BSA Coalition
2011 Anti-Money Laundering Conference

Case Studies in Money Laundering and Terrorist Financing

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Dennis M. Lormel
President & CEO
DML Associates, LLC
AML and Terrorist Financing

• Introduction
• Would You Bank This Individual
• Background
• Current Terrorism Threat in the United States
• Current and Emerging Trends
• Money Laundering and Terrorist Financing
• Methods and Case Studies
• BSA Information Facilitates Investigations
• Conclusion
Introduction
All Banks are Vulnerable

• All banks, regardless of size, location and product offerings are vulnerable to servicing individual criminals, groups of criminals, and criminal organizations

• All banks, regardless of size, location and product offerings are vulnerable to facilitating terrorist financing

• The back office has evolved into the front line in the fight against money laundering and terrorist financing

  ▫ Compliance professionals not only play an important role in defending the economic threat posed by criminal enterprises but also play a role in safeguarding national security from terrorist groups
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
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: What Richard said
   Tom committed.
4. References Stev Rothschild
5. CPA - No CAN DO!
6. Resolve- Supposedly sent
   $250,000 to Resolve is spent!
   Promised to send a list of how $ spent

   Spent 3,000,000 - 150,000 rest on

   Dec too much of $-

   ? back to Walsh - Charge it!!
   He said it was out!!
Fraud and Money Laundering

- **Who are we dealing with?**
  - *Individuals or groups engaged in fraud*
  - *Gangs*
  - *Drug dealers, organizations or cartels*
  - *Ethnic organized crime groups*
  - *Terrorists or terrorist groups*
Importance of Due Diligence

- Risk recognition
  - Mitigation
  - Adaptability
    - Living process
- Know your customer program
  - Sound process
  - Verification
- Investigations
  - Consistency
  - Documentation
- Suspicious activity reporting
  - Most serious compliance breakdown
    - Comprehensive
    - Importance
- Financial intelligence
Would You Bank This Individual?
Would You Bank This Individual?

- **Client**
  - **Naturalized U.S. citizen**
    - Family man
  - **Self made prominent businessman**
    - Highly regarded in community
  - **Founder and owner of successful restaurant**
    - Expanded to chain/franchises
  - **Well on way to becoming billionaire**

- **Services**
  - **Personal/business banking**
  - **Commercial/mortgage loans**
  - **Investment services**

- **Risky?**
Talal Khalil Chahine

- Owned La Shish restaurant chain with his wife Elfat El Aouar
- Indicted for skimming and concealing more than $16,000,000 in cash
  - Transported funds to Lebanon
- Linked to Hizballah
- Sister-in-law former CIA and FBI Agent Nada Nadim Prouty
  - Accessed classified files involving Chahine
Talal Khalil Chahine

- Maintained double set of computerized books
  - One actual / one altered (‘cooked’)
    - Altered books artificially reduced amount of restaurant income actually received by restaurant

- Failed to deposit a substantial amount of cash receipts from the restaurant
  - Employees converted millions of dollars into cashier’s checks
  - Also changed cash denomination sizes from smaller to larger denominations
    - Cash transported to Lebanon illegally

- Skimmed cash by paying employees all or partly in cash

*What were the signs of fraud?*

*What should the bank have done if it identified fraud or suspicious activity?*
Background
Terrorist and Criminal Groups

- Must have continuous stream of funds available
  - Must have capacity to raise funds
- Fraud and money laundering often key
  - Nexus between fraud and money laundering
- Drug trafficking the most lucrative criminal activity
- Must have immediate access to funds
- Pose threat to national security and economy
  - Importance of disruptive and preventive measures
Understanding & Disrupting Funding Flows

- **Must understand four dimensions**
  - **Organization**
  - **Funding Capacity**
    - Source of funds
    - Money laundering method
    - Availability of funds
  - **Funding mechanism**
    - Formal financial system
    - Informal system
  - **Group members**

