

Suspicious Activity Reports: A Critical Tool For Financial Investigations



Safeguarding America Through
Financial And Trade Investigations

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Cornerstone is U.S. Immigration and Customs Enforcement's (ICE) comprehensive investigative initiative for fighting financial crime, trade fraud and intellectual property crime.

The Cornerstone Report is a quarterly bulletin highlighting key issues related to ICE financial and trade investigations.

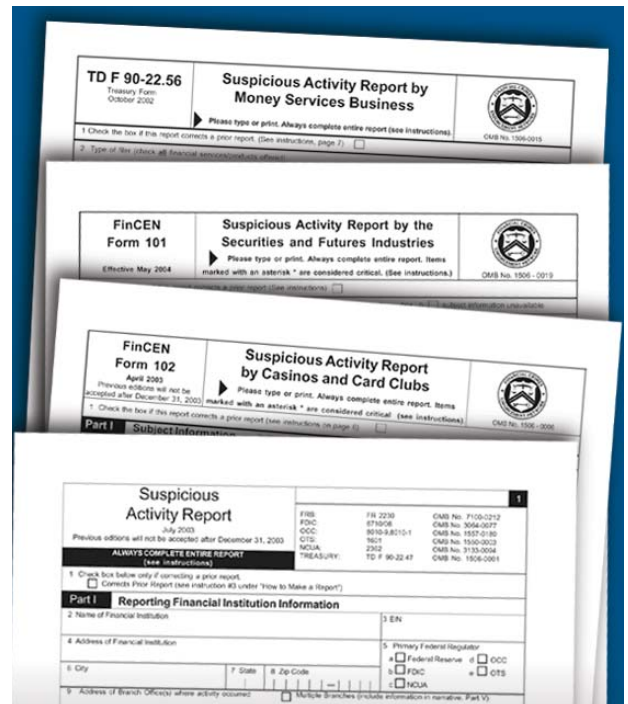


U.S. Immigration
and Customs
Enforcement

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- A fraudulent investment scheme in southern California that robbed hundreds of investors—mostly Filipino immigrants—of more than \$25 million dollars.
- An Iraqi man in Washington who was illegally transferring millions of dollars to his native country in violation of U.S. sanctions.
- The financier for a major narcotics smuggling organization who sought to launder several million dollars in criminal proceeds through real estate investments.



Suspicious Activity Reports (SARs) and guidance on their use are found online at www.fincen.gov.

The three cases described above—all drawn from the case files of U.S. Immigration and Customs Enforcement (ICE)—illustrate just a few of the ways in which criminals can exploit U.S. financial systems to earn, move or store their illicit funding.

But they also illustrate the importance of strong partnerships between federal investigators and the private sector. Each of these cases originated from information provided to investigators through “Suspicious Activity Reports” (SARs).

The benefits derived from Bank Secrecy Act (BSA) reporting requirements go far beyond the information contained within the four corners of the documents themselves. While Currency Transaction Reports (CTRs), Currency and Monetary Instrument Reports (CMIRs), and other BSA-required reporting documents are extremely beneficial to law enforcement by creating a paper trail of potential criminal activity that allows the investigators to focus on specific transactions and

their relationship with ongoing criminal activity, the mere fact that these reporting requirements exist may prove to be the most valuable anti-money laundering tool of all.

The existence of the BSA reporting requirements, and the implementation of stringent and effective anti-money laundering programs built upon these requirements, have forced criminals to resort to more desperate schemes to earn, move and store their illicit funds. These schemes require them to act outside of legitimate channels, which makes their actions more susceptible to detection. As these illicit schemes are detected, “Red Flag” indicators of the scheme can be developed and used to detect other subjects attempting similar illegal acts which can be reported through the use of SARs.

“Smurfing,” which is a by-product of the CTR process, is an excellent example of a scheme employed in an attempt to avoid the reporting requirements. Since continued

Spotlighting ICE's SAR Review Teams

ICE's Washington, DC/Northern Virginia Field Office is actively targeting money launderers, illegal money service businesses (MSBs) and other financial fraudsters in the region. The Office of the Special Agent-in-Charge, Washington, DC's SAR review team and others like it around the country are comprised of special agents, intelligence analysts and state and local task force officers with special training in conducting complex financial criminal investigations.

Marcy M. Forman, Director of ICE Office of Investigations, has made financial investigations a priority at every ICE SAC office in the United States. Staff judiciously examine financial documents, bank records and other financial reports in their pursuit to find the financial crimes investigator's equivalent of the "smoking gun"—structured cash deposits, illegal wire transfers to foreign countries, or other indicators of illegal financial activity.

