundering tools.

These precious commodities can be easily concealed, transported and smuggled. Furthermore, they are highly liquid commodities, easily exchanged in both legitimate and illicit markets worldwide.

Last year, a report from the General Accounting Office (GAO), the investigative arm of the U.S. Congress, suggested that terrorist organizations may also be getting in on the act, using diamonds or gold as alternative financing mechanisms to earn, move and store their funding.

A 2003 ICE case illustrates how resourceful money launderers and smugglers can be in employing these commodities to move and store funds. Investigators uncovered a scheme in which jewelers were converting the proceeds from drug sales into the equivalent value in gold.

They then melted the gold and recast it into a wide range of common materials, like wrenches, nuts, bolts, belt buckles and trailer hitches. The disguised gold was then shipped to Colombia to be sold and converted back to cash.

The investigation of this case, “Operation Meltdown,” resulted in 23 arrests along with the seizure of 140 kilograms of gold and \$1.5 million in cash.

Dealers in precious metals and gems should protect themselves and their industry from exploitation. As in all money laundering scenarios, the cardinal rule for business owners



In “Operation Meltdown,” ICE uncovered a trade-based money laundering scheme in which jewelers refashioned gold into common objects to be smuggled to Colombia for resale, like the bolt pictured here.

should be to “know your customer.” This rule is particularly important for jewelers and others dealing in precious metals and gems.

The industry has long prided itself for its discretion and respect for the privacy of its customers. Dealers should take care that criminal and terrorist organizations don’t exploit these values in order to move their illicit funds surreptitiously.

Red flags to look for include the following:

- Payments that come from someone other than the purchaser.
- Payments made with sequentially numbered money orders or travelers checks.

- Checks lacking the identity of the purchaser.
- Payments drawn from banks in countries other than the purchaser’s country of origin.
- Multiple checks drawn on the same account on the same day.

Finally, be aware that, following the passage of the USA PATRIOT Act in 2001, dealers in precious gems will be subject to more stringent reporting requirements.

The Department of the Treasury’s Financial Crimes Enforcement Network (FinCEN) is preparing regulations to be distributed to industry and public in the coming months. These new controls will clarify the obligations of industry while helping to shut down a vulnerability that criminal and terrorist organizations might use to launder funds.

ICE will continue working with the industry to ensure that these regulations help to bring greater transparency without unduly burdening business owners. [S](#)

Tracking Precious Commodities With NIPS

ICE’s Numerically Integrated Profiling System (NIPS) is one of our investigators’ key tools for tracking the illicit movement of diamonds, gold and other precious commodities.

NIPS is an analytical computer program to identify trade anomalies and patterns of criminal activity—including fraud, illegal trade, money laundering, tax evasion, drug smuggling and terrorist activity.

NIPS is the only software tool in the government with the capability to identify, analyze and trace connections in the movement of people, money and materials into and out of the United States.

NIPS monitors international trade and economic activity by drawing on information from a wide range of databases, including the Automated Commercial System, the Automated Manifest System, the Department of Commerce Export System, Bank Secrecy Act databases, I-94 passenger/flight data, telephone records, ICE seizure data and information received from foreign governments.

By drawing on a wide range of data sources and allowing for analysis of multiple data points, NIPS allows ICE investigators to develop a fuller sense of the ways in which precious commodities may be transferred into and out of the United States by criminal organizations as instruments for earning, moving or storing their funding.



Page 3 of 5

Volume I: No. 3
July 2004

Following the Money

Alternative Banking Systems Vulnerable To Exploitation

ICE agents in San Francisco recently completed a three-year financial investigation involving an illegal money transmitting business in Fremont, California.

The company, ZSQ Exchange Incorporated, was operating as a “hawala,” an informal banking system typically used to transfer funds in the Middle East and Asia.

With Fremont’s large Afghan population, ZSQ built a sizable business by transferring millions of dollars from immigrants in California to their relatives in Afghanistan, Pakistan and other Middle Eastern countries. The vast majority of these transfers were simple exchanges of money between family members.

However, this company had a darker side: A portion of the monies transmitted by ZSQ were derived from heroin sales in the United States and transferred to an international heroin trafficking organization in Pakistan with reputed ties to terrorist organizations.