- **Funding cycle**
  - Raise
  - Move
  - Store
  - Spend
Areas of Vulnerability

• For society
  ▫ Criminals and terrorists are adept at identifying and exploiting systemic weaknesses
    • Risk recognition
  ▫ Adaptability factor

• For criminals and terrorists
  ▫ Communications
  ▫ Finance
Areas of Exploitation

• Criminal Activity
  ▫ Fraud
  ▫ Drug trafficking
  ▫ Human smuggling
  ▫ Counterfeit goods/ currency
  ▫ Stolen goods
  ▫ Violent crimes
  ▫ Kidnapping
  ▫ Extortion
  ▫ Cyberfraud
  ▫ 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
  ▫ Mobile phones
Current Terrorism Threat in the United States
Terrorism: The Reality

• There will be more successful terrorist attacks in the U.S.

• Understand the problem before assessing and determining the solution
  ▫ Not adequately understood
  ▫ Extremely difficult to identify
  ▫ Perspectives → Industry / government
  ▫ Possibility v. probability

• The best chance to prevent terrorists from succeeding is to disrupt their ability to raise, move and access money
  ▫ Terrorists must have effective financial infrastructures
  ▫ Terrorists require financial support to achieve their goals
On April 15, 2010, FBI Director Robert S. Mueller testified before the Senate Committee on Appropriations, Subcommittee on Commerce, Justice, and Related Agencies. Regarding terrorism, he stated:

“Terrorism, in general, and al-Qaeda and its affiliates in particular, continue to leverage proven tactics and tradecraft with **adaptations** designed to address its losses and the enhanced security measures of the United States. **Al-Qaeda** seeks to infiltrate overseas operatives, who have no known nexus to terrorism, into the United States using both legal and illegal methods of entry...”
Compliance Concerns

- Adaptations (adaptability)
  - Risk recognition

- Al-Qaeda seeks to infiltrate overseas operatives, who have no known nexus to terrorism, into the United States (anonymity)
  - Know your customer

- What if...
  - Terrorist group succeeds with attack in U.S.
  - You banked them
    - Potential adverse impact to bank
Current Threat in the U.S.

- On October 22, 2010, FBI Director Robert Mueller testified before the Senate Committee on Homeland Security and Governmental Affairs. His testimony included:
  - Al-Qaeda remains committed to advancing attack plans directed at the West...
  - Groups affiliated with Al-Qaeda are now actively targeting the U.S. and looking to use Americans and Westerners who are able to remain undetected by heightened security measures...
  - U.S. has been center stage as the focus for a number of terrorist plots that primarily come from three sources:
    - Core Al-Qaeda
    - Al-Qaeda affiliates
    - Homegrown extremists
  - ...homegrown extremists are increasingly more savvy, harder to detect, and able to connect with other extremists overseas
  - The internet has expanded as a platform for spreading extremist propaganda, a tool for online recruiting, and a medium for social networking with like-minded violent extremists, all of which may be contributing to the pronounced state of radicalization inside the U.S.
Yemen AQAP Threat

- **On 8/25/2010, CIA reportedly considered for the first time since 9/11 that an Al-Qaeda offshoot group was a greater threat to the U.S. than Al-Qaeda**
  - **Al-Qaeda in the Arabian Peninsula (AQAP)**
    - Al-Qaeda affiliate in Yemen
  - **Responsible for attempted UPS parcel bombings and Christmas day bombing attempt on flight to Detroit**
    - Ibrahim Hassan al-Asiri bomb maker and group leader
- **Anwar al-Awlaki (Aulaqi)**
  - Radical Muslim cleric and AQAP member born in U.S. and operating in Yemen
  - **Prominent Al-Qaeda recruiter**
    - Recruits homegrown jihadists by espousing philosophy of violent jihad
Inspire

- English language online magazine published by Al-Qaeda in the Arabian Peninsula (AQAP)
  - Since July 2010, five issues published
    - In fourth issue Anwar al-Awlaki encouraged his followers to fund more attacks through crime by stealing from non-Muslims to fund their activity

- Resource manual (“Open Source Jihad” section)
  - Offers blueprint for planning and executing terrorist attacks in the West against the U.S.
    - Provides explicit detail

- Recruitment tool to cultivate homegrown jihadists
Farooque Ahmed

- Naturalized U.S. citizen from Pakistan
  - Immigrated to Staten Island, N.Y. in 1993
  - 2003 graduate of College of Staten Island
  - Moved to Ashburn, VA by 2005
- Worked for telecommunications firm Ericsson
- Between April 2010 and October 25, 2010, surveilled DC Metrorail stations in Arlington, VA
  - Took videos via cell phone
  - Provided memory stick to undercover agents believed to be co-conspirators
- Plot in surveillance/planning phase
  - Assessed station security
  - Assessed best time to launch attack
- Offered to provide $10,000 to Al-Qaeda in $1,000 increments to avoid detection and offered to raise funds for Al-Qaeda
- Arrested/indicted on October 27, 2010
Death of Osama Bin Laden

- Killed in targeted attack on 5/1/2011
  - One of most significant counterterrorism operations in U.S. history
    - Government intelligence community and military at its best
      - Collection/assessment/surveillance/attack
      - Communication/cooperation/coordination

- Vulnerability factor contributed
  - Two biggest vulnerabilities for terrorists communications and finance
    - Courier: communications node
      - Abu Ahmad al-Kuwaiti

- Retaliation
  - Significant concern although no credible threats
    - Possible acceleration of attack being planned
    - Short term lone wolf attack
    - Long term retaliation plan

- Treasure trove of documents recovered
  - Five computers/10 hard drives/100+ storage document
    - Information looking for:
      - Planned attacks
      - Information leading to high value targets
      - What allowed Bin Laden to live in compound as long as he did
Impact of Bin Laden’s Death

• On al-Qaeda
  ▫ Limited operational impact
    • Core al-Qaeda already somewhat marginalized
  ▫ Ideologically and inspirationally devastating

• Retaliation
  ▫ A retaliatory attack is inevitable

• Financial
  ▫ Short term
    • Surge in donations
  ▫ Long term
    • Bin Laden’s absence will complicate al-Qaeda’s financial operations

• Recovery of records at Bin Laden’s compound
  ▫ Will cause al-Qaeda’s leadership to relocate and go further underground
  ▫ Financial review could lead to significant funding disruption
    • Tracing money back to its origin and points of destination
Current and Emerging Trends
FATF Global ML/TF Threat Assessment

• Released July 2010
• Based on typologies and threat assessment
  ▫ **Strategic Surveillance Initiative**
    • Detailed questionnaire responded to by FATF members
• **2009 Strategic Surveillance Survey**
  ▫ **Main source for money laundering**
    • White collar crimes
    • Drug related crimes
  ▫ **Main source of terrorist financing**
    • Financial crimes (particularly fraud)
    • Trafficking in narcotics, cigarettes, weapons, human beings, or diamonds
    • Petty crimes
  ▫ **Identifiable global trends**
    • A noteworthy proportion of ML/TF activity involves cash
    • Increased use of internet and new payment mechanisms
Cash...Conflicting Trends

• Short term trend
  ▫ Noteworthy proportion of ML/TF activity involves cash
    • Cash couriers
    • Bulk cash shipment
    • Bearer negotiable instruments (checks)
    • Cash intensive businesses
  ▫ Anticipated surge in cash deposits in U.S. due to restrictions on U.S. dollar deposits in Mexico

• Long term trend
  ▫ Increased use of internet and new payment mechanisms
    • Steady decline in use of cash and checks
      ▫ Moving toward elimination of cash and checks
New Payment Methods

- Services that provide virtual accounts
  - Stored value cards
  - Online payment services (Paypal)
  - Digital currency (e-Gold Ltd.)
  - Mobile payments
  - Online virtual world transactions
The Threat