SARs are a vital component in the fight to combat serious financial crimes; many SAC offices created SAR review teams to sort through the multitude of reports that are filed from banks and other financial institutions nationwide. SARs provide potentially significant data that may identify poten-

tially serious violators of the Bank Secrecy Act (BSA) and related crimes.

The SAR itself is not direct evidence of a crime—it is a report of suspicious activity that MAY be indicative of criminal activity. ICE agents utilize the information contained in the SAR to evaluate whether or not the activity reported rises to a level that warrants further investigation. The BSA, which created the SAR reporting requirement, places strict limitations on the manner in which SARs can be used. The disclosure of the existence of a SAR to unauthorized individuals (including the subject of the SAR) is strictly prohibited. Despite these limitations, the SAR is and will continue to be a valuable tool in combating money laundering, terrorist financing, and other serious financial crimes.

The following cases were identified and successfully investigated through the efforts of ICE SAR reviews:

- SAR information led to an ICE investigation of a California man who defrauded a bank of hundreds of thousands of dollars by obtaining stolen checks and depositing them into his own account under a fictitious name. This investigation showed that the man was attempting to further defraud the bank of

well over \$1 million before he was arrested. The defendant was ordered to make restitution to the bank as part of his sentence.

- Based upon SAR information, an Atlanta-area business was targeted for investigation by ICE agents for failing to register with the Financial Crimes Enforcement Network (FinCEN) as a money service business (MSB). Investigation showed that the owner of this business deposited in excess of \$1 million into a bank account, which was subsequently wired abroad to several financial institutions. As a result, agents seized over \$100,000 in currency and property from the violator.
- A bank employee was discovered to be involved in structuring and other Bank Secrecy Act violations based upon SAR information filed by a National Capitol Region financial institution. In addition, the funds used as part of the scheme were discovered to have been smuggled from Central America into the United States to avoid currency reporting requirements. The defendant pled guilty to structuring cash deposits and was ordered by the judge to forfeit the currency involved in the scheme. [S](#)

Suspicious Activity Reports, *continued*

this scheme was first introduced, it has become easily detected and provides clear evidence of ongoing criminal activity.

Therefore, while many CTRs that CMIRs are filed on legitimate financial transactions and may provide limited information or assistance to law enforcement, the paper trail they create causes criminal organizations to resort to desperate—and therefore identifiable and vulnerable—means to move their illicit proceeds, as they attempt to avoid reporting requirements.

Since 2001, more businesses and industries have been required to fill out these valuable reports to ensure that increasingly sophisticated money launderers, terrorists and other criminal organizations don't attempt to exploit vulnerabilities in our nation's financial systems. These businesses include casinos, money services businesses, and securities and futures industries.

ICE's "Cornerstone" initiative for financial and trade investigations is committed to working with industry to ensure the integrity of the nation's banking and

financial systems. And your feedback—through the scrupulous filing of SARs in response to legitimately suspicious activity or by sharing information with ICE investigators in other forums—is making a difference. [S](#)

For more information on "red flag" indicators that might signal the need for an SAR, visit us online at www.ice.gov/cornerstone.

In addition, the Financial Crimes Enforcement Network, or FinCEN, publishes regular "SAR Activity Reviews" detailing trends and offering tips to industry. Check out the latest edition online at <http://www.fincen.gov/sarreviewissue8.pdf>.

SAR Referrals Provide Valuable Information To Law Enforcement In Their Fight Against Financial Crime

USA PATRIOT Act enhancements to Title 18 USC 1960 contribute to conviction of four for operating illegal money remitting business.

The globalization of financial transactions has reframed the fight against financial crime into an international endeavor that requires engagement and commitment by all the countries and financial sectors throughout the world. An increase in bulk cash smuggling across borders as well as the laundering of criminal proceeds throughout various countries outside of the country where the crime was perpetrated has forced law enforcement to adapt to criminals ever-changing methods. Criminals continue to adapt their methods of moving their proceeds in response to the successful application of U.S. anti-money laundering laws that were first enacted in 1986—both criminal and civil. The adaptation by criminals to law enforcement and regulatory action presents a constant challenge. Each new challenge creates new hurdles to overcome in investigations in order to successfully identify and dismantle the means by which crimi-

nals sustain their illegal activity. ICE recognizes this challenge and appreciates the financial industry's invaluable partnership in combating money laundering and other financial crimes through the filing of suspicious activity reports (SARs) and currency transaction reports (CTRs) that are shared with law enforcement.