Ultimately, ICE’s investigation, coordinated with other government entities in the United States and abroad, led to the successful prosecution of the owner of ZSQ Exchange along with his wife and 11 other defendants worldwide—including members of a heroin trafficking organization in Pakistan and two international money launderers in Thailand.

This particular case suggests the challenges of following the money in an age of rapid communication technology and global financial flows.

While traditional hawala arrangements often are based upon simple relationships of trust and direct communication between parties, the ZSQ model was an innovative form of hybrid hawala—incorporating e-mail and Internet accounts, the traditional U.S. banking system and inter-

national commerce networks into the traditional hawala method in order to launder and transfer money across the borders of numerous countries.

In this case, cooperation with foreign law enforcement and government entities was essential to shut down this funding system.

Furthermore, this case illustrates that, when it comes to earning, moving, and storing money, criminal and terrorist organizations frequently draw on the same infrastructures and methodologies. Terrorist organizations, for example, have used hawala to transfer funds across international borders, just as the heroin traffickers used ZSQ Exchange.

Legitimate financial institutions should be aware of the methodologies through which their businesses may be open to exploitation by unlicensed money transmitters, as well as by criminal and terrorist organizations.

Be alert to ways in which these organizations can exploit vulnerabilities in our financial systems to transfer their illicit funding.

ICE Condo Sale Earns \$2.6 Million For Nicaragua

On May 21, ICE accepted \$2,624,892 on behalf of the government of Nicaragua in the sale of a Miami condominium owned by Byron Jerez-Solis, who once headed the Nicaraguan equivalent of the U.S. Internal Revenue Service.

The 5,207 square foot condominium was seized by the ICE Foreign Corruption/Financial Task Force in December 2003, after a judge ruled in a civil proceeding that there was sufficient evidence that the property was purchased by Jerez-Solis, the former head of the Nicaraguan Direccion General

de Ingresos, using funds that were most likely obtained illegally.

The sale of the condo marks the first time that property seized by the ICE Foreign Corruption/Financial Task Force has been sold for funds reparation. The money will be returned to Nicaragua.

Jerez-Solis headed the Central American country’s revenue collection office under former President Arnoldo Aleman. Aleman is currently facing criminal charges in Nicaragua relating to fraud and money laundering while he was in office. Both men are under house arrest in Nicaragua, where they are being scrutinized for their handling of national assets.

The Miami Foreign Corruption/Financial Task Force, which ICE created in August 2003, is the only task force in the nation that specifically targets the proceeds of public corruption, bribery and embezzlement emanating from foreign nations. [S](#)



Cornerstone Investigations Update: Selected Recent Cases

Page 4 of 5

Volume I: No. 3
July 2004

ICE Breaks \$400 Million Intellectual Property Crime,

Smuggling Case (New York, NY, June 3)—Under “Operation Executive,” ICE agents arrested twelve people and seized six shipping containers in a major intellectual property crime case targeting an organization believed to have smuggled at least \$400 million in counterfeit goods into the United States in one year.

Of the six containers seized on June 3, five held counterfeit designer luxury handbags, luggage and wallets, and the sixth contained counterfeit cigarettes. Large-scale counterfeiting operations have emerged as a significant source of funding for criminal organizations in the United States and abroad. These crimes represent a potential area of vulnerability for the nation’s economic and homeland security.

Suspect Extradited In Global Child Pornography Scheme

(Newark, NJ, June 18)—An administrator of Regpay Co. Ltd, a Belarus-based business providing billing services for child pornography websites and operated pornographic websites of its own, was extradited to New Jersey from Spain to face trial for his role in a global child pornography enterprise.

ICE investigators, in cooperation with other law enforcement entities in the United States and abroad, unraveled the Regpay scheme, which encompassed a Florida credit card billing service and thousands of paid memberships to 50 websites in a global child pornography operation.

ICE Seizes Exotic Cars, Arrests Nine

(Downey, CA, June 10)—An ICE drug trafficking investigation ended with the arrest of nine men on charges of conspiracy to import and distribute controlled sub-



Some of the counterfeit designer goods seized in “Operation Executive” in New York are shown above. ICE seized at least 10 shipping containers filled with a total of over \$40 million.

stances in the United States and Canada.

