DML ASSOCIATES, LLC



ACFE Heartland Chapter

Fraud, Money Laundering and Much More

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Fraud, Money Laundering & More

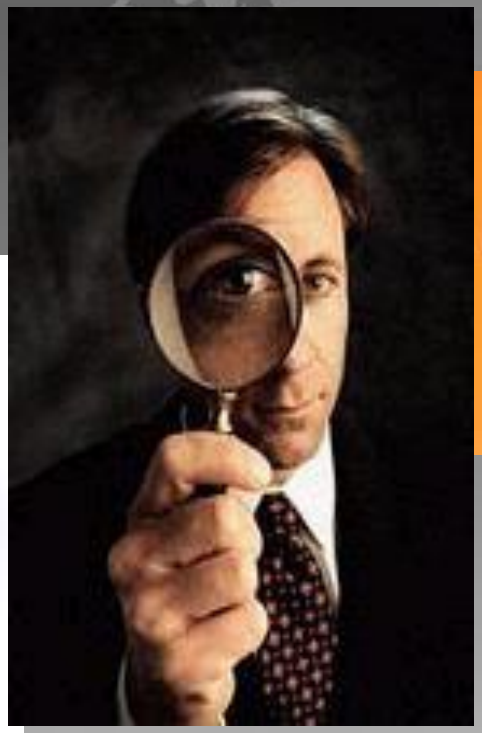
- Introduction
- Perspectives, Partnerships & Proactive Measures
- Money Laundering
- Nexus between Fraud, Money Laundering & Predicate Offenses
- Corruption
- The More
- Takeaways and Conclusion



Introduction









Fraud Prevention



- Starts with understanding
  - Understand crime problem
- Preventive measures include
  - Training and sharing experience (knowledge)
  - Collaboration through meaningful and sustainable partnerships
  - Identifying and exploiting vulnerabilities of the bad guys
    - ***Finance / communications / greed***
  - Developing proactive mechanisms to disrupt and prevent



Contrasts of Using Financial System

- In using the financial system, criminals and terrorists are confronted with distinct contrasts
  - ***Facilitation tool v. detection mechanism***
- Serves as facilitation tool by providing continuous access to funds
  - Financing the lifeblood of criminal and terrorist organizations
- Serves as detection mechanism because funds can be identified through monitoring and / or investigation
  - Financing a major vulnerability



Money Laundering Considerations

- Key words or drivers differentiating between who prevails (good guys or bad guys)
  - Transparency
  - Reasonableness
  - Perspective
  - Diligence
  - Vigilance
  - Visualization
  - Innovation
  - Exploitation
  - Reporting







Perspectives

- Institutional
  - Board / executive management
  - General counsel / legal
  - Business / maximize profit
  - Compliance / limit risk
  - Internal audit / ensure process effectiveness
- Law enforcement
  - Prosecutors
  - Investigators
- Regulatory
  - Requirements
  - Expectations
- Fraudsters (facilitation / detection)
- Victims



Perspectives, Partnerships and Proactive Measures









Perspectives, Partnerships and Proactive Measures

Perspectives

Understand perspective of partners / overcome impediments / strive for win - win situation

Partnerships

Leverage capabilities and capacity of partners

Proactive Measures

Develop sustainable, innovative and impactful proactive measures to support law enforcement investigative initiatives

Public – Private Partnerships

- Law enforcement and the financial services industry each possess financial intelligence information the other would significantly benefit from. Meaningful and sustainable information sharing requires three elements:
  - Understanding perspectives
    - Law enforcement v. financial institution
      - Prosecution or disruption v. regulatory concern
  - Partnerships
    - Gateway to meaningful and sustainable information sharing
      - Learning what information is available and where to obtain it
  - Innovation
    - Crime problem specific / targeted monitoring for suspicious activity
    - Proactive v. reactive



Public – Private Proactive Measures

- Understand and balance perspectives
- Build sustainable partnerships
- Requires cooperation, communication and coordination
- Examples of meaningful partnerships
  - SWIFT Terrorist Financing Tracking Program
    - U.S. model adopted post 9/11 (Treasury Dept., CIA, FBI)
    - EU model adopted in 2010
  - Joint Money Laundering Intelligence Taskforce (JMLIT)
    - Task force between law enforcement and the financial sector
    - Innovative sharing of financial information
  - Agency and institution specific
    - FBI & Western Union (aftermath of 9/11 from 2001-2003)

Situational Awareness

- The importance of being aware of your surroundings
  - The same concept applies to physical security and AML compliance
- Best practices include:
  - Identify potential threats and dangerous situations
    - Is something out of the ordinary or unusual?
  - More mindset than skill
  - Recognize that threats exist
  - Take responsibility for your security
  - Trust your “gut” or intuition
- ***See something, say something***