Recently, as a result of numerous SARs filed by vigilant bank employees, ICE and the Internal Revenue Service Criminal Investigations Division (IRS-CI) in Newark, NJ initiated an investigation into a money remittance business that culminated in the successful prosecution of 5 subjects associated with the business. The SARs alerted law enforcement to unusual patterns of deposits with immediate wire transfers to countries outside of the United States—these patterns, as identified in the SARs, were indicative of possible money laundering and structuring. The investigation revealed that the money service business (MSB), although licensed, did not allow public access and therefore was not a legitimate MSB. The MSB utilized four couriers to transport large sums of bulk cash to the business; the MSB then deposited the cash into their bank accounts and wired the money to the Middle East. ICE



Red Flag Indicators

- Wire transfers to countries of concern immediately following large deposits.
- Structured cash deposits.
- Customers refusal to show identification.

and IRS-CI's investigation disclosed that the business made over \$100 million in cash deposits within 30 months. The owner of the business was charged with violations of the Bank Secrecy Act including, Failure to file Currency Transaction Reports (CTRs) and Structuring transactions to Evade Reporting Requirements in addition to Conspiracy and Aiding and Abetting.

This case highlights not only the value and utility of SARs but the vulnerability of the MSB industry—an industry that often provides a legitimate and valuable service to the immigrant population—but an industry which is often exploited by criminals in furtherance of their criminal scheme. A critical note to this case is how it demonstrates the importance of law enforcement and private sector partnerships in protecting the homeland with the bank employees serving as “first responders” through the filing the SARs. [S](#)

SAR Review Sparks ICE Financial Investigation In Detroit

Every day ICE special agents, intelligence specialists and contract employees review and analyze Suspicious Activity Reports (SARs). The goal—to identify criminal organizations through their behavior patterns.

Bank Secrecy Act (BSA) reporting requirements and effective anti-money laundering programs have caused criminal organizations to resort to acts of desperation in their attempt to earn, move and store their illicit funds.

Recently an analyst assigned to ICE's Detroit Special Agent-in-Charge office was search-

ing SARs for “red flag” indicators of criminal activity associated with countries of interest. The astute analyst identified a SAR filed by a financial institution referencing a suspicious financial transaction related to a country of interest in the Middle East.

The subject associated with the SAR was further researched and identified through law enforcement databases. The ensuing investigation entailed hundreds of investigative hours and countless grand jury subpoenas, interviews, surveillance and search warrants.

During surveillance, agents observed clandestine money drops being made

in remote parking lots and the exchange of bags of currency at businesses and behind dumpsters.

Ultimately, ICE agents identified an organization operating a hawala and sending millions of dollars to foreign nations in violations of numerous U.S. laws and sanctions.

This case demonstrates the effective use of SARs by ICE to identify criminal violations that could have otherwise gone undetected and affected the integrity of the U.S. financial system and the security of the United States. [S](#)



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ICE Campaign Targets Illegal Money Transmittal Businesses

On May 23, ICE announced the latest results in an ongoing nationwide campaign to identify and shut down unlicensed money transmittal businesses—including underground “hawala” businesses.

Since late 2001—when the USA PATRIOT Act was enacted—ICE has made 140 arrests, secured 138 indictments, and seized more than \$25.5 million in illicit proceeds by targeting these illicit financial operations. These investigative efforts continue to ensure that this potential avenue for criminal and terrorist financing is closed off.

“Hawalas” are a form of money transmitting business, common in many Middle Eastern

and African countries, through which funds can be transferred between parties based on ties of kinship and individual trust. These arrangements could be exploited by terrorist groups or other criminal organizations to transfer large sums of money across international borders undetected.

“ICE targets these illegal operations because we know that terrorists and other criminal organizations can use these underground businesses to move illicit funds anywhere in the world with no questions asked.”

—ICE Assistant Secretary Michael Garcia

“Over the past two years, ICE has shut down a number of unlicensed money transmittal businesses that were responsible for the transfer of millions of dollars to Afghanistan, Pakistan and Iran,” said Assistant Secretary Michael Garcia of ICE. “ICE targets these illegal operations because we know that terrorists and other criminal organizations can use these underground businesses to move illicit funds anywhere in the world with no questions asked.”

Money services businesses (MSBs) provide a valuable service to individuals both in the U.S. and abroad. However, individuals who choose to operate in violation of federal and state laws pose a significant vulnerability and place legitimate MSBs at a competitive disadvantage.

The Patriot Act enhanced the ability of federal law enforcement agencies to combat illegal money transfers and underground hawalas.