In addition to using court-authorized wiretaps and investigations into trafficking patterns, ICE agents conducted financial investigations to discover that the alleged head of the trafficking operation, George Martinez, reportedly used his profits to purchase real estate in Southern California, often placing the assets under different names to conceal his ownership of the assets. Federal agents seized two high-priced automobiles—an armored Mercedes-Benz and a Ferrari Spyder—along with \$669,000 from a bank account in the name “George Martinez Investments.”

Charges In China Arms Technology Export Case

(San Francisco, CA, June 3)—Two California businessmen and a San Jose company were indicted for illegally selling U.S.-produced night vision technol-

ogy on the international market, including to China, in violation of export control laws that forbid the sale of items with military applications to designated countries.

The defendants were alleged to have exported defense articles and services without proper licensing and authorization, in one instance selling a night vision infrared camera to the North China Research Institute for Electro-Optics for \$65,000. One defendant was also charged with traveling to China in 2002 to provide guidance in the manufacture, use and testing of night vision technology to customers in China. This prosecution resulted from a cooperative investigation on the part of ICE, the FBI, the Department of Commerce and the IRS.

ICE Uncovers Major Drug Trafficking, Money Laundering Scheme In Maryland

(Baltimore, MD, June 8)—A federal grand jury indicted 31 individuals in connection with a massive drug trafficking and money laundering operation in the Baltimore-Washington metropolitan area.

ICE financial investigators learned that some members of the organization were allegedly using drug proceeds to fraudulently purchase insurance policies on other individuals without their knowledge. The conspirators would then collect on the proceeds of the insurance policies when the designees died. Twenty-nine individuals were arrested on federal drug conspiracy and mail-wire fraud charges. Two defendants are still being sought. [S](#)



Cornerstone Outreach: Recent Events

To develop the Cornerstone partnership between ICE and the private sector, we're implementing plans for outreach events throughout the United States, including national events in Washington, D.C., and regional forums around the country.

Recent events have included the following:

- On May 7, 2004, the National Federation of Independent Businesses hosted a special Cornerstone roundtable forum in Washington, D.C., with ICE Assistant Secretary Michael J. Garcia and representatives from the business community and various industry and trade associations. This forum was an opportunity for business leaders to ask questions and offer feedback on how to nurture the Cornerstone partnership.

- On May 25, 2004, Marcy Forman, ICE Acting Director of Investigations, briefed dealers in gold and precious metals about money laundering vulnerabilities and compliance with reporting requirements for their industry in Providence, Rhode Island.
- On June 9, 2004, Assistant Secretary Garcia offered the keynote address

at a day-long financial symposium in New York City, titled "Frauds, Schemes, and Scams." The symposium brought together several hundred participants from the city's banking and financial community with representatives from federal, state and local law enforcement and other government agencies to look at new trends in financial crime. ❏



Assistant Secretary Michael Garcia (on far left) discusses ICE's Cornerstone economic security initiative with industry representatives at the National Federation of Independent Businesses in Washington, D.C.



The Official Newsletter of Cornerstone

ICE, the largest investigative arm of the Department of Homeland Security, is charged with preventing terrorist and criminal activity by targeting the people, money and materials that support terrorist and criminal organizations.

Cornerstone is ICE's comprehensive economic security initiative, detecting and shutting down vulnerabilities in the nation's financial and economic systems before terrorists and criminals can exploit them.

In addition to financial and money laundering investigations, Cornerstone targets commercial fraud, smuggling and trafficking, export and trade violations and intellectual property crimes. ICE's global reach allows the agency to investigate these crimes around the world.

Since the agency was established in March 2003, ICE financial investigations have seized over \$348 million in suspect currency and effected 1,802 arrests.

The Secretary of Homeland Security has determined that the publication of this newsletter is necessary in the transaction of business required by law of U.S. Immigration and Customs Enforcement (ICE).

Invitation For Cornerstone Report Article Submissions

The Cornerstone Report covers a broad range of topics related to financial investigations and vulnerabilities in the financial and trade sectors.

We strive to present clear thinking by knowledgeable observers that can be read with ease and pleasure by both professionals and a general audience, and we're happy to review unsolicited submissions for potential publication in the newsletter.

If you would like to submit an article for publication or simply find out more about how you can participate in the Cornerstone initiative, drop us an e-mail at tripwire@dhs.gov for more information.