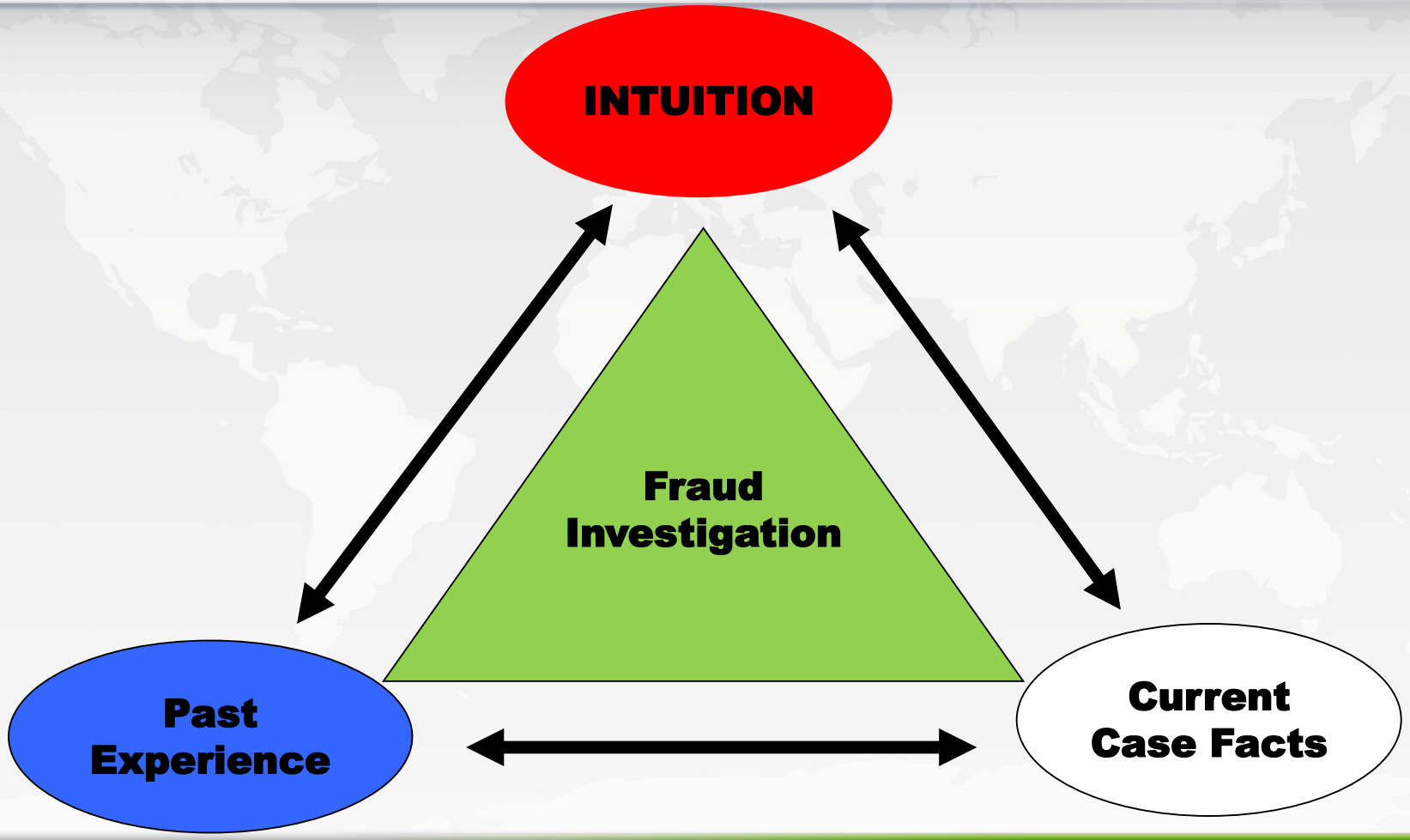
Situational Awareness for Fraud

- The importance of being aware of your surroundings
  - Recognizing the weight of deceit
- Best practices include:
  - Identify potential fraud risks and scenarios
    - Is something out of the ordinary or unusual?
  - Understand the fraud crime problem and how fraudsters think
  - Recognize your constant vulnerability to fraud
  - Accept responsibility for your fraud vulnerability
  - Maintain objectivity
    - Trust / reasonableness / temptation
- ***See something, say something***
  - ***Reasonableness***