Two separate cases in which ICE arrested individuals in Virginia illustrate the success of this campaign.

In the first case, Louay Habbal, a naturalized U.S. citizen originally from Syria, was arrested for operating an unlicensed money transmittal business from his home in Vienna, Va. He was arrested at Dulles International Airport as he returned



Red Flag Indicators

- Frequent wire transfer activity, especially involving a new account.
- Frequent deposits into and/or withdrawals from accounts that were opened in different areas of the country.
- Frequent deposits of 3rd party checks and money orders.

to the United States on a flight from Damascus, Syria.

According to the indictment, Habbal allegedly transferred a total of more than \$23 million to countries in the Middle East and North Africa between November 2001 and July 2004 through his business, Mena Exchange. ICE agents seized more than \$100,000 from the company’s bank accounts and other assets.

In a separate case in Virginia, ICE arrested Rahim A. Bariiek, a naturalized U.S. citizen originally from Afghanistan, after an investigation revealed that Bariiek had been involved in the illegal transfer of \$4.9 million to recipients in various Middle Eastern nations, including Afghanistan, Iran and Pakistan.

On May 20, Bariiek pleaded guilty in federal court to charges of operating an unlicensed money transmittal business. He faces a maximum sentence of five years in prison when he is sentenced in July.

In an unusual twist to the case, Bariiek had earlier testified before a subcommittee of the U.S. Senate Banking Committee on “hawala” money transfer businesses and underground terrorist financing mechanisms.

“I pay taxes on my hawala business and I comply with the law,” Bariiek testified in November 2001. “It is upsetting to us that there are hawala used for illegal activity. They give all hawala a bad name.”

In similar investigations, illegal money transmittal businesses and hawalas have been shut down in California, New York, Illinois, Ohio, Michigan, Washington D.C, and other locations around the country.

Want To Find Out More
About ICE And
Cornerstone



Visit us on the Web at
www.ice.gov/cornerstone



- ▶ Learn more about money laundering, trade fraud, intellectual property crime and other financial crimes.
- ▶ Find out how you and your industry can participate in the Cornerstone partnership.
- ▶ Learn how to spot common “red flag” indicators of criminal financial activity.
- ▶ File an online complaint about copyright infringement, counterfeiting and other intellectual property violations.
- ▶ Access more resources related to ICE financial and trade investigations.

ICE Partners With IAFCI

ICE's Cornerstone Unit is expanding its reach by forming strategic working relationships with partner organizations. Most recently,

Cornerstone has partnered with the International Association of Financial Crimes Investigators (IAFCI) to identify trends in financial crime in the United States and around the world.

The IAFCI is a non-profit international organization of representatives from the financial and trade industries and from local, state and federal law enforcement agencies. The organization's goal is to foster an environment in which information about financial fraud, fraud investigation and fraud prevention methods can be collected and exchanged—a goal consistent with ICE's Cornerstone mission.

ICE has partnered with the IAFCI to share important information about recently identi-

fied trends in financial criminal activity occurring throughout the world. Last year, Marcy M. Forman, Director of ICE's Office of Investigations, spoke at the IAFCI's International Training Conference in Chicago, Illinois. This year, ICE became a member of the IAFCI's Executive Advisory Board with Cornerstone Section Chief Joe Gallion serving as ICE's principal representative to the board.

The IAFCI will hold its 37th Annual Training Conference in Orlando, Fla., from Aug. 29–Sept. 2. The agenda contains numerous topics dealing with financial crimes. Office of Investigations, Financial and Trade Investigations Division Unit Chiefs Brock Nicholson and James Dinkins, and Section Chief Joe Gallion will speak at the conference. To learn more, visit IAFCI online at www.iafci.org.



SCAM ALERT: Internet Fraudsters Prey On Families Of U.S. Soldiers In Iraq

In earlier issues, we've reported on ICE's efforts to investigate telemarketing fraud. A recent e-mail scam illustrates the lengths to which these criminals will go to defraud the American people.

In February, ICE issued a warning to the public about a pair of Iraq-related e-mail scams making their way around the Internet—one directed at the relatives of fallen U.S. soldiers in Iraq and another in which the sender claims to be an ICE agent tracking Saddam Hussein's assets in Iraq.

The first scheme is directed at the families of U.S. troops killed in Iraq. The sender of the e-mail claims to be a volunteer working with U.S. forces who is writing on behalf of another fallen soldier who was a friend of the family's son or daughter, and seeks the family's assistance in recovering money that the deceased friend had kept for them. The sender promises to provide more details when the family responds, and even adds a link to the ICE Web site to make the solicitation appear authentic.

