The Cornerstone Report

Safeguarding America through Financial Investigations

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INSIDE THIS ISSUE

Cornerstone is Homeland Security Investigations' (HSI's) comprehensive investigative initiative for fighting financial crime.

The Cornerstone Report is a quarterly bulletin highlighting key issues related to HSI financial, narcotics and special operations investigations.

U.S. Immigration and Customs Enforcement

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Structuring Transactions – Criminals Continue to Attempt to Evade Reporting Requirements

Rocco Fassacessia, the construction manager in charge of Manhattan for Con Edison, requested a bribe of four tickets to the Giants vs. Cowboys game from the president of Felix Industries. This photo depicts him at the game.

Nathanial Ham and Consolidated Edison, Inc.

Homeland Security Investigations (HSI) recently concluded an investigation which was initiated in September 2005. HSI Office of the Special Agent in Charge, New York (HSI/NY) initiated an investigation into Nathanial Ham for structuring violations. Initial findings identified a pattern of suspicious financial transactions being conducted through Ham's personal accounts maintained at a local credit union where he was serving as a member of the board of directors. Investigators discovered a large number of third-party check deposits from construction companies and subsequent structured withdrawals, which were inconsistent with Ham's employment as a local government employee.

From April 2000 through March 2005, Ham, a U.S. citizen, provided money laundering services for his brother-in-law, a Consolidated Edison, Inc. (Con Edison) employee. Ham used his influence and knowledge of credit union procedures to negotiate more than $1.3 million worth of third-party checks and withdrew the proceeds, in amounts under the $10,000 reporting threshold in violation of U.S. structuring laws. In December 2004, pursuant to a National Credit Union Association audit, the credit union instituted internal reporting requirements on daily cash transactions conducted for amounts greater than $2,500.

A Con Edison employee waiting to meet with a contractor to set up the "kick-back" payment schedule.

From his position on the board, Ham knew of the new requirements and conducted withdrawals in the amount of $2,500.

HSI's Foreign Corruption Investigations Group Works Hard to Prevent Kleptocrats from Abusing U.S. Financial Institutions.

In May 2006, HSI/NY, in conjunction with the Port Authority of New York and New Jersey, Office of the Inspector General, and the Internal Revenue Service - Criminal Investigations, conducted several undercover meetings with Con Edison employees who were receiving "kick-back" payments in the form of checks and utilizing Ham to launder the proceeds.

In March 2007, Ham and two Con Edison employees were arrested. The employees agreed to cooperate with the investigation and identified Felix Industries, one of New York's largest contractors, as being involved in making "kick-back" payments to Con Edison employees. In September 2008, after multiple undercover meetings, Felix Industries' president was arrested for violation of 18 United States Code § 666 (theft or bribery concerning programs receiving federal funds). During the next four months, special agents conducted

Seizure of approximately $6,800.00 from a the residence of a corrupt Con Edison employee.

50 undercover meetings with Con Edison employees and construction employees who were involved in the illegal "kick-back" scheme. These employees regularly solicited cash bribes, cell phones, sunglasses and New York Giants football tickets. In January 2009, 12 Con Edison employees were arrested for

Red Flag Indicators

- Third-party checks deposited into an account with no legitimate business explanation.
- Structured teller withdrawals and maximum dollar ATM withdrawals.
- Occupation listed for subjects with suspicious financial activities is not commensurate with their banking activity.
- Layering funds through multiple accounts maintained in the name of family members.

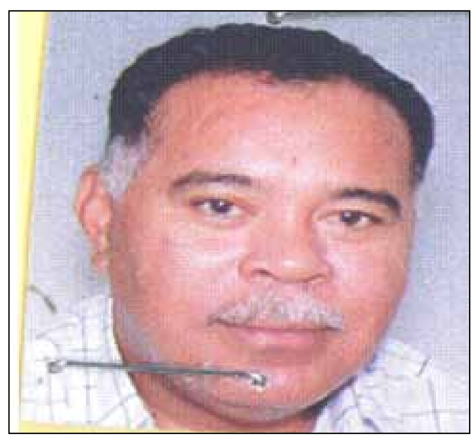
their involvement in receiving illicit "kick-backs" from New York-based construction companies. To date, this investigation has resulted in 19 arrests and 30 seizures, totaling approximately $1 million with more than $1 million in forfeitures pending. Those arrested include one bank officer, three construction company employees and 14 Con Edison employees. Of those arrested, 16 have pleaded guilty and two have been convicted at trial.