Intuitive Investigation
The Triangle for Success

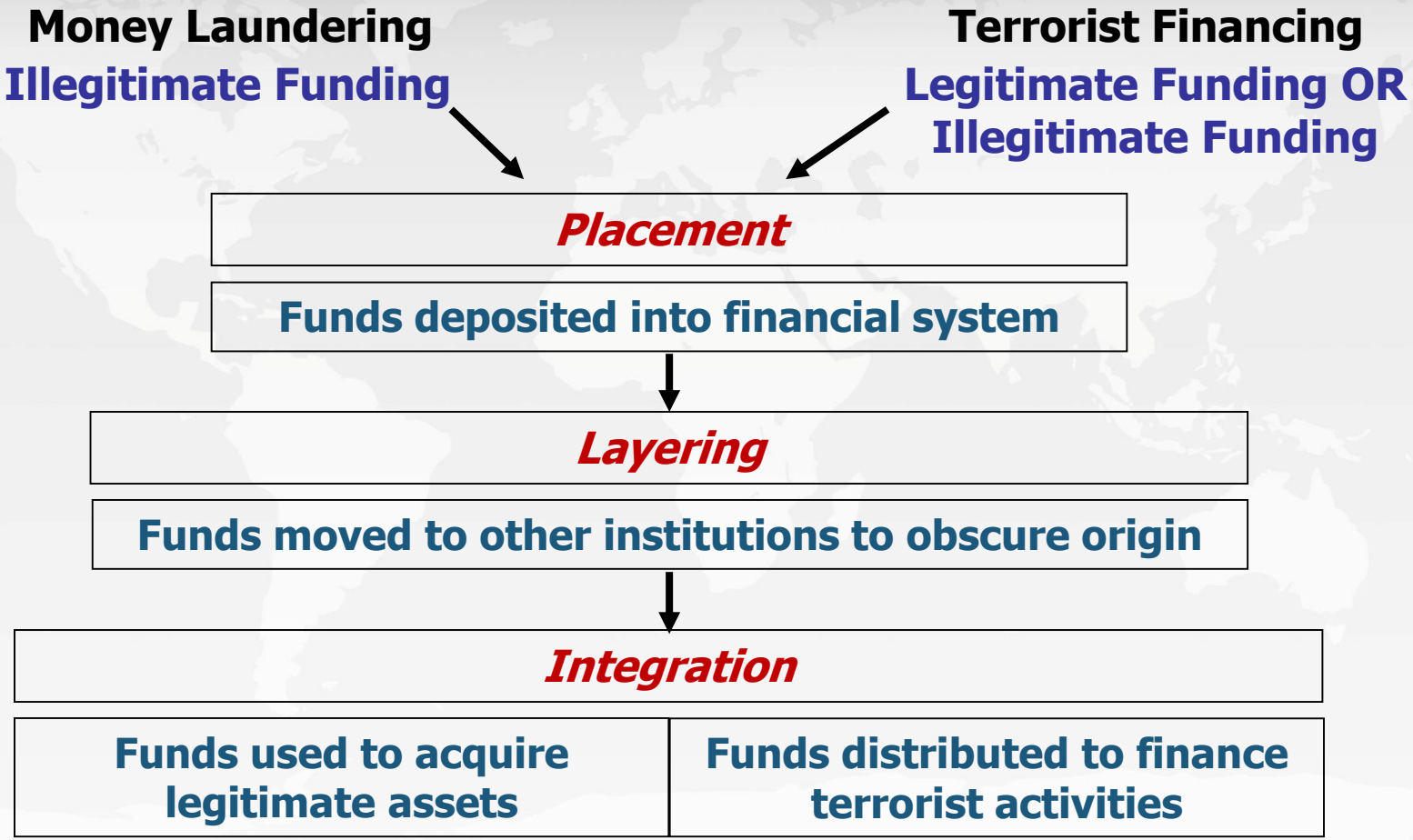


Money Laundering





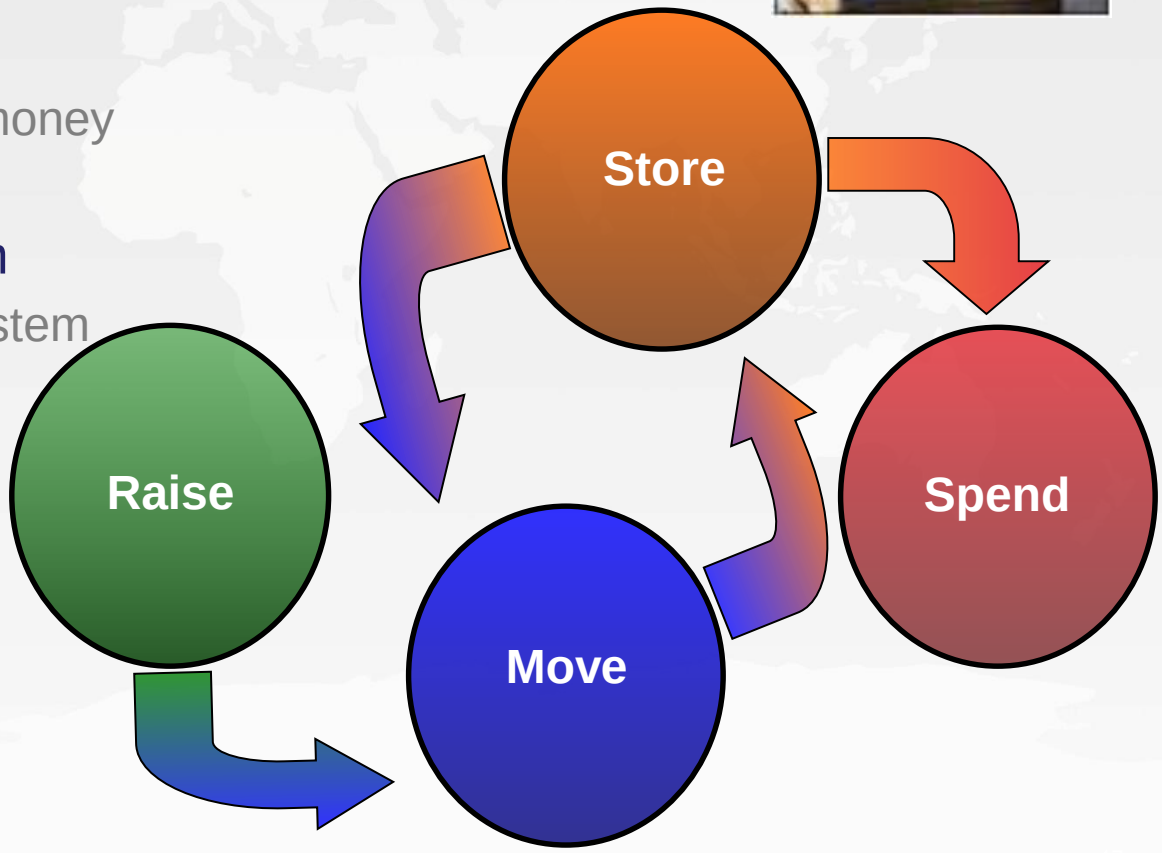
The Process


Money Laundering
Illegitimate Funding
Terrorist Financing
Legitimate Funding OR
Illegitimate Funding
Placement
Funds deposited into financial system
Layering
Funds moved to other institutions to obscure origin
Integration
Funds used to acquire legitimate assets
Funds distributed to finance terrorist activities

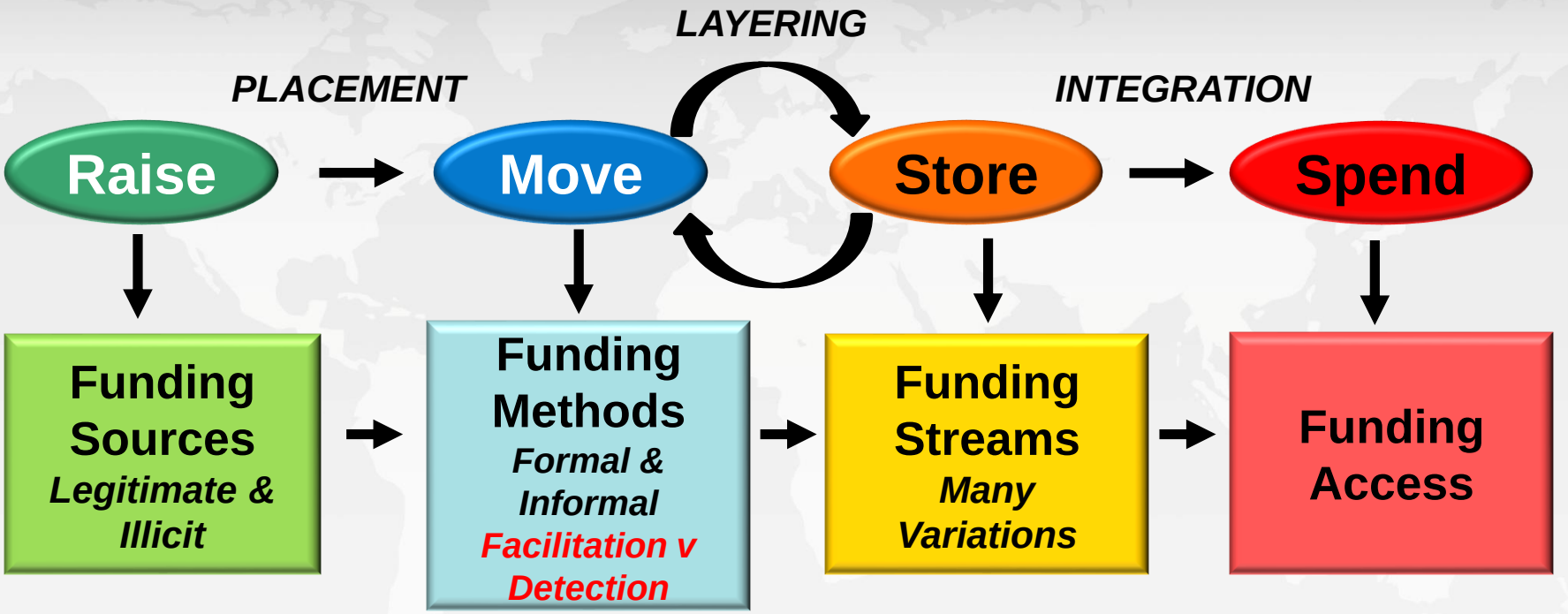
Understanding & Disrupting Funding Flows



- Must understand four dimensions
  - Organization
  - Funding capacity
    - Source of funds
    - Means to launder money
    - Availability of funds
  - Funding mechanism
    - Formal financial system
    - Informal system
  - Group members
- Funding cycle
  - Raise
  - Move
  - Store
  - Spend



Money Laundering Flow



Money Laundering Methods

- Limited only by imagination and cunning of bad guys
- Schemes include:
  - Funds deposited into financial institutions
    - Cash
    - Checks
    - Electronic funds transfers
  - Cash couriers and bulk cash shipment
  - MSBs and Informal Value Transfer Systems
    - Illegal money remitters
    - Hawala activity
    - Hybrid money remitters / hawalas
    - MSBs
  - Trade based money laundering
    - Black market peso exchange
  - New electronic payment methods







Growth in Trade Based Money Laundering

- Criminal and terrorist organizations and money launderers that engage in various forms of TBML are assisted by a number of factors to include:
  - Magnitude of global trade masks individual suspect transactions
    - ***Growth of free trade zones***
  - Financial diversity
    - Wide variety of financial and commercial controls found in different countries
  - Comingling of licit and illicit funds
  - Corruption
  - Low risk of detection caused primarily by lack of awareness by customs and law enforcement officials

Targeting the Money Launderer

- Key vulnerabilities of bad guys
  - Finance
  - Communications
  - Greed



- Key vulnerabilities in money laundering process
  - Cash
  - Wire transfers
  - Fixed assets

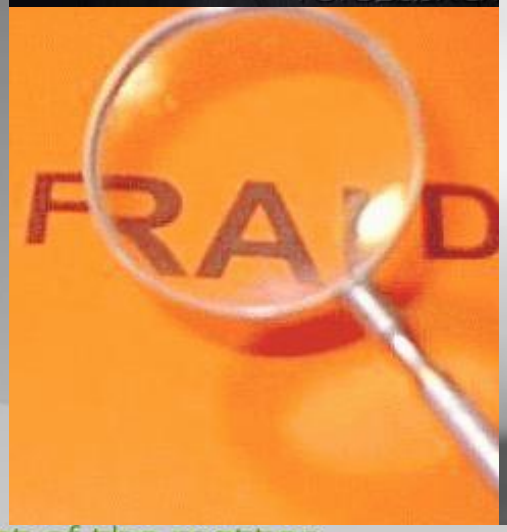


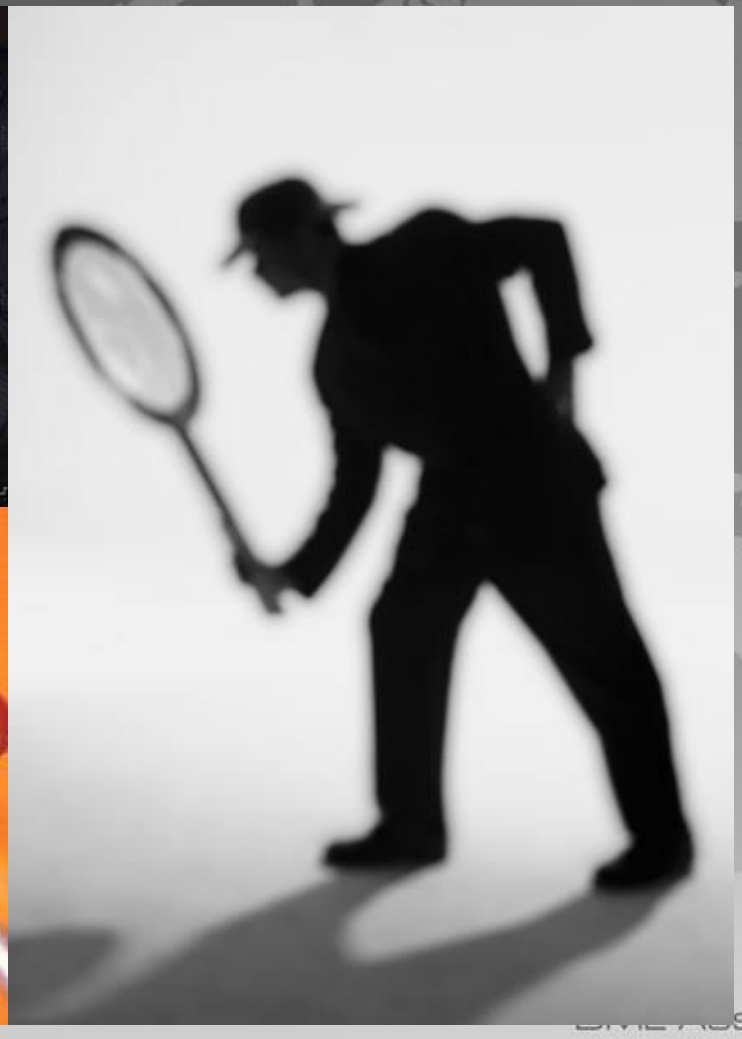
- Disrupting illicit money flows
  - Identifying money laundering mechanisms
  - Financial intelligence exploitation
  - Visualizing funding flows



Nexus Between Fraud, Other Predicate Offenses and Money Laundering







Predicate Offenses

- Importance of understanding predicate crime problems
  - Impact to public and private sectors
  - Impact to national security and economy
- Importance of understanding the criminal mindset and motivation
  - As applicable to various predicate offenses
- Importance of understanding vulnerabilities of criminals and terrorists
  - Finance, communication, greed

Areas of Criminal Exploitation

- Criminal Activity
  - ***Fraud***
  - Drug trafficking
  - Human smuggling / trafficking
  - Counterfeit goods / currency
  - Stolen goods
  - Violent crimes
  - Kidnapping
  - Extortion
  - Cyber fraud
  - Corruption
  - Terrorism
  - Other
  - ***Money laundering***





- Facilitation tools
  - Internet
  - Credit / debit cards
  - Stored value cards
  - NGOs / charities
  - Illegal money remitters
  - Informal value transfer systems
  - Shell companies
  - Off shore havens
  - Correspondent banking
  - Wire transfers
  - Electronic mechanisms
  - Other

Fraud and Money Laundering

- Fraud and money laundering are interconnected
  - The proceeds of fraud and other criminal activities need to be laundered
    - Gives appearance of legitimacy
    - Fraudsters must be able to move, store and spend the proceeds of their criminal activity in order to succeed
    - Greed factor is infectious







Fraud and Money Laundering

- Who are we dealing with?
  - Individuals or groups engaged in fraud
  - Domestic criminal organizations
  - Transnational criminal organizations
  - Terrorists or terrorist groups







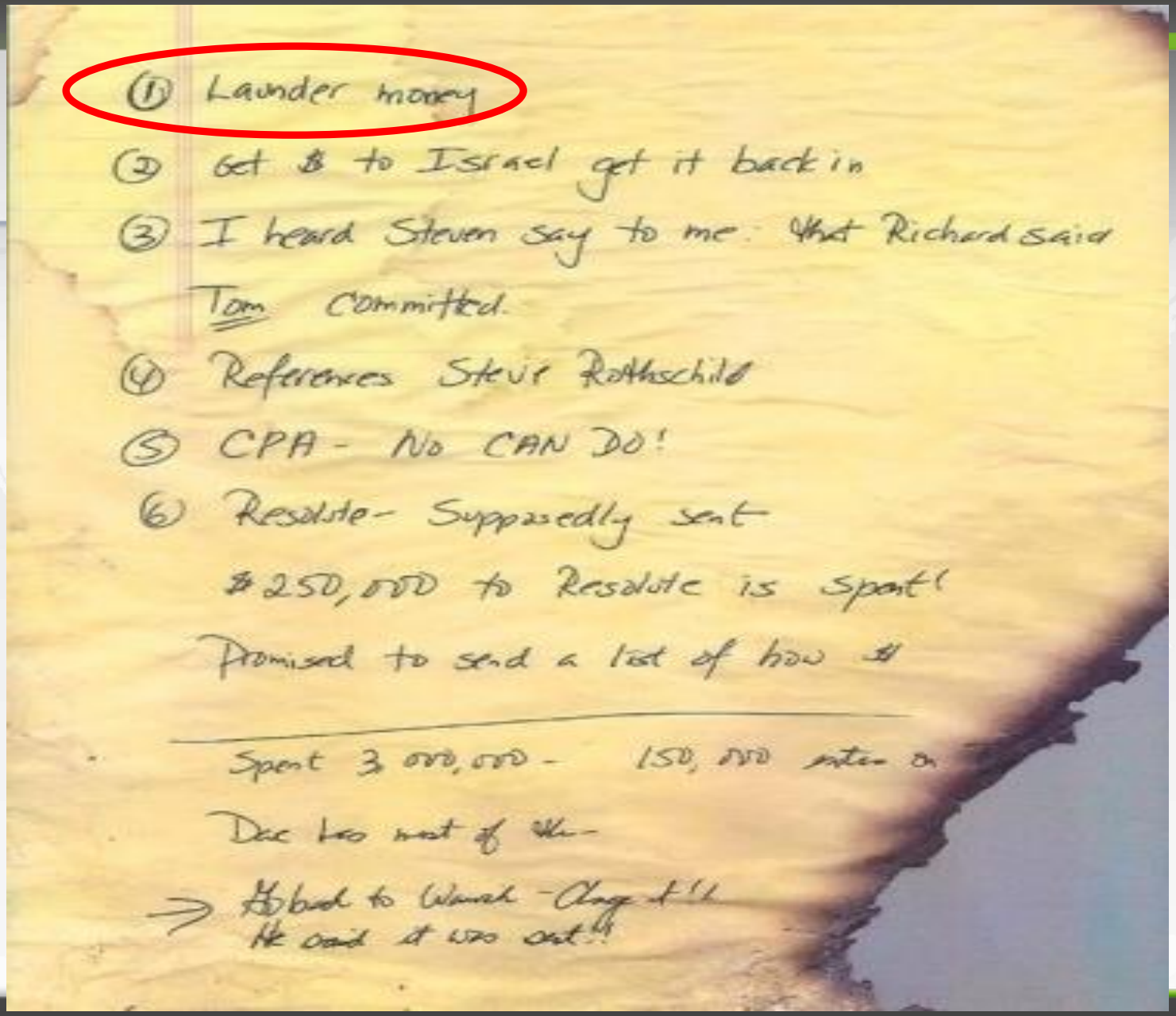
Frankel Case



- Martin Frankel
  - International con man
- Convicted and sentenced to 17 years in prison
- Embezzled $200 million from insurance companies in five states
  - Gained control of small insurance companies
  - Stole their assets
- Lived in two-mansion compound in wealthy Greenwich, Connecticut
  - Maintained lavish lifestyle



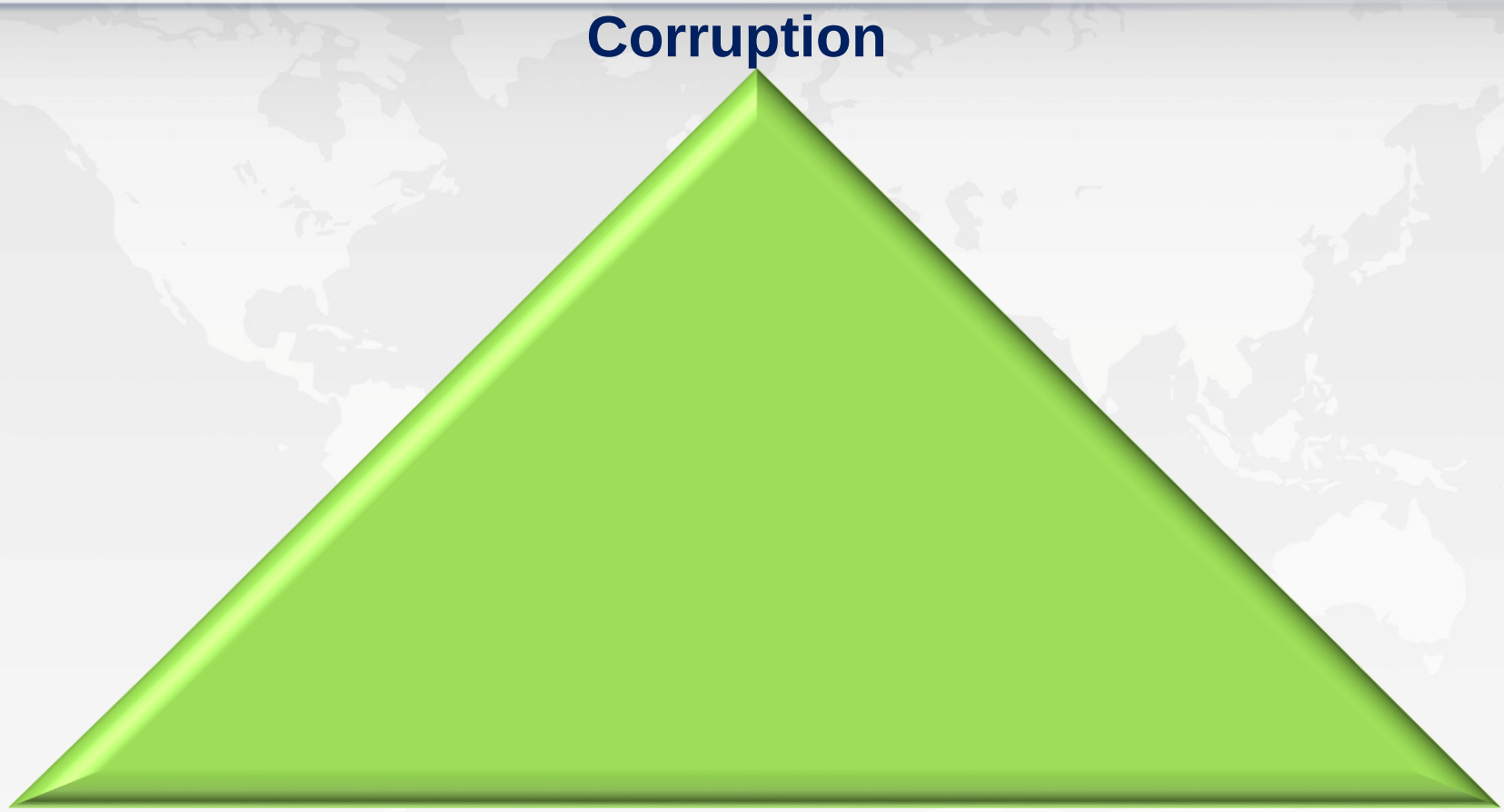
- Fled from U.S. leaving behind piles of smoldering documents
  - Authorities recovered to-do list
    - ***Item #1 – "launder money"***
- Arrested as fugitive in Germany


① Launder money
② Get $ to Israel get it back in
③ I heard Steven say to me: that Richard said
Tom committed.
④ References Stevie Rothschild
⑤ CPA - No CAN DO!
⑥ Resolute - Supposedly sent
$250,000 to Resolute is spent!
Promised to send a list of how $
Spent 3 000,000 - 150,000
Dec has most of the
⇒ $ back to Wanek - Chase #1
He said it was out!

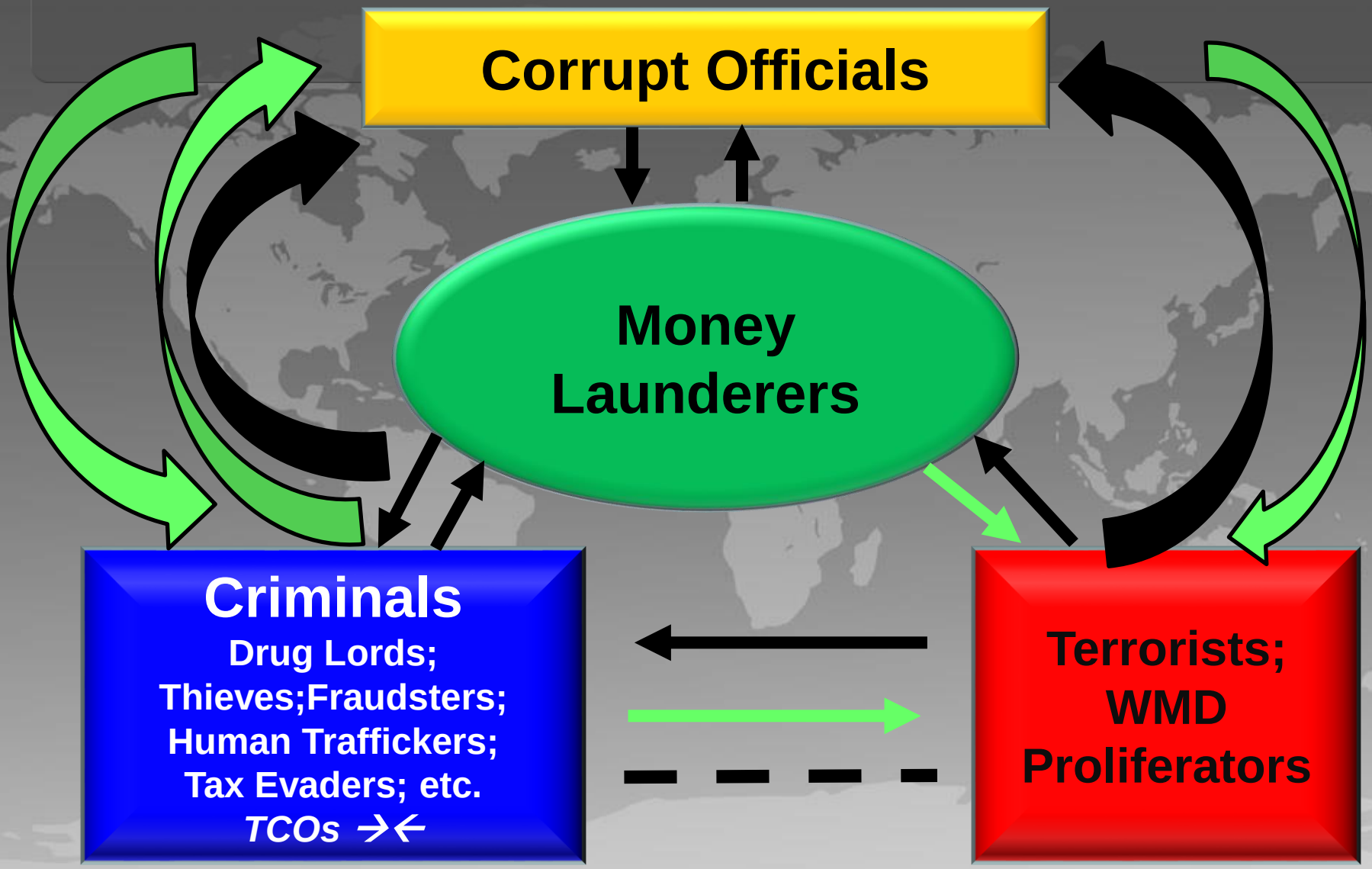
Corruption



Corrosive Combination



Interdependencies



Nexus Between Corruption, Illicit Financial Flows & Money Laundering

- What is corruption?
  - Abuse of public trust
    - Abuse of power or position for personal gain
- What are illicit financial flows?
  - Flow of funds away from legitimate commerce and economies
    - Originated for illicit purposes and diverted to bad actors
  - Illicit financial flows impacted directly and indirectly by corruption
- How does money laundering relate to corruption and illicit financial flows?
  - Individuals and entities engaged in corruption and illicit financial flows must move ill-gotten gains in a manner to avoid detection
    - Money must be available on continuous basis

The Many Faces of Corruption

- Corruption exists at every level and segment of society
- Every country experiences corruption to some degree
  - Corruption Perceptions (Transparency International)
- Public and private sector corruption
  - Public corruption (Senior most to junior most levels)
    - Elected officials
    - Government / municipal officials / employees
  - Private sector corruption
    - Corporate / business
    - Unions
    - Non-government agencies
- ***Systemic v. one off corruption***



Corruption Case Studies

- 1MDB
- Robert Hanssen
- Hector Rodriguez
- Knapp Commission
- Jonathan Callahan
- Operation Greylord
- Abel Corral Limas
- Abscam
- William Jefferson
- Operation Illwind
- Fat Leonard
- Omar Bongo
- Vladimero Montesinos
- Riggs Bank
  - Augusto Pinochet
  - Teodoro Obiang
- Siemens AG
- Deutsche Bank
- Operation Varsity Blues
- FIFA
- Olympics
- NCAA College Basketball

Commonality of Case Studies

- Abuse of trust
- Greed and arrogance
  - Vulnerability for corrupt actor
- Must launder illicit funds
- Will involve fraud



- Fraud and money laundering charges simplify prosecution
- High impact / low impact corruption
- Systemic v. one-off corruption
- Consequences
  - To society
  - To corrupt actors



Consequences of Corruption

- Corruption has a corrosive effect on the rule of law, economic development, and democratic principles
  - Threat to national security
    - Undermines trust in government
    - Incubator for terrorists and transnational criminals
  - Threat to public safety
    - Weakens infrastructure, personal safety & security, and confidence in government
      - Mexico
  - Threat to economy
    - Undermines legitimate financial flows
      - Flight capital
      - Adverse impact on legitimate business
- Corruption enables criminal and terrorist organizations



The More…









Transnational Crime Threats

- African Transnational Organized Crime Groups
- Balkan Transnational Organized Crime Groups
- Middle Eastern Transnational Organized Crime Groups
- Asian Transnational Organized Crime Groups
- Eurasian Transnational Organized Crime Groups
- Italian Organized Crime / Mafia
  - ***La Cosa Nostra (LCN)***
    - ***One of foremost organized criminal threats to American society***
  - LCN and Labor Racketeering
  - Cosa Nostra (Sicilian Mafia)
  - 'Ndrangheta (Calabrian Mafia)
  - Camorra (Neopolitan Mafia)
  - Sacra Corona Unita
- Western Hemisphere Organized Crime





Transnational Organized Crime Groups' Primary Goal

- ***Economic gain***
- Will employ an array of lawful and illicit schemes to generate profit
- Criminal activity includes:
  - Drug trafficking
  - Migrant smuggling
  - Human trafficking
  - Money Laundering
  - Firearms trafficking
  - Illegal gambling
  - Extortion
  - Wildlife and cultural property smuggling
  - Cyber crimes
  - Others





Threat Posed by Transnational Organized Crime Groups

- Pose significant and growing threat to national and international security
  - Dire implications for public safety, public health, democratic institutions, and economic stability across the world
  - Jeopardizes border security, endangers our health through human trafficking and counterfeit pharmaceuticals
    - Seeks to corrupt officials domestically and abroad
    - May evolve into other structures
  - Threats include criminal penetration of global energy and strategic material markets vital to national security interests
    - Includes logistical and other support to terrorists and foreign intelligence services

Divergence of Organized Crime Groups

- Longstanding transnational organized crime groups and newer crime groups have very different relationship to terrorism
  - Older groups possess long term financial strategies
    - Dependent on long established states
    - Usually reject association with terrorists
    - Different strategies and motivation not conducive to collaboration
  - Newer groups do not possess long term and efficient financial strategies
    - Often originate in ungovernable regions
    - Take advantage of chaos of war and dysfunctional states
    - Generate huge profits from cooperating with terrorists
      - More consistent interests conducive to collaboration

Diversification of Organized Crime Groups

- Traditional organized crime groups have long standing, well established criminal operations
  - Have built infrastructures in established states
    - Corruption
  - Have diversified into multiple illicit and licit activities
  - Rely more heavily on formal financial system
- Newer organized crime groups have short term and less established operations
  - Take advantage of chaos of war and dysfunctional states
    - Corruption
  - As they mature, begin to develop diversified activities
  - Tend to operate in informal or shadow economies

Terrorist Threat Environment in 2021

- Internationalization of domestic terrorism
  - Evolving global focus upon the threat of domestic violent extremists
- Continued and growing threat of homegrown violent extremists
- Evolution and devolution of foreign terrorist organizations
  - Core and affiliate groups
- Sanctions taking a devastating financial toll on Iran and Hizballah
- Nexus between foreign terrorist organizations and transnational crime
- Geopolitical provocation and retaliation
  - Escalation and de-escalation strategies for perceived deterrent
    - Tension between Iran and U.S.
- Opportunity to exploit public demonstrations
  - Escalation and de-escalation strategies for perceived provocation
    - Exploited by domestic violent extremists (Left and right wing)
- What is the most important threat commonality?
  - ***Seriousness of threat contingent on funding***

Greatest Threat to U.S. Homeland

- Congressional testimony of FBI Director Christopher Wray on June 10, June 15 & June 23, 2021
  - The nature of threat posed by terrorism, both international and domestic, continues to evolve
  - Posed by lone actors or small cells radicalized online who look for soft targets with easily accessible weapons
    - Domestic violent extremists (DVEs)
    - Homegrown violent Extremists (HVEs)
      - Two distinct threats, both of which located primarily in the U.S. and typically radicalize and mobilize to violence on their own



  - Foreign terrorist organizations (FTOs), such as ISIS and al-Qaeda, intend to carry out or inspire large scale attacks in U.S.
    - ISIS and al-Qaeda advocate for lone offender attacks (inspired)
  - Iran and its global proxies and partners continue to attack and plot against U.S. and allies throughout Middle East
    - Hizballah and Iraqi Shia militant groups

Comparing and Contrasting HVEs & DVEs

- Homegrown Violent Extremists (HVEs)
  - Individuals who have been radicalized primarily in the U.S.
    - Inspired by, but not receiving individualized direction from, foreign terrorist organizations (FTOs)
- Domestic Violent Extremists (DVEs)
  - Individuals who commit violent criminal acts in furtherance of ideological goals stemming from domestic influences, such as racial bias and anti-government sentiment
    - The top threat from DVEs stems from those identified as racially / ethnically motivated violent extremists (RMVEs)
- Many violent extremists (HVEs & DVEs) are motivated and inspired by a mix of ideological, sociopolitical, and personal grievances against their targets
  - Include public gatherings, houses of worship and retail locations
    - Lone actors increasingly select soft familiar targets, limiting law enforcement opportunities for detection and disruption

Threat Enablers

- Three factors have contributed to the evolution of the terrorism threat landscape and transnational communication
  - The internet
    - International and domestic actors have developed an extensive presence on the internet through messaging platforms and online images, videos, and publications
  - Use of social media
    - Social media has allowed both international and domestic terrorists to gain unprecedented, virtual access to people living in the U.S. in an effort to enable homeland attacks
  - Radicalization of vulnerable individuals to violent extremism
    - Domestic violent extremists
    - Homegrown violent extremists
      - ***Radicalized primarily in the U.S.***

Situational Awareness from a Terrorist Financing Perspective

- Situational awareness is being aware of your physical surroundings for personal safety and security
- Situational awareness from a terrorist financing perspective should focus on and ***understand***:
  - The threat
    - The threat environment
    - Current and emerging trends
  - Who you are dealing with
    - Organizations (global / regional / local)(centralized or decentralized)
    - Individuals (inspired / enabled / directed)
  - Funding flows
    - Sources / methods / access
    - Raise→***Placement***→Move→***Layering*** →Store→***Integration***→Spend



Islamist Funding Sources

- Groups
  - Private donations
  - Abuse and misuse of non-profit organizations
  - Proceeds of criminal activity
  - Extorting local and diaspora populations and businesses
  - Kidnapping for ransom
  - Legitimate commercial enterprise
  - State sponsors of terrorism
- Cells / networks
  - Group funded
  - Self funded
- Individuals
  - Self funded
  - Group funded



Domestic Terrorist Funding

- Domestic violent extremists
  - Employment compensation
  - ***Crowdfunding***
  - Cryptocurrencies
  - Peer to peer transactions
  - Savings
  - Welfare / entitlement payments
  - Criminal activity
- Domestic extremist groups
  - Dues
  - Donations
  - Merchandise
  - Event fees
  - Advertising
  - ***Crowdfunding***
  - Criminal activity

Flash to Bang

- From time terrorist attack planned to the point attack occurs
- Left of boom
  - Originally military term referring to timeline before an explosion
  - Since 9/11 law enforcement, intelligence services and first responders have used the term “left of boom” as point of reference to stay ahead of and to avert terrorist attacks
- Right of boom
  - The time directly following a terrorist attack
- Clearly, “left of boom” is where we want to be
  - Establishing and maintaining a position “left of boom” is extremely challenging



Threat Finance

- Threat finance is an umbrella term used to encompass various types of financing that support activities harmful to U.S. National Security
  - Driven by Department of Defense
    - No singular accepted definition
      - Prosecution v. regulatory concern
  - Encompasses:
    - Terrorist financing
    - Transnational criminal organizations
    - Drug cartels
    - Proliferation and weapons of mass destruction



Intersection of Crime & Conflict

- Criminal organizations and terrorist groups have increasingly found common ground of mutual benefit
  - Each have learned how to benefit from conflict
  - Each have benefited from convergence and diversification
    - ***Convergence***: *the intersection where criminals and terrorists work together to support each other with the goal to maximize the benefit to their individual causes*
      - Mutual and individual benefit
    - ***Diversification***: *as organizations mature in operations and sophistication, they diversify into different activities and thereby grow and strengthen their operations*
      - Rely on legitimate and illegitimate fronts
        - Haqqani network
        - Mexican cartels

Dangerous Trifecta



Financial Investigations





Financial Investigations

- The term ***financial investigations*** means an inquiry into the financial affairs related to criminal conduct
- The major goal of a financial investigation is to identify and document the movement of money during the course of criminal activity
- The link between the origins of the money, beneficiaries, when the money is received and where it is stored or deposited can provide information about and proof of criminal activity

Source: Financial Action Task Force

Objectives and Benefits of Financial Investigations

- Countries should ensure that financial investigations become the cornerstone of ***ALL*** major proceeds-generating cases and terrorist financing cases and that their key objectives include:
  - Identifying proceeds of crime, tracing assets and initiating asset confiscation measures, using temporary measures such as freezing / seizing when appropriate
  - Initiating money laundering investigations when appropriate
  - Uncovering financial and economic structures, disrupting transnational networks and gathering knowledge on crime patterns

Source: Financial Action Task Force

Objectives and Benefits of Financial Investigations (continued)

- A financial investigation involves the collection, collation and analysis of all available information with a view towards assisting in the prosecution of crime and in the deprivation of the proceeds and instrumentalities of crime

- Criminals usually like to maintain some degree of control over their assets, and as a result there is usually a “paper trail” that will lead back to the offender

Source: Financial Action Task Force

Investigative Strategy

- Financial investigations should be an integral part of an overall crime strategy
  - Integrated within the predicate offense investigation

    or
  - Conducted parallel to the predicate offense investigation



Sources of Information

- The sources of information that law enforcement and competent authorities can use in financial investigations varies but typically can be found in six categories:
  - Criminal records and intelligence
  - AML / CFT disclosures
  - Financial information
  - Classified or law enforcement sensitive information
  - Open source
  - Regulatory information



Source: Financial Action Task Force / DML

Financial Crimes

- ***Range from one-off or simple to complex***
  - Simple → similar → unique
  - Simple → different → unique
  - Complex → similar → unique
  - Complex → different → unique



- Don't be intimidated by following the money
- Don't underestimate investigative resource requirements
- Regardless of whether a simple or complex case
  - ***Initiate investigation with a written plan***

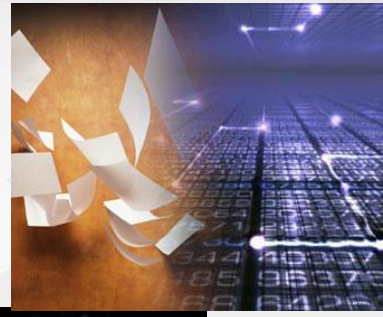
Takeaways and Conclusion





Takeaways

- Dennis spent three years in kindergarten
- Nexus between fraud, money laundering & predicate offenses
- Importance of partnerships & proactive measures
- Planning and investigative instincts
- Corruption is an incubator for bad things
- Convergence and diversification
- Importance of financial investigations







Conclusion







- Be safe
- Be vigilant
  - Is there more to a case?
- Rely on investigative / analytical intuition / experience
- Continue to learn / broaden experience
- Share information
- ***Be proactive***
- ***Exploit vulnerabilities of bad guys***



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