In a separate e-mail scam, the sender claims to be an ICE official in Iraq who is investigating funds that Saddam Hussein's sons stole from the Iraqi Central Bank. The sender provides ICE's Web site address (which includes information about ICE investigators who actually were in Iraq) to establish credibility and asks the recipient to confirm his or her e-mail address.

The perpetrators of these scams have taken pains to make their stories compelling and to make their pitches look like the real thing, but the fact is that the solicitations are not associated with ICE personnel or activities in any way.

SAR Referral Identifies Alien Smuggling Ring

In June 2005, ICE agents in New York and Nevada arrested three individuals on money laundering and alien smuggling charges. These arrests were part of a nine-count indictment against numerous individuals—some of who remain fugitives at this time.

Through leads developed from a Suspicious Activity Report (SAR), ICE agents identified and arrested the perpetrators of a large scale money laundering and alien smuggling ring. This case demonstrated that SARs not only assist law enforcement in the identification of currency violators, but perpetrators of other serious crimes. ICE agents in multiple jurisdictions were able to link several ongoing investigations in order to uncover the current scheme. The alien smuggling organization used "coyotes"—or guides—to illegally bring South American citizens into the United States by way of Mexico.

The smuggling organization in this case capitalized on the unrestricted visitor policies

that exist between many South American nations and Mexico. Although these policies allow for less restrictive travel and trade between these nations, they create exploitable vulnerabilities by allowing prospective "clients" easier access to our borders. Clients often pay the criminal organization thousands of dollars for successful entry into the United States, and even more for "door to door" delivery within the United States. Some organizations even offer financing options.

In addition to the criminal activity described above, this investigation uncovered a number of schemes the targets used to move and store their illicit proceeds, including: bulk cash smuggling, utilization of the Black Market Peso Exchange (which is responsible for laundering billions of dollars in illicit funds annually) and money laundering involving the purchase of real estate to store their funds.



Cornerstone Calendar

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Recent and upcoming events include the following:

- May 23–26, 2005—National Program Manager Nick Annan and Section Chief Joe Gallion spoke at a National Association of Securities Dealers (NASD) conference in Chicago, IL.
- June 12, 2005—National Program Manager Nick Annan spoke at the 29th Annual International Precious Metals Conference, Orlando, FL.
- June 15, 2005—Deputy Assistant Secretary John P. Clark spoke at the New York High-Intensity Financial Crimes Area (HIFCA) Symposium, New York City.
- June 16, 2005—Director of Investigations Marcy M. Forman spoke at the Federal Financial Institutions Examination Council (FFIEC) Supervisory Update and Emerging Issues, Arlington, VA.
- June 16, 2005—ICE Unit Chief Jim Dinkins spoke at an American Express Anti-Money Laundering Conference, New York City.
- June 23, 2005—National Program Manager Tonya Fox spoke at a National Parcel Carrier Industry meeting, Arlington, VA, regarding internet pharmaceutical shipping.
- August 10, 2005—Director of Investigations Marcy M. Forman will speak at the Canadian Imperial Bank of Commerce World Markets Conference, New York City.
- September 6, 2005—Director of Investigations Marcy M. Forman will speak at the 23rd International Symposium on Economic Crime, Cambridge, England.
- September 13, 2005—Managers from the Financial and Trade Investigations Division will speak at the annual Global Gaming Exposition (G2E) concerning money laundering issues in the gaming industry in Las Vegas, NV.
- September 28, 2005—Director of Investigations Marcy M. Forman will speak at the Institute for International Research (IIR) Anti-Money Laundering Audit and Compliance Forum, New York City.

In an average year, ICE agents:

- Arrest over 25,000 individuals
- Seize over \$100 million in currency and monetary instruments
- Open over 61,000 investigations
- Seize over 600,000 lbs. of illicit drugs
- Seize \$83 million in counterfeit and other prohibited merchandise

Did You Know ?

Cornerstone Web Site Awarded

ICE's Cornerstone Web site has received the following awards for excellence:



March, 2005
American Association
of Webmasters
Gold Award



July, 2005
Masscop's
Site of
Excellence Award



The Official Newsletter of Cornerstone

U.S. Immigration and Customs Enforcement (ICE) is the largest investigative arm of the Department of Homeland Security (DHS).

ICE's mission is to secure the homeland by enforcing immigration and customs laws and by protecting U.S. commercial aviation and federal facilities. Cornerstone, ICE's comprehensive enforcement initiative focusing on financial and trade fraud investigations, is a key component of that mission.

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.

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 potential 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.