HSI's Foreign Corruption Investigations Group Works Hard to Prevent Kleptocrats from Abusing U.S. Financial Institutions

As civil unrest spreads across the Middle East and Africa, HSI is working hard to identify corrupt foreign political leaders who may be attempting to hide illicit proceeds in one of the most secure financial sectors throughout the world, the U.S. financial infrastructure. In 2003, HSI established the Foreign Corruption Investigations Group (FCIG) to conduct investigations into the laundering of proceeds, emanating from foreign public corruption, bribery or embezzlement. The investigations are worked jointly with other U.S. federal law enforcement partners and representatives of the victimized foreign governments. The FCIG's objectives are to prevent foreign-derived, ill-gotten gains from entering the U.S. financial infrastructure, to seize identified assets in the U.S., and to repatriate these funds to victimized governments.

Mario Faro: Director of Public Health Laboratory in Aruba

In January 2008, the HSI Attaché Caribbean, Miami, and the HSI Special Agent in Charge Miami FCIG initiated a financial investigation related to the alleged criminal activities of Mario M. Faro, the director of the public health laboratory in Aruba. Information received from the Aruban Special Police Task Force for the Netherlands,



Faro served as former Director of National Laboratory in Aruba. He stole $9,000,000, was arrested, indicted and confessed to the theft. He died of heart attack in an Aruban jail before conviction.

Netherlands Antilles and Aruba, alleged that Faro defrauded the Aruban government by diverting funds offshore into the U.S. for his

The SEARCH Initiative (Seizing Earnings and Assets from Retail Crime Heists)

own personal gain. Furthermore, Faro, under the auspices of his government position, maintained responsibility for the financial and credit departments of the public laboratory of Aruba. In this light, Faro was in the position to authorize, order and make payments for clinical supplies without scrutiny from government officials. Preliminary findings indicated money laundering and embezzlement of an estimated 10 million guilders, which was the currency of the Netherlands before it was replaced by the Euro, equating to $6.7 million.

In September 2007, the government lab began an internal investigation and audit of clinical lab purchases.

During the investigation, officials learned that MediScientific and Labcare & Supplies corporations

Mini Cooper seized by HSI that was purchased by Faro with illicit proceeds.

were the initial two companies that received payments, but had not delivered any supplies to the Aruban Public Laboratory. Faro was determined to be an officer of these companies, both based in Miami, Fla. One of the laboratories was dissolved at the time the investigation into Faro's illicit activity commenced. From 2002 through 2005, the Public Health Laboratory in Aruba paid MediScientific approximately 5 million florins, the Aruban currency, which equates to $2.8 million for items that MediScientific never delivered.

Once Faro's scheme was discovered, he fled to Colombia. Documents seized during a search warrant by Dutch and Aruban law enforcement officials at Faro's residence in Aruba resulted in the identification of wire transfers from Labcare to Faro's personal bank account. In addition, copies of spreadsheets were located, which identified the entire scheme from the Aruban central accounts department to the invoices, payments, and payees Faro used to launder money in his official capacity. Additional suspects were also identified in the search warrant for their role in falsifying invoices.

On February 29, 2008, Faro was arrested in Miami as the result of a mutual legal assistance treaty between the U.S. and the Kingdom of the Netherlands, which includes Aruba. Faro waived his extradition to Aruba on March 31, 2008. During the same time period, the FCIG identified bank accounts and personal property, which were later seized as a result of Faro's arrest. This included $167,000 discovered in U.S. bank accounts established by Faro. On June 26, 2009, Faro passed away in an Aruban jail while awaiting his trial for corruption and embezzlement. It is anticipated that the U.S. forfeited monies and personal property will be returned to the Aruban government in the near future.