- Anonymous
- Untraceable
- Reusable
- Universally accepted
- Requires no intermediary
- Instant settlement

The closer an electronic payment method comes to mimicking cash, the greater the money laundering and terrorist financing threat
Exploitation of Systemic Vulnerabilities

- Terrorist and criminal organizations constantly exploit systemic vulnerabilities
- Vulnerabilities or high risk areas in the financial services sector

October 3, 2001*

- Wire transfer
- Correspondent banking
- Fraud
- MSBs

June 28, 2011

- Fraud
- Money laundering
  - Wire transfer
  - Correspondent banking
  - Illegal money remitters/ hawalas
  - Shell companies
  - Electronic mechanisms

* Lormel testimony before House Committee on Financial Services
Illegal Money Remittance Business

- Abad Elfgeeh
  - American citizen born in Yemen
- Carnival French Ice Cream Shop
  - Annual average revenue about $185,000
  - Illegally wired $22 million overseas
    - Mostly to Yemen
- Used account with a major bank to wire money overseas
- Illegally transferred money for Sheik Mohammed Ali Hassan al-Moayad
  - Al-Qaeda and Hamas fundraiser/supporter
  - Ties to Osama bin Laden
- Elfgeeh claimed he was not running unlicensed money transfer business but providing a “community service”
Illegal Funding Flow

• Carnival French Ice Cream Shop operated as an unlicensed and unregistered money transmitter

• $22.2 million was deposited by cash, checks and wire transfers into 12 accounts held at multiple U.S. banks from 1996 through 2003
  ▫ Deposits were structured to avoid reporting requirements

• Funds subsequently consolidated into central account in the U.S. using checks and wire transfers from the 12 accounts
  ▫ From central account, $21.9 million wired to accounts in 25 countries on behalf of customers in U.S.
  ▫ Hawala operators who controlled recipient accounts in those countries then exchanged the funds into local currency and distributed payments to intended beneficiaries
Money Laundering & Terrorist Financing
The Process

Money Laundering
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

Terrorist Financing
Legitimate Funding OR Illegitimate Funding
Money Laundering and Terrorism Finance Comparison

**Money Laundering**
- Motivation is profit
- Circular funding flow
  - Vlademiro Montesinos
    - PEP
      - Abused his trust
    - Laundered over 400 million globally (80 million in U.S.)
  - SARs instrumental to investigation

**Terrorism Finance**
- Motivation is ideological
- Linear funding flow
  - Shawqi Omar
    - Terrorist
      - Abu Musab al-Zarqawi
    - Beneficiary of multiple frauds involving family members in U.S.
  - SARs instrumental to investigation
Targeting the Money Launderer

• Key vulnerabilities in the money laundering process
  ▫ Cash
  ▫ Wire transfers
  ▫ Fixed assets

• Identifying money laundering mechanisms

• Intelligence gathering and exploitation

• Disrupting illicit money flows
Methods
&
Case Studies
Money Laundering Methods

• Are limited only by the imagination and cunning of the bad guys

• Include schemes involving:
  ▫ 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
  ▫ Trade based money laundering
  ▫ New electronic payment methods
Insider Trading

• Case studies
Insider Trading

• Scheme involved three individuals who stole, traded and illegally profited from non-public insider information
  ▫ Conspirators criminally charged for activities between 2006 and 2011
    • Invested over $109,000,000 and netted over $32,000,000 in illicit profits
• Conspirators
  ▫ Matthew Kluger → attorney
    • Between 1994 and 2011, worked at various times at three very prominent merger and acquisition law firms
    • Regularly stole and disclosed non-public insider information
  ▫ Kenneth Robinson → one time trader/ in mortgage loan business
    • Middleman who received and passed along insider information to trader and then received cash from illicit transactions and passed money back to attorney
    • Executed two trades
  ▫ Garrett Bauer → stock trader
    • Worked at three separate proprietary trading firms
    • Used trading accounts to execute illegal trades
How Scheme Worked

• Kluger would steal non-public insider information by exploiting the law firm document management system to obtain inside information about ongoing deals at the firm
  ▫ Covered tracks by not being involved in the deals and by not opening documents
    • Viewed titles of documents
    • No digital record of his activity

• Kluger passed the information on to Johnson. In turn, Johnson provided the information to Bauer along with the number of shares to be purchased for he and Kluger

• Bauer would add the shares he wanted and made purchases in various trading accounts
  ▫ Usually made substantial profit
How Scheme Worked

• To limit detection, Bauer paid Johnson in cash
  ▫ Would make cash withdrawals from ATM machines
    • Had at least six separate accounts with the same major financial institution
    • Made withdrawals on consecutive days
  ▬ Once Bauer drew appropriate amount, he gave cash to Johnson
  ▬ Johnson then split the proceeds with Kluger
    ▬ Johnson maintained accounts at three different banks
      • He made deposits in branches near each other within minutes of each other
  ▬ For the two deals Johnson handled without Bauer, he structured cash withdrawals out of his bank accounts in $9,000 increments
    ▬ Paid Kluger approximately $160,000
How Scheme Worked

- Johnson used a safe deposit box to hide illicit money
- The conspirators used throw away phones to communicate
- At least 11 transactions took place while Kluger worked at the last law firm he was associated with
- Illicit gains/ money flow:
  - 05/ 02/ 2006 $1,724,208
  - 05/ 16/ 2006 $1,680,987
  - 06/ 04/ 2007 $368,193
  - 09/ 28/ 2007 $2,433,947
  - 10/ 25/ 2007 $758,467
  - 03/ 31/ 2008 $2,954,599
  - 04/ 20/ 2009 $11,356,145
  - 09/ 15/ 2009 $8,299,690
  - 11/ 11/ 2009 $199,248
  - 08/ 19/ 2009 $494,182
  - 02/ 21/ 2011 $1,957,257
What Went Down

- FBI and IRS executed search warrant at Johnson’s residence on 3/8/2011
  - Questioned Johnson about his and Bauer’s suspicious trades and Johnson’s numerous instances of structuring cash into and out of his bank accounts
  - Johnson flipped and cooperated. He consensually recorded a series of telephone calls individually with Kluger and Bauer
    - Kluger and Baure made numerous incriminating statements
      - Admissions of participation in the insider trading scheme
      - Admissions of destroying evidence
      - Bauer wanted Johnson to burn $175,000 from the last deal that Johnson was still holding (fingerprint concern)

- Forfeiture action against Bauer
  - NYC condo purchased for over $6,650,000
  - Boca Raton home purchased for over $875,000
Unlicensed Money Transmitting Business

• Case studies
Unlicensed Money Transmitting Business

- Victor Kaganov
  - Former Russian military officer and naturalized U.S. citizen
- Between 2002 and 2009, operated unlicensed money transmitting business from his residence in Tigard, Oregon
  - Transmitted more than $172,000,000
  - In more than 4,200 wire transactions
  - To approximately 50 countries
- Many clients and funding emanated in Russia
- To facilitate movement of funds, established five shell companies
  - SV Financial → account at bank A
  - Fishing Financial → account at bank A
  - I.K. Fishing → account at bank B
  - Interscrap → account at bank B
  - Morago → accounts at bank C and bank D
Procedure to Transit Money

• Client would wire transfer substantial funds into one of the five shell company accounts

• A few days later, client provided instructions on where to further transmit funds
  ▫ Typically contained name of recipient, bank account number, and any additional routing instructions
  ▫ Instructions provided via facsimile or telephone

• Would order U.S. bank which contained funds to transmit those funds as directed by client

• Did not have money transmission license in Oregon

• Was not registered with FinCEN
Lebanese Canadian Bank

- Case studies
Lebanese Canadian Bank (LCB)

- Based in Beirut, Lebanon
  - Maintained network of 35 branches in Lebanon and a representative office in Montreal, Canada
- On 2/11/2011, designated by U.S. Treasury Department as a financial institution of primary money laundering concern
  - Facilitated money laundering activities of an international narcotics trafficking and money laundering network
    - The Joumaa narcotics trafficking and money laundering organization
- LCB (through management complicity) was used extensively by the Joumaa organization to move hundreds of millions of dollars monthly in cash proceeds from illicit drug sales into the formal financial system
- Hizballah derived financial support from the criminal activities of Joumaa’s network
- LCB managers were linked to Hizballah officials
Joumaa Organization

- On 1/26/2011, Ayman Joumaa, as well as nine individuals and 19 entities connected to his drug trafficking and money laundering organization, were designated as Specially Designated Narcotics Traffickers (SDNTs) by OFAC pursuant to the Foreign Narcotics Kingpin Designation Act (Kingpin Act)
  - Joumaa ran a complex money laundering scheme
    - Moved narcotics from Columbia and Panama through West Africa to Europe
    - Moved drug money in bulk cash from Europe to Lebanon
    - Bulk cash ultimately deposited in Lebanese Canadian Bank
    - Wired money from Lebanon to used car dealers in the U.S. to buy cars
    - Cars shipped to West Africa or other overseas destinations to be sold
    - Joumaa also wired money to collaborators in Asia who purchased consumer goods that were shipped for sale to countries in Latin America
Organizational Drug and Laundering Flow
BSA Information Facilitates Investigations
Value of Financial Institution Records

Financial institutions are gatekeepers of information about terrorists’ financial activity in the regulated sector

- Investigations rely on bank financial data
- Compliance with subpoenas and regulatory reporting requirements absolutely vital
- Financial records have potential value as evidence of financial crime or transactions, or to enhance other parts of an investigation
  - **Bank records**: transaction records, loan applications, signature cards, etc.
  - **Reporting records**: SARs, CTRs, etc.
Yemeni Shopkeepers

- Three Yemeni shopkeepers in Rochester, New York engaged in a scheme to launder money for undercover operatives from ICE
  - Seleh Mohamed Takei Saeed ➔ Durnan Mini Mart
  - Yehia Ali Ahmed Alomari ➔ Short Deli & Grocery
  - Mohamed Al Huraibi ➔ MOJ O’s Stars Restaurant

- Investigation predicated on analysis of Currency Transaction Reports (CTRs)
  - Saeed’s social security number associated with 324 CTRs totaling approximately $12.3 million dollars between October 2002 and November 2004
  - Alomari’s social security number associated with multiple CTRs totaling approximately $2.6 million dollars during the same time period

- ICE conducted two year undercover investigation
- Subjects transferred approximately $200,000 outside the U.S. after the money was represented to be proceeds of specified unlawful activity, and intended for Hizballah
- Saeed, Alomari and Huraibi plead guilty in August 2009
Suspicious Activity Reports (SARs)

- Most serious compliance breakdown
  - Failure to file SARs
    - SARs must be filed within 30 days of detecting suspicious activity
- Should be comprehensive and thorough
  - Answer who, what, when, where, why, how
  - Include all identifying data
- SARs make an important difference
SAR Lifecycle

- IRS / FinCEN
- Law Enforcement
- Regulators
- Regulatory Review

SARs
- Used to Predicate/Support Investigation
- Not Investigated

Analysis of SARs

Prosecution
- Deferred
- Prosecution Cooperation Agreement
- Plea
- Acquittal
- Declination

FBI
- USSS
- ICE
- OCDETFFC

IRS-WebCBRS
- IRS-CI

FinCen

Web Portal
Conclusion
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
Dennis M. Lormel

President & CEO
DML Associates, LLC
19309 Winmeade Drive
Lansdowne, VA  20176
571-333-0300
dlormel@dmlassociatesllc.com