Red Flag Indicators

- Government purchases for goods are never received by the purchasing government agency.
- General accounting procedures for purchases of government equipment and use of government funds are not followed.
- Accumulated financial wealth by government officials is inconsistent with that reported on mandatory financial disclosure forms for government officials.

HSI Expands Organized Retail Crime Program / The SEARCH Initiative (Seizing Earnings and Assets from Retail Crime Heists)

Partnerships with retail industry seen as key to ongoing success

Homeland Security Investigations (HSI) announced the expansion of its Organized Retail Crime Pilot Program into an ongoing, national initiative, now known as the SEARCH Initiative.

Organized retail crimes are the orchestration of schemes to convert stolen goods to cash, and involve individuals who serve as boosters within organized criminal networks. The challenge of combating these networks is best accomplished through federal anti-money laundering statutes, which may result in severe penalties.

"This type of organized, criminal activity is commonly looked at as a local problem," said James Dinkins, executive associate director, ICE HSI. "The lack of visibility outside a jurisdiction can contribute to the appearance that it is a local problem, but federal investigations have proven the level and sophistication of criminal enterprises involved in ORC is often times much greater."

The SEARCH Initiative (Seizing Earnings and Assets from Retail Crime Heists)

The Organized Retail Crime Pilot Program (ORCP), which launched on July 6, 2009, in Houston, Los Angeles, Miami and New York, focused on building partnerships with the retail industry and developing a series of tools to assist law enforcement in threat assessments, case tracking, and most significantly, an in-depth analysis of how organized crime rings are exploiting systemic vulnerabilities in the banking system to launder their profits.

The SEARCH Initiative will incorporate all aspects of the ORCP and expand upon HSI's productive partnerships with private industry from the key cities identified through the pilot program to other cities across the nation. HSI pursues these public/private partnerships in accordance with the guiding principle within the Department of Homeland Security's Strategic Plan of building trust through collaboration.

As of February 2011, more than 83 HSI criminal investigations have been linked to the ORCP. These investigations have resulted in 38 criminal arrests, 29 indictments, 14 convictions, 237 seizures, the execution of 18 search warrants, and 15 administrative arrests. These investigations have also led to the seizure of nearly $4.9 million in cash, property, and monetary instruments. HSI's partnerships with private industry, the National Retail Federation and the Retail Industry Leaders Association have been significant to the success of the coordinated effort to combat organized retail crime.

In 2006, the Organized Retail Theft Bill was passed in response to an estimated $30 billion in merchandise losses from retail stores each year. Losses resulting from ORC rings represent a distinct risk to our nation's economic infrastructure and this legislation provides an avenue for law enforcement to partner with the private sector in an effort to identify and track organized retail theft.

HSI is involved in a myriad of investigations that target a wide range of criminal activity, including money laundering, narcotics

trafficking, illegal imports and exports, intellectual property rights, human smuggling and trafficking, gang enforcement, and human rights violations. Broad immigration and customs authorities enable HSI to pursue complex banking and financial misconduct cases to identify, dismantle and disrupt the financial criminal enterprises that threaten our nation's economy and homeland security.

Red Flag Indicators

- Business checks written to individuals as opposed to legitimate suppliers.
- Business checks cashed at the banks where the checks originated from instead of being deposited into another business' bank account.
- Business checks written to cash on a regular basis in amounts that exceed a business' petty cash requirement.
- Multiple checks written on the same day in amounts less than $10,000, possibly to avoid reporting requirements, despite the fact that checks would not normally generate currency transaction reports.
- Multiple checks written on the same day to cash, to ensure the amount of each check does not exceed $10,000.
- Multiple money orders in increments of $500 or less deposited into bank accounts where the remitter of the money order is the same as the authorized signers on the bank accounts for which the checks are being deposited.
- Subjects of questionable financial transactions all maintain the same address.
- Occupations listed for the subjects of questionable financial activities are not commensurate to the volume and type of the financial activities.
- Checks drawn from the questionable financial activities are negotiated in foreign countries.
- Cash deposits related to the questionable financial activities involved currency in $100 